

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE

MILLENNIUM CHALLENGE COMPACT

TABLE OF CONTENTS

	<u>Page</u>
Article 1. Goal And Objectives.....	1
Section 1.1 Compact Goal	1
Section 1.2 Program Objectives.....	1
Section 1.3 Project Objectives	1
Article 2. Funding and Resources	2
Section 2.1 MCC Funding	2
Section 2.2 Compact Implementation Funding	2
Section 2.3 Disbursement	2
Section 2.4 Interest.....	3
Section 2.5 Government Resources; Budget	3
Section 2.6 Limitations on the Use of MCC Funding	3
Section 2.7 Taxes	4
Article 3. Implementation	4
Section 3.1 Program Implementation Agreement.....	4
Section 3.2 Government Responsibilities	4
Section 3.3 Policy Performance	5
Section 3.4 Government Assurances	5
Section 3.5 Implementation Letters	5
Section 3.6 Procurement	5
Section 3.7 Records; Accounting; Covered Providers; Access	6
Section 3.8 Audits; Reviews	6
Article 4. Communications	7
Section 4.1 Communications	7
Section 4.2 Representatives	8
Section 4.3 Signatures.....	8
Article 5. Termination; Suspension; Refunds	8
Section 5.1 Termination; Suspension	8
Section 5.2 Refunds; Violation	10
Section 5.3 Survival	10
Article 6. Compact Annexes; Amendments; Governing Law	10
Section 6.1 Annexes.....	10
Section 6.2 Inconsistencies	10
Section 6.3 Amendments	10
Section 6.4 Governing Law	10
Section 6.5 Additional Instruments.....	10

Section 6.6	References to MCC Website.....	10
Article 7.	Entry Into Force	11
Section 7.1	Domestic Requirements	11
Section 7.2	Conditions Precedent	11
Section 7.3	Date of Entry into Force	11
Section 7.4	Compact Term	11
Article 8.	Additional Government Covenants.....	12
Section 8.1	Designated Entity.....	12
Section 8.2	Administrative Court	12
Section 8.3	Certain Financial Practices	12
Section 8.4	Procurement	12
<u>Annex I:</u>	Program Description	
<u>Annex II:</u>	Summary of Multi-Year Financial Plan	
<u>Annex III:</u>	Description of the Monitoring and Evaluation Plan	

MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this “*Compact*”) is between the Government of the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“*MCC*”), and the Government of the Republic of Mozambique (the “*Government*”) (individually a “*Party*” and collectively, the “*Parties*”).

Recalling that the Government consulted with the private sector and civil society of the Republic of Mozambique (“*Mozambique*”) to determine the priorities for the use of Millennium Challenge Account assistance and developed and submitted to MCC a proposal based on the integrated Government development strategy to reduce poverty and increase household incomes by increasing the productive capacity of the population in selected provinces in northern Mozambique (Cabo Delgado, Nampula, Niassa and Zambézia); and

Recognizing that MCC wishes to help Mozambique implement a program to achieve the goal and objectives described herein (the “*Program*”);

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty in Mozambique through economic growth.

Section 1.2 Program Objectives. The objective of the Program (as further described in Annex I) (the “*Program Objective*”) is to increase the productive capacity of the population in selected provinces in northern Mozambique.

Section 1.3 Project Objectives. The objectives of the Projects (as further described in Annex I) (collectively, the “*Project Objectives*” and each a “*Project Objective*”) are to:

- (a) increase the accessibility, reliability and quality of water and sanitation services;
- (b) improve access to productive resources and markets;
- (c) establish more efficient and secure access to land, particularly in the four provinces included in the Program; and
- (d) improve productivity of coconut products and encourage diversification into other cash crop production.

The Government will take all the steps necessary or appropriate to achieve the Program Objective and Project Objectives during the Compact Term (as defined in Section 7.4).

ARTICLE 2.
FUNDING AND RESOURCES

Section 2.1 MCC Funding.

(a) MCC grants to the Government, under the terms of this Compact, an amount not to exceed Five Hundred Six Million, Nine Hundred Twenty-Four Thousand, Fifty-Three United States Dollars (US\$506,924,053) (“**MCC Funding**”) to help the Government implement the Program.

(b) Annex II of this Compact describes the use of MCC Funding.

Section 2.2 Compact Implementation Funding.

(a) Of the total amount of MCC Funding, MCC will make up to Twenty-Five Million, Three Hundred Forty-Six Thousand, Two Hundred United States Dollars (US\$25,346,200) (“**Compact Implementation Funding**”) available to the Government under Section 609(g) of the Millennium Challenge Act of 2003 for activities which may include:

- (i) fiscal and procurement administration activities;
- (ii) administrative activities including start-up costs such as staff salaries and administrative support expenses such as rent, computers and other information technology or capital equipment;
- (iii) baseline surveys for monitoring and evaluation;
- (iv) additional work for feasibility studies and development of technical scopes; and
- (v) other Compact implementation activities approved by MCC.

(b) Notwithstanding anything to the contrary in this Compact, this Section 2.2 will provisionally apply, after MCC and the Government sign this Compact, without regard to whether this Compact has entered into force under Section 7.3.

(c) Compact Implementation Funding is subject to (i) the limitations on the use or treatment of MCC Funding set forth in Sections 2.6 and 2.7 as if such provisions were in full force and effect, and (ii) any other requirements and limitations as may be required by MCC in writing in accordance with this Compact, the Program and relevant legislation.

Section 2.3 Disbursement. In accordance with this Compact and the Program Implementation Agreement (as defined in Section 3.1), MCC will disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a “**Disbursement**”). The proceeds of such Disbursements will be made available to the Government, at MCC’s sole election, (a) by deposit to a bank account established by the Government and acceptable to MCC (a “**Permitted Account**”) or (b) through direct payment to a provider of goods, works or services under this Compact. MCC Funding may be expended only to cover Program expenditures as provided in this Compact and the Program Implementation Agreement.

Section 2.4 Interest. The Government will pay to MCC any interest or other earnings that accrue on MCC Funding in accordance with the Program Implementation Agreement (including by directing such payments to the bank account outside Mozambique that MCC may from time to time indicate).

Section 2.5 Government Resources; Budget.

(a) The Government will provide all funds and other resources, and will take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Compact.

(b) The Government will use its best efforts during each year it receives MCC Funding to ensure that all MCC Funding it receives or is projected to receive in such year is fully accounted for in the annual budget of Mozambique on a multi-year basis.

(c) The Government will not reduce the normal and expected resources that it would otherwise receive or budget from sources other than MCC for the activities contemplated under this Compact and the Program.

(d) Unless the Government discloses otherwise to MCC in writing, MCC Funding will be in addition to the resources that the Government would otherwise receive or budget for the activities contemplated under this Compact and the Program.

Section 2.6 Limitations on the Use of MCC Funding. The Government will ensure that MCC Funding will not be used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing or by posting on the MCC website at www.mcc.gov/implementation, including but not limited to the following purposes:

(a) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard, where the phrase "likely to cause a significant environmental, health, or safety hazard" has the meaning set forth in environmental guidelines delivered by MCC to the Government or posted by MCC on its website at www.mcc.gov/implementation or otherwise publicly made available, as the guidelines may be amended from time to time (the "*MCC Environmental Guidelines*"); or

(d) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.7 Taxes.

(a) Unless the Parties otherwise specifically agree in writing, the Government will ensure that each of the following is free from the payment of any taxes, duties, levies, contributions or other comparable charges (“*Taxes*”) of or in Mozambique: (i) the Program; (ii) MCC Funding; (iii) interest or earnings on MCC Funding; (iv) any Project or activity implemented under the Program; (v) goods, works, services and other assets and activities under the Program or any Project; (vi) persons and entities that provide such goods, works, services and assets or perform such activities; and (vii) income, profits and payments with respect thereto. The Parties acknowledge and agree that the foregoing includes, *inter alia*, value added and other transfers, property and *ad valorem* items and import and export of goods (including for goods imported and re-exported for personal use).

(b) Before any Disbursement, the Government and MCC must have entered into one or more agreements setting forth the mechanisms for implementing this Section 2.7, including (i) waivers of certain filing and compliance requirements relating to Taxes and (ii) an agreement on exceptions to paragraph (a) above for (1) Taxes on and contributions for certain individuals who are nationals or residents of Mozambique; (2) Taxes other than transfer Taxes and import and export Taxes on certain entities that are constituted under the laws of Mozambique; and (3) fees or charges for services that are generally applicable in Mozambique, reasonable in amount and imposed on a non-discriminatory basis.

ARTICLE 3.
IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Government will implement the Program in accordance with this Compact and as further specified in an agreement to be entered into by MCC and the Government dealing with, among other matters, implementation arrangements, fiscal accountability, disbursement and use of MCC Funding and procurement (the “*Program Implementation Agreement*” or “*PIA*”).

Section 3.2 Government Responsibilities.

(a) The Government has principal responsibility to oversee and manage the implementation of the Program.

(b) With the prior written consent of MCC, the Government may designate an entity to implement some or all of the Government’s obligations or to exercise any rights of the Government under this Compact or the PIA. Such a designation will not relieve the Government of any designated obligations and rights, for which the Government will retain full responsibility.

(c) The Government will ensure that no law or regulation in Mozambique now or hereinafter in effect makes or will make unlawful or otherwise prevent or hinder the performance of any obligation under this Compact, the PIA or any other agreement related thereto or any transaction contemplated thereunder.

(d) The Government will ensure that any assets or services funded in whole or in part (directly or indirectly) by MCC Funding will be used solely in furtherance of this Compact and the Program unless otherwise agreed by MCC in writing.

Section 3.3 Policy Performance. In addition to the specific policy and legal reform commitments identified in Annex I, the Government will seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003 and the selection criteria and methodology used by MCC.

Section 3.4 Government Assurances. The Government assures MCC that:

(a) as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement with MCC on this Compact is true, correct and complete in all material respects;

(b) this Compact does not, and will not, conflict with any other international agreement or obligation of the Government or any of the laws of Mozambique; and

(c) the Government will not invoke any of the provisions of its internal law to justify or excuse a failure to perform its duties or responsibilities under this Compact.

Section 3.5 Implementation Letters. From time to time, MCC may provide information to the Government through implementation letters on the frequency, form or content of requests for Disbursements or on any other matter relating to MCC Funding, this Compact or implementation of the Program (each, an “**Implementation Letter**”). The Government will apply such information in implementing this Compact.

Section 3.6 Procurement. The Government will ensure that the procurement of all goods, works and services by the Government or any Provider (as defined in Section 3.7(c)) in furtherance of this Compact will be consistent with the procurement guidelines (the “**MCC Program Procurement Guidelines**”) of which MCC will inform the Government in writing or by posting on the MCC website at www.mcc.gov/implementation, or otherwise make publicly available, as the guidelines may be amended from time to time, which MCC Program Procurement Guidelines will include, but will not be limited to, the following requirements:

(a) open, fair, and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works and services;

(b) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works and services to be acquired;

(c) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and

(d) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, will be paid to procure goods, works and services.

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government will maintain, and will use its best efforts to ensure that all Covered Providers (as defined in subsection (c) below) maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show to MCC's satisfaction the use of all MCC Funding ("**Compact Records**"). In addition, the Government will furnish or cause to be furnished to MCC upon its request all such Compact Records.

(b) Accounting. The Government will maintain, and will use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with MCC's prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in Mozambique. Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Covered Provider. Unless the Parties agree otherwise in writing, a "**Provider**" is (i) any entity of the Government that receives or uses MCC Funding or any other Program asset in carrying out activities in furtherance of this Compact or (ii) any third party that receives at least US\$50,000 in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term. A "**Covered Provider**" is (i) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$300,000 or more of MCC Funding in any Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, US\$300,000 or more of MCC Funding from any Provider in such fiscal year, or (ii) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$500,000 or more of MCC Funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, US\$500,000 or more of MCC Funding from any Provider in such fiscal year.

(d) Access. Upon MCC's request, the Government, at all reasonable times, will permit, or cause to be permitted, authorized representatives of MCC, an authorized United States government inspector general, the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may otherwise agree in writing, the Government will, on at least a semi-annual basis, conduct, or cause to be conducted, financial audits of all disbursements of MCC Funding covering the period from signing of this Compact until the earlier of the following December 31 or June 30 and covering each six-month period thereafter ending December 31 and June 30, through the end of the Compact Term, in accordance with the terms of the Program Implementation Agreement. As requested by MCC in writing, the Government will use, or cause to be used, to conduct such audits an auditor

approved by MCC and named on the list of local auditors approved by the Inspector General of the Millennium Challenge Corporation (the “*Inspector General*”) or a United States–based certified public accounting firm selected in accordance with the “Guidelines for Financial Audits Contracted by MCA” (the “*Audit Guidelines*”) issued and revised from time to time by the Inspector General and posted on the MCC website at www.mcc.gov/implementation. Audits will be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. An audit must be completed and the audit report delivered to MCC no later than ninety (90) days after the first period to be audited and no later than ninety (90) days after each June 30 and December 31 thereafter, or such other period as the Parties may otherwise agree in writing.

(b) Audits of United States Entities. The Government will ensure that agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, that are financed with MCC Funding state that the United States organization is subject to the applicable audit requirements contained in the United States Office of Management and Budget Circular A-133. The Government will ensure that agreements between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, that are financed with MCC Funding state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(c) Corrective Actions. The Government will use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider’s audit necessitates adjustment of the Government’s records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC will have the right to arrange for audits of the Government’s use of MCC Funding.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact, including as reflected on Annex II.

ARTICLE 4.

COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact must be in writing and, except as otherwise agreed with MCC, in English. For this purpose, the address of each Party is set forth below.

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Operations
(with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, DC 20005
United States of America
Facsimile: (202) 521-3700
Telephone: (202) 521-3600
Email: VPOperations@mcc.gov (Vice President for Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

The Government of the Republic of Mozambique
Attention: The Honorable Minister
Ministry of Planning and Development
Av. Ahmed Sekou Touré N. 21
Maputo, Mozambique
Facsimile: +258-21-495-463
Telephone: +258-21-492-268
E-mail: aiuba@zebra.uem.mz

Section 4.2 Representatives. For all purposes of this Compact, the Government will be represented by the individual holding the position of, or acting as, the Minister of the Ministry of Planning and Development of the Republic of Mozambique, and MCC will be represented by the individual holding the position of, or acting as, Vice President for Operations (each, a “**Principal Representative**”), each of whom, by written notice to the other Party, may designate one or more additional representatives for all purposes other than signing amendments to this Compact. A Party may change its Principal Representative to a new representative that holds a position of equal or higher rank upon written notice to the other Party.

Section 4.3 Signatures. With respect to all documents other than this Compact or an amendment to this Compact, a signature delivered by facsimile or electronic mail will be binding on the Party delivering such signature to the same extent as an original signature would be.

ARTICLE 5.

TERMINATION; SUSPENSION; REFUNDS

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days’ written notice.

(b) MCC may, immediately upon written notice to the Government, suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC as a basis for suspension or

termination (whether in writing to the Government or by posting on the MCC website at www.mcc.gov/implementation) has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact, the PIA or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) an event has occurred that MCC determines makes it improbable that the Program Objective or any of the Project Objectives will be achieved during the Compact Term or that the Government will be able to perform its obligations under this Compact;

(iii) a use of MCC Funding or continued implementation of this Compact would violate applicable law or United States government policy, whether now or hereafter in effect;

(iv) the Government or any other person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is engaged in activities that are contrary to the national security interests of the United States;

(v) an act has been committed or an omission or an event has occurred that would render Mozambique ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of the Foreign Assistance Act of 1961 or any other provision of law;

(vi) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Mozambique for assistance under the Millennium Challenge Act of 2003; and

(vii) the Government or another person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements will cease upon expiration, suspension, or termination of this Compact; *provided, however*, MCC Funding may be used, in compliance with this Compact and the PIA, to pay for (i) reasonable expenditures for goods, works or services that are properly incurred under or in furtherance of this Compact before expiration, suspension or termination of this Compact; and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within 120 days after the expiration, suspension or termination of this Compact.

(d) Subject to subsection (c) of this Section 5.1, upon the expiration, suspension or termination of this Compact, (i) any amounts of MCC Funding not disbursed by MCC to the Government will be automatically released from any obligation in connection with this Compact and (ii) any amounts of MCC Funding disbursed by MCC but not expended before the expiration, suspension or termination of this Compact, plus accrued interest thereon will be returned to MCC within thirty (30) days after the Government receives MCC's request for such return; *provided, however*, that if this Compact is suspended or terminated in part, MCC may request a refund for only the amount of MCC Funding allocated to the suspended or terminated portion.

(e) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.2 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any asset acquired in whole or in part with MCC Funding is used for any purpose in violation of the terms of this Compact, then MCC may require the Government to repay to MCC in United States Dollars the value of the misused MCC Funding, interest, earnings, or asset, plus interest within thirty (30) days after the Government's receipt of MCC's request for repayment. The Government must use national funds (and no assets of the Program) to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 5.2 for a refund will continue during the Compact Term and for a period of (i) five years thereafter or (ii) one year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.3 Survival. The Government's responsibilities under Sections 2.4, 2.6, 2.7, 3.7, 3.8, 5.1(c), 5.1(d), 5.2 and 5.3 of this Compact will survive the expiration, suspension or termination of this Compact.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

Section 6.1 Annexes. Each annex attached hereto constitutes an integral part of this Compact.

Section 6.2 Inconsistencies. In the event of any conflict or inconsistency between:

(a) any annex to this Compact and any of Articles 1 through 8, such Articles 1 through 8 will prevail; or

(b) this Compact and any other agreement between the Parties regarding the Program, this Compact will prevail.

Section 6.3 Amendments. The Parties may amend this Compact only by a written agreement signed by the Principal Representatives and subject to the respective domestic approval requirements to which this Compact was subject.

Section 6.4 Governing Law. This Compact is an international agreement and as such will be governed by the principles of international law.

Section 6.5 Additional Instruments. Any reference to activities, obligations or rights undertaken or existing under or in furtherance of this Compact or similar language will include activities, obligations and rights undertaken by, existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Any reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a document or information

available on, or notified by posting on the MCC website will be deemed a reference to such document or information as updated or substituted on the MCC website from time to time.

ARTICLE 7. ENTRY INTO FORCE

Section 7.1 Domestic Requirements. The Government will take all steps necessary to ensure that (a) this Compact and the PIA and all of the provisions of this Compact and the PIA are valid and binding and are in full force and effect in Mozambique and (b) each such agreement along with any other agreement entered into in connection with this Compact to which the Government and MCC are parties, if stipulated in such agreement, will be given the status of an international agreement.

Section 7.2 Conditions Precedent. Before this Compact enters into force:

- (a) the Government and MCC must have executed the PIA and it must be effective;
- (b) the Government will have delivered to MCC:
 - (i) a certificate signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, that the Government has completed all of its domestic requirements in order that the requirements of Section 7.1 have been satisfied;
 - (ii) a legal opinion from the Attorney-General of Mozambique (or other legal opinion acceptable to MCC), in form and substance satisfactory to MCC; and
 - (iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force and the satisfaction of Section 7.1, which MCC may post on its website or otherwise make publicly available; and
- (c) MCC must determine that after signature of this Compact, the Government has not engaged in any action or omission that is inconsistent with the eligibility criteria for MCC Funding.

Section 7.3 Date of Entry into Force. This Compact will enter into force on the later of (a) the date of the last letter in an exchange of letters between the Principal Representatives confirming that each Party has completed its domestic requirements for entry into force of this Compact and (b) the date that all conditions set forth in Section 7.2 have been satisfied.

Section 7.4 Compact Term. This Compact will remain in force for five years after its entry into force, unless terminated earlier under Section 5.1 (the “*Compact Term*”).

ARTICLE 8.
ADDITIONAL GOVERNMENT COVENANTS

Section 8.1 Designated Entity. The Government affirms that:

(a) If and to the extent the Government elects to designate an entity to implement some or all of the Government's obligations or to exercise any rights of the Government under this Compact or the PIA (any such entity the "***Accountable Entity***"), the Government will create such entity in accordance with the terms described in Annex I.

(b) The Accountable Entity will have the authority to bind the Government to the full extent of the powers delegated thereto.

(c) The Accountable Entity will be a public institution under Mozambican law with distinct legal personality and administrative and patrimonial autonomy within the meaning of Law n° 9/2002 of 12 February (the SISTAFE Law) and the regulations made thereunder. The Accountable Entity will have the power fully to control its financial management as required by the PIA and any related agreement notwithstanding anything to the contrary in the SISTAFE Law.

Section 8.2 Administrative Court. The Government affirms that under the law of Mozambique:

(a) This Compact is a "cooperation agreement" within the meaning of Article 4, paragraph 1, clause c of Law n° 13/1997 of 10 July (the "***Administrative Court Prior Review Law***").

(b) MCC Funding does not "generate public expenditure" within the meaning of Article 3 of the Administrative Court Prior Review Law.

Section 8.3 Certain Financial Practices.

(a) The Government affirms that MCC Funding does not comprise Government funds and will be held separately from and never commingled with Government funds.

(b) The Government will make explicit provision in the law containing the annual governmental budget for Mozambique for an amount necessary and adequate to cover the value-added tax, customs duties and other tax obligations it assumes under this Compact, the PIA and any related agreement.

Section 8.4 Procurement. The Minister of Finance of the Government will adopt the MCC Program Procurement Guidelines as the rules governing procurement using MCC Funding under the terms of Article 8, paragraph 2 of Decree n° 54/2005 of 13 December and will ensure that such guidelines are published in the official gazette of Mozambique, the *Boletim da República*.

SIGNATURE PAGE BEGINS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned, duly authorized by their respective governments, have signed this Compact this 13th day of July, 2007.

Done at Washington, D.C.

FOR MILLENNIUM CHALLENGE
CORPORATION, ON BEHALF OF THE
UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF THE
REPUBLIC OF MOZAMBIQUE

/ s /

/ s /

Name: John J. Danilovich
Title: Chief Executive Officer

Name: Aiuba Cuereneia
Title: Minister of Planning and Development

**SIGNATURE PAGE TO MILLENNIUM CHALLENGE COMPACT
BETWEEN THE UNITED STATES OF AMERICA
ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION
AND THE GOVERNMENT OF THE REPUBLIC OF MOZAMBIQUE**

ANNEX I

PROGRAM DESCRIPTION

A. OVERVIEW

This Annex I to this Compact describes the Program that MCC Funding will support in Mozambique during the Compact Term and the results to be achieved using MCC Funding.

The Parties may agree to modify, amend, terminate or suspend the projects described herein (collectively, the “*Projects*”) or to create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such modification or amendment of a Project or creation of a new project does not (1) cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, or (2) cause the Government’s responsibilities or contribution of resources to be less than specified in this Compact, or (3) extend the Compact Term.

1. Program Background and Context - Country Background and the Poverty Reduction Strategy.

With a population of 20 million people living in Mozambique, approximately 70 percent are located in rural areas. The urban population represents about 30 percent of the national total. Emerging from a devastating three-decade civil war in 1992, Mozambique has grown rapidly. Since 2000, its growth rate has stabilized between 7 and 8 percent. As the Country Partnership Strategy (2007) notes, Mozambique has achieved the highest average growth rate in the past 10 years among the non-oil producing countries in Africa. Despite Mozambique’s rapid growth, half of the Mozambican population still lives in poverty. Mozambique’s next stage of economic recovery cannot succeed without well-functioning public services in its cities, given Mozambique’s rapid urbanization.

The Government’s action plans for poverty reduction in the past decade, the Action Plan for the Reduction of Absolute Poverty (“*PARPA*”), PARPA I (2001-2005) and PARPA II (2005-2009) are based on the premise that broad-based economic growth is critical to poverty reduction. In PARPA I, lack of basic infrastructure services was identified as one of the major determinants of poverty in Mozambique, and it focused on infrastructure investments to meet the Government’s ambitious growth objectives detailed in PARPA I. Building on the lessons learned from PARPA I, the Government outlines investment in human capital, including water and sanitation services, as one of the three pillars to meet its sustained growth agenda in PARPA II. As PARPA II notes, investing in water and sanitation services contributes to meeting not only the short-term objectives of the Millennium Development Goals, but also Mozambique’s long-term growth and poverty reduction intentions.

2. Program Description.

(a) Compact Goal.

This Compact’s goal is to reduce poverty in Mozambique through economic growth, and increase economic opportunities for Mozambicans living in the northern region.

(b) Program Objective.

The Program Objective is to increase the productive capacity of the population in selected provinces in northern Mozambique with the intended impact of reducing the poverty rate, increasing household income, and reducing chronic malnutrition in the targeted districts.

(c) Program Results (Expected Impact).

The Program will increase regional Gross Domestic Product (GDP) across four targeted northern Mozambique provinces – Cabo Delgado, Nampula, Niassa and Zambézia – by nearly US\$75,000,000 in 2015 and US\$180,000,000 in 2025. A projected 33 percent of the population of these provinces would have been poor in 2015 without the Program. The Program can be expected to reduce the projected poverty rate by over 7 percent by 2015 and by over 16 percent by 2025. More than 270,000 persons will have been lifted out of poverty by 2015 and 440,000 persons will no longer be poor by 2025 as a result of Program implementation.

(d) Beneficiaries Description.

The Program is expected to benefit nearly 5.0 million persons by 2015 both poor and non-poor, amounting to one half of the projected population in the affected four provinces.

Over half of all the beneficiaries reside in Nampula, while the rest reside in the other provinces. Activities specifically targeted to rural areas account for around one third of Program beneficiaries, while those focused specifically on urban areas account for another one third. The roads activities benefit both rural and urban dwellers and account for the remaining beneficiaries. Approximately 20 percent of the households benefiting from the Program are headed by women. The Land Project (as defined below) alone assists 2.6 million persons, but many of these are also likely to benefit from road reconstruction, farmer income support, and improved water and sanitation. Thus, to avoid double-counting, the beneficiaries of the Land Project are not added to the 5.0 million person total.

3. Consultative Process.

Consultation has been an integral part of the development of the Program. For the initial proposal submitted by the Government in July 2005, the Government conducted its MCC consultative process through two organizations, the Poverty Observatory, a group of civil society organizations and non-governmental organizations (NGOs), and the *Confederação das Associações Económicas de Moçambique*, a private sector trade association (the “CTA”). The Poverty Observatory and CTA together represent the preponderance of NGOs, not-for-profit, and domestic for-profit businesses in Mozambique.

During the pre-Compact program preparation and definition process, ongoing consultation continued through various forms including: input from a wide variety of stakeholders in the development of terms of reference for key consultants; information dissemination and exchange during kickoff sessions for the public of the key consultancies; and circulation of the interim and final reports of these key consultants. The Government also held informational sessions throughout this Compact development process with interested stakeholder groups, including national, provincial and municipal government representatives, private sector meetings, donor working groups and other interested parties. The Program will undergo further timely,

participatory, and meaningful public consultation during the development of the environmental, social, and resettlement impact studies during implementation of the Program.

B. WATER SUPPLY AND SANITATION PROJECT

The Water Supply and Sanitation Project (the “*WSS Project*”) interventions include rural and urban water supply, sanitation and drainage, rehabilitation of the Nacala dam and reservoir, and capacity building and institutional strengthening for water sector entities. The objective of the WSS Project is to increase the accessibility, reliability, and quality of water and sanitation services. The WSS Project encompasses water supply and sanitation (including sewerage and drainage) in cities and towns and an extensive rural water supply program in three provinces. WSS Project activities address small rural communities and large provincial capitals – but will notably include a heretofore neglected market segment in Mozambique – small to mid-sized town water supply and sanitation. The WSS Project will reduce the onerous costs associated with the existing provision of water supply; increase the reliability of water service; and improve the health and productivity of individuals, households, and firms.

1. Background.

Lack of access to water and sanitation is a major barrier to growth and health, and this critical infrastructure is a major policy priority of the Government. Mozambique has one of the lowest levels of per-capita water consumption in the world. With an average of less than 10 liters per day, the country is far below global benchmarks. In addition, girls and women spend hours fetching water which leaves little time for child care, income-generating activities, or school attendance.

Meeting the Millennium Development Goals is a major challenge for Mozambique as coverage levels for water and sanitation services would have to almost double for all categories by 2015. The Government estimates that it would need to at least double its sector investments in the next ten years in order to meet the Millennium Development Goals for water and sanitation. Cholera is endemic in major urban areas mainly due to inadequate sanitation and sewerage services, compounded by poor water supply services. This prevalence of cholera and other health impacts caused by poor sanitation also jeopardizes meeting the Millennium Development Goal of reducing infant and child mortality.

2. Summary of Project and Related Activities.

The WSS Project will improve access to safe, reliable water supply and sanitation services. This project will thereby increase productivity, reduce water-borne diseases – one of the causes of death in children under five – and specifically benefit women and girls.

The WSS Project encompasses (a) water supply and sanitation services in three large cities and three mid-sized towns in the provinces of Zambézia, Nampula and Cabo Delgado and (b) a water supply program in Nampula and Cabo Delgado provinces covering rural areas and small towns. The water supply interventions will be divided into interventions in cities where water supply services are owned and managed by the *Fundo de Investimento e Património do Abastecimento de Agua* (FIPAG) and cities where they will be managed by a new Ministry of Public Works and Housing agency, the Asset Management Unit (AMU). The AMU will be created by the Government consistent with its policies and with the support of the World Bank and MCC as its

key development partners by the end of March 2009. The AMU will also manage the implementation of the sanitation program.

The water supply interventions will focus on the sustainable utilization of available water resources, maximizing connections to the network, control of “unaccounted for water,” and will be designed based on results of complete feasibility studies.

As a means of complementing the enhanced water supply, the WSS Project will improve sanitation systems by investigating feasible opportunities to expand wastewater treatment, improve the piped sewage network, and increase the usage of septic systems in the urban centers and latrines in the peri-urban areas. In addition, storm drains will be rehabilitated or added to improve drainage efficiency which protects urban land usage.

The rural water supply component is developed from the Government’s policy of demand-responsive planning, which is predicated on (a) community articulation of demand and (b) local responsibility for operations and maintenance. Taking into consideration the lack of local capacity and concerns over the availability of spare parts and specialized expertise to carry out complex repairs in rural areas, the implementation plan will include procurements of well-construction services in small lots in order to promote the development of local construction and repair businesses.

The WSS Project includes the following activities:

- (a) Improve water supply networks of Nampula, Pemba, and Quelimane, currently operated by FIPAG.
- (b) Build the capacity of local institutions to develop policies and manage programs.
- (c) Construct or rehabilitate water supply systems in Montepuez and Monapo.
- (d) Construct or rehabilitate water supply and sanitation systems in Nacala, Gurue, and Mocuba under the management of AMU.
- (e) Repair and raise the Nacala Dam and reservoir, the main bulk water source for a city of 290,000 people.
- (f) Install and rehabilitate approximately 600 rural water supply points in Nampula and Cabo Delgado provinces.

3. Beneficiaries.

The WSS Project is expected to assist some 1.9 million beneficiaries by 2015 through improved water systems, wastewater disposal and storm water drainage. Among the beneficiaries impacted by the WSS Project by 2015, around one third is expected to be poor. Nearly 1.6 beneficiaries in six large cities – Gurue, Mocuba, Nacala, Nampula, Pemba and Quelimane -- will have improved infrastructure from both water supply and sanitation interventions. Virtually the entire population of each city will be covered by effective storm water drainage improvements. New beneficiaries covered by water systems will vary depending upon existing coverage, but, in general, water system gains are considerable with coverage rates relative to projected populations in 2015 reaching from 40 to 70 percent.

Economic benefits accrue through improved water and sanitation for a number of reasons. Households with access to house and yard connections will pay less for the water they consume and, because of easier access, are likely to use more water for cooking and bathing, thereby improving health outcomes. In particular, with better access to water and sanitation, children will benefit from reductions in morbidity and mortality from diarrhea and malaria. Adults will spend less of their time incapacitated or caring for sick children. Further, women will have more time to spend in productive activities when their sources of water are closer to home, either through house connections or neighborhood water points.

Improved water supplies also will be provided to 300,000 beneficiaries through small piped systems and rural water-points. These improvements will reduce the incidence of disabling diarrhea and save time for women that can be spent on more productive activities. Other benefits that are not easily measured include improved opportunities for girls to go to school, rather than assisting their mothers in household tasks, and reductions in other diseases such as cholera.

4. Sustainability.

The WSS Project will be sustainable if it is economically justified, financially sound, and technologically appropriate and includes the appropriate institutional arrangements.

Institutional Sustainability

For urban water, the WSS Project will help promote the sector's evolution and solidify its institutions. The WSS Project will work in collaboration with the Water Services and Institutional Support Project (WASIS) funded by the World Bank to mitigate as many serious institutional risks as possible. In large cities presently under the responsibility of FIPAG, the WSS Project will facilitate graduating from the World Bank's successfully piloted management contract structure to leases that entail greater risk/reward for private operators. For smaller cities and towns, the MCC program will pilot and roll out an AMU based on the delegated management model. The AMU will be empowered to manage assets and to plan and oversee the execution of investments. The AMU will assist in the engagement of third-party operators for these smaller cities and towns through contracts with the Provincial Water Boards established to contract services on behalf of their constituent municipalities. The AMU addresses the institutional capacity gap for smaller cities and market towns, and will be established in Zambézia, Nampula, and Cabo Delgado where the WSS Project is focused.

Financial Sustainability

Design and planning of water supply and sanitation services for the WSS Project will be based on the demand-responsive (rather than a supply-led) approach and will be based on consumer preferences and willingness to pay. In the FIPAG cities, tariffs will be set to ensure full cost recovery. In the AMU municipalities and the rural areas, tariffs will be set to recover, at a minimum, 100 percent of operations and maintenance (including the replacement of all assets with a useful economic life of less than seven years) after a period of tariff adjustments, but no later than 2015.

Environmental and Social Sustainability

The key to ensuring environmental and social sustainability of the WSS Project is ongoing public consultation. MCA-Mozambique (described below) will ensure that comprehensive public

consultation plans are developed such that WSS Project stakeholders, including women and vulnerable groups, are afforded consultation and an opportunity to provide their inputs to WSS Project design and implementation. MCA-Mozambique will also take steps to ensure that the interests and views of women and vulnerable groups are represented in any of the provincial or community water boards or other entities responsible for advising on design, ownership, management, and operation of water and sanitation systems funded under this Compact.

MCA-Mozambique will ensure that environmental and social mitigation measures are followed for all Project activities in accordance with the provisions set forth in this Compact and in relevant supplemental agreements. The Stakeholders Forums (as defined in Section F of this Annex I) will incorporate representatives of civil society that will serve as a link between local NGOs and program managers.

5. Environmental and Social Issues.

Overall, the WSS Project is classified as “Category A” according to MCC Environmental Guidelines due to potential social and environmental impacts associated with several Project activities, including the rehabilitation of a large dam and the construction of municipal sanitation systems and off-site wastewater treatment facilities. However, a number of the individual Project activities will be classified “Category B” and, as such, may not require full Environmental Impact Assessments (“*EIAs*”) as defined in the MCC Environmental Guidelines. All Project activities will require Environmental Management Plans (“*EMPs*”) and, as applicable, Project activity-specific Resettlement Action Plans (“*RAPs*”) will be developed and implemented in compliance with the World Bank Policy on Involuntary Resettlement (OP 4.12) prior to the start of construction activities.

Environmental and Social Impacts

The rehabilitation of the Nacala Dam (considered a “large” dam according to MCC Environmental Guidelines) has the potential for resettlement, alteration of river flows and aquatic habitat, and the significant but temporary reduction of the region’s primary source of potable water during re-construction and will thus require a full EIA. Although the construction or rehabilitation of sanitation systems will provide significant positive environmental benefits, the scope of potential negative environmental and social impacts that may arise from constructing off-site wastewater treatment facilities and potential pollution problems related to discharges and operation of the systems necessitate preparation of an EIA. Investments in expanding and improving water supply networks have the potential for (a) limited resettlement, (b) rehabilitation of several small dams, (c) over-extraction of surface and/or groundwater resources, and (d) project proximity to important cultural, natural, and archeological resources. The rural water supply points activity may have potentially adverse impacts resulting from limited resettlement and over-extraction of ground water resources.

Potential direct, indirect, induced, and cumulative environmental impacts of each of the WSS Project activities will be further examined through the EIAs and environmental assessments that will be conducted during the feasibility and design phase for each WSS Project activity. For the water supply activities, MCA-Mozambique will ensure that feasibility studies include efforts to identify the most appropriate and environmentally sustainable water sources to meet future demand. In addition, MCA-Mozambique will ensure that for all WSS Project activities EMPs are developed, implemented and monitored in accordance with the provisions of this Compact

and any relevant supplemental agreements. MCA-Mozambique will ensure that environmental and social assessment responsibilities are included in the bidding documents for the design or supervisory firms, construction firms, independent technical auditing firms and any project management advisors, as needed. Disbursement of MCC Funding for the WSS Project will be contingent upon issuance of environmental licenses, as needed, or any other required permits. WSS Project activities, for which MCC disburses funds, should be consistent with the outcomes of the relevant EIAs, MCC Environmental Guidelines, and in compliance with applicable Mozambique environmental law and regulations.

To maximize the positive social impacts of the WSS Project and ensure compliance with MCC's Gender Policy, MCA-Mozambique is required to (a) develop a gender integration plan that includes approaches for meaningful and inclusive consultations with women and vulnerable/underrepresented groups; Project activity-specific gender analyses, as appropriate; and strategies for incorporating findings of the gender analyses into final Project designs; and (b) ensure that final Project activity designs are consistent with and incorporate the outcomes of the gender integration plan.

Environmental Permitting and Oversight

Through this Compact MCC has the option of providing a capacity building grant to the Ministry of Coordination on Environment (“*MICOA*”) to facilitate their ability to respond to the increased workload arising from the Government's implementation of this Compact. This assistance would enhance MICOA's ability to, inter alia, adequately review all Compact-related environmental studies; issue environmental permits on a timely basis as provided in Mozambique environmental law and regulations; and hire, train and appropriately resource additional staff, as needed, in the provincial offices to carry-out effective environmental oversight and auditing of the implementation of Compact Projects.

6. Consultative Process.

AMU operation is envisioned to have strong municipal representation through the creation of functioning Provincial Water Boards, and represents the Government's preferred alternative to delegate the management of water supply and sanitation in towns and smaller cities. This representative structure for municipal services was the product of consultation and discussion, including forums to solicit input from stakeholders.

7. Donor Coordination.

In developing the WSS Project, MCC participated in numerous donor meetings to explain and receive comments on the Government proposal as it changed over time. Through meetings with the Water Donors Working Group and the Municipal Development Working Group, MCC was able to gather information on how the WSS Project will fit into the planned activities of other donors. The geographical focus of the WSS Project complements the other water sector interventions financed by other donors. The institutional development activities funded by MCC and the World Bank will facilitate future operations by the Government and development partners in the sector.

Successful execution of the WSS Project requires close coordination with other donors and actors in the water sector. The Government and the Water Donors Working Group are developing a Rural Water Supply Sector Wide Approach and are beginning the process for an

Urban Water Strategy and Sanitation Strategy (as discussed below). The Government through the WSS Project will work closely with the World Bank's WASIS project, which will support institutional development of the AMU and the Provincial Water Boards.

While United States Agency for International Development (USAID) is not directly active in the Water Sector Working Group it does participate in the Municipal Development Working Group and is active in health related issues, both of which are strongly linked to water supply and sanitation. MCC has coordinated with the USAID Mission in Maputo and with the Global Health Bureau in Washington. Although USAID will not be directly involved in the implementation of the WSS Project, close coordination will be maintained to ensure synergies between existing and future activities and to capitalize on USAID's long term in-country presence.

8. Policy, Legal and Regulatory Reforms.

In order to reach the full benefits of the WSS Project:

(a) Urban Water Strategy. The Government agrees to finalize an Urban Water Strategy, which will be vetted and agreed to by the major Government stakeholders (*Direção Nacional de Água* (DNA), *Fundo de Investimento e Património do Abastecimento de Água*-Water Supply Investment Fund (FIPAG), *Conselho de Regulação de Água* (National Regulatory Authority) (CRA), *Ministério da Administração Estatal* (Ministry of State Administration (MAE), and others) and have broad consultation with the major water sector donors, as set out in the WSS Project work plans.

(b) Sanitation Strategy. The Government agrees to finalize a Sanitation Strategy, which will be vetted and agreed to by the major Government stakeholders (DNA, CRA, MAE, and others) and have consultation with the major water and sanitation sector donors, as set out in the WSS Project work plans.

(c) Creation of the Asset Management Unit. The Government will create an AMU according to the criteria set out in the PIA in the form of conditions to Disbursements of MCC Funding.

(d) Expansion of CRA. The Government agrees to expand the regulatory authority of CRA to cover delegated management under the AMU for both water supply and sanitation, in addition to undertaking other legal or regulatory measures as described in the PIA in the form of conditions to Disbursements of MCC Funding.

(e) Operation and Maintenance Costs for Sanitation. The Government agrees to develop the procedures to incorporate the operation and maintenance costs for the sanitation activities into the FIPAG's water supply billing.

(f) Rural Water Supply Strategy. The Government will create a public and publishable Rural Water Supply Implementation Manual (MIPAR).

C. ROADS PROJECT

The roads project interventions include key segments of the *Estrada Nacional*/National Route 1 ("NI") in Zambézia, Nampula and Cabo Delgado Provinces (the "**Roads Project**").

1. Background.

Two-thirds of Mozambique's population depend on agriculture (and out of these about 90 percent on subsistence agriculture) for their livelihood. The cash crop sector is in a reconstruction stage and is experiencing development problems, especially the cashew sector. Other planted cash crops are sugar cane, tea, tobacco, and coconut. The importance of roads in agriculture is highlighted in the World Bank's Mozambique Agriculture Strategy, 2006, which notes that "Rebuilding roads and bridges is now a priority and a necessary condition for any growth in the agriculture sector."

Extraction of timber is limited because of lack of infrastructure including poor road conditions but has a high development potential due to the richness of high quality timber species. Fisheries, particularly shrimp and prawn, are of importance, with a high potential for production increases. Mozambique has considerable mineral resources, such as coal, tantalite, ilmenite, graphite, iron ore, bauxite, salt, and potentially developable resources such as gold, petroleum, and gas. All of these sectors depend upon reliable transportation networks and roads in particular.

The *Administração Nacional de Estradas* (ANE) and the *Fundo de Estradas*, an independent agency that manages road maintenance funding (the "**Road Fund**"), prepared a Road Sector Strategy 2007 – 2011 ("**RSS**") report. That strategy lays out the Government's plan to enhance, improve, and preserve the classified road network of the country.

The RSS provides the broad framework for the Government's road sector development for the entire country. The Government and MCC worked together to identify appropriate investments in the provinces of the Roads Project based upon the strategic work of the Government under an MCC grant and through other donors' efforts.

2. Summary of Project and Related Activities.

The objective of the Roads Project is to improve access to markets, resources, and services; reduce transport costs for the private sector to facilitate investment and commercial traffic; expand connectivity across the northern region and down towards the southern half of the country; and increase public transport access for individuals to take advantage of job and other economic opportunities.

It is planned that the Roads Project will rehabilitate 491 kilometers of high-priority roads in three (3) provinces. The road segments will include Rio Lurio – Metoro in Cabo Delgado (74 kilometers), Namialo – Rio Lurio (148 kilometers) and Nampula – Rio Ligonha (102 kilometers) in Nampula, and Nicoadala – Chimuara (167 kilometers) in Zambézia.

Specifically, MCC Funding for the Roads Project will support the following:

- (a) design, environmental assessment, as needed (to include, if necessary, supplemental EIAs), and construction activities for the improvement of the N1;
- (b) implementation of environmental and social mitigation measures as identified in the EIA, or as otherwise may be appropriate, to include compensation for physical and economic displacement of individuals, residences and businesses affected by such rehabilitation and

construction, consistent with the World Bank's Operational Policy on Involuntary Resettlement (OP 4.12), and implementation of HIV/AIDS awareness plans;

- (c) design and construction of drainage structures, as may be required;
- (d) design and construction of all necessary new bridges and rehabilitation of existing bridge structures, as may be required;
- (e) posting of signage and incorporating other safety improvements; and
- (f) project management, supervision and auditing of such improvements and upgrades.

3. Beneficiaries.

In total, by 2015, nearly 2.3 million beneficiaries in districts adjoining the roads will have improved access in the three provinces affected. Over one third of those beneficiaries are likely to be poor. More than 60 percent of the beneficiaries are in Nampula; somewhat less than 40 percent are in the other two provinces. The beneficiaries in Cabo Delgado are proportional to population, while relatively fewer beneficiaries are in Zambézia. Benefits will accrue to vehicle users on the rehabilitated and resurfaced roads as vehicle operating costs go down, and time spent in travel is reduced with vehicles traveling safely at higher speeds. In addition, road improvements will induce additional growth in traffic as better roads make transportation more affordable for agriculture, industry and commerce. These benefits should result in reductions in the prices of goods and improvement in farm-gate prices if savings in fuel and other vehicle operating costs are passed on to producers and consumers. It is also expected that bus operations will become more efficient, improving access to public transportation. This should make it easier for the population to secure access to health, education, and employment. Over half of the population is of working age and will be able to take advantage of improved employment opportunities.

4. Sustainability.

Sustainability on the Roads Project is dependent on three factors. First, the establishment of functional provincial ANE offices will be crucial, since road maintenance will largely be implemented by such offices. Secondly, the *Programa Integrado do Sector de Estradas* (“*PRISE*”) is also critical to sustainability, because this sector-wide approach for the road sector is designed to support a coherent Mozambican-owned and led road program, which should be equipped to plan, finance, implement, monitor and evaluate the road sector. Third, the Road Fund established by the Government has been designed to manage the financial resources intended for the road sector and to allocate the resources for the maintenance of various categories of roads. The Road Fund also has responsibility for road sector monitoring and evaluation.

Environmental and Social Sustainability

The key to ensuring environmental and social sustainability of the Roads Project is ongoing public consultation. MCA-Mozambique will ensure that comprehensive public consultation plans are developed such that Roads Project stakeholders, including women and vulnerable groups, are afforded consultation and an opportunity to provide their inputs to Roads Project design and

implementation. MCA-Mozambique will ensure that environmental and social mitigation measures are followed for all Project activities in accordance with the provisions set forth in this Compact and in relevant supplemental agreements. The Stakeholders Forums will incorporate representatives of civil society that will serve as a link between local NGOs and program managers.

5. Environmental and Social Issues.

The Roads Project is classified as “Category B” according to the MCC Environmental Guidelines given the potential for: (a) increased deforestation and related flooding; (b) resettlement; and (c) increased human trafficking and disease transmission, including HIV/AIDS, along the routes to be upgraded. All Roads Project activities will require environmental assessments, EMPs, and, as applicable, Road-specific RAPs that will be developed and implemented in compliance with the World Bank Policy on Involuntary Resettlement (OP 4.12) prior to the start of construction activities.

Environmental and Social Impacts

It is unlikely that the proposed Roads Project activities will result in any significant negative environmental impacts given that the Roads Project involves the rehabilitation and paving of existing roads and not the construction of new roads. However, the potential direct, indirect, induced, and cumulative environmental impacts of the Roads Project activities will be further examined through the execution of environmental assessments that will be conducted during the feasibility and design phase of the Roads Project. In addition, MCA-Mozambique will ensure that EMPs are developed, implemented and monitored during the project in accordance with the provisions of this Compact and any relevant supplemental agreements. MCA-Mozambique will ensure that environmental and social assessment responsibilities are included in the bidding documents for the design or supervisory firms, construction firms, independent technical auditing firms and any project management advisors, as needed. Disbursement of MCC Funding for the Roads Project will be contingent upon issuance of environmental licenses, as needed, or any other required permits. Roads Project activities, for which MCC disburses funds, should be consistent with the outcomes of the relevant environmental assessments, MCC Environmental Guidelines, and in compliance with applicable Mozambique environmental law and regulations.

Given the strong evidence linking transport routes to the spread of HIV/AIDS, MCA-Mozambique will also develop an action plan for incorporating sustainable and well-targeted HIV/AIDS awareness programs into all phases of road works implementation. To help address concerns that the expansion/upgrade of the road network in northern Mozambique does not exacerbate human trafficking problems in the region by opening up or improving routes used by traffickers, MCA-Mozambique will develop an action plan for incorporating targeted anti-trafficking in persons awareness programs into the execution of road activities.

To maximize the positive social impacts of the Roads Project and ensure compliance with MCC’s Gender Policy, MCA-Mozambique is required to (a) develop a gender integration plan that includes approaches for meaningful and inclusive consultations with women and other vulnerable/underrepresented groups; a Project-specific gender analysis, as appropriate; and strategies for incorporating findings of the gender analysis into final Project designs; and (b) ensure that final Project activity designs are consistent with and incorporate the outcomes of the gender integration plan.

Environmental Permitting and Oversight

Through this Compact MCC has the option of providing a capacity building grant to the MICOA to facilitate their ability to respond to the increased workload arising from the Government's implementation of this Compact. This assistance would enhance MICOA's ability to, *inter alia*, adequately review all Compact-related environmental studies; issue environmental permits on a timely basis as provided in Mozambique environmental law and regulations; and hire, train, and appropriately resource additional staff in the provincial offices to carry-out effective environmental oversight and auditing of the implementation of Compact projects.

6. Consultative Process.

In addition to the process mentioned in the WSS Project section for the PARPA, the Government, in developing the PRISE, consulted a wide range of stakeholders. The consultative process was timely, meaningful, and participatory. It involved three different methods of obtaining information, including: (a) a formal survey among donors and road sector professionals; (b) consultations with provincial authorities; and (c) focus groups with road users, government officials, and other stakeholders. The stakeholder consultations included provincial consultations with provincial government leaders, provincial road authorities, directors of public works, ANE provincial delegates, provincial roads consultants, and donors. They also included 18 focus groups which were comprised of contractors, public servants, agricultural bodies, tourism operators, transporters and road users, public transport passengers, and private sector non-transporters.

7. Donor Coordination.

In developing the Roads Project, MCC held coordination meetings with many stakeholders in the donor community. MCC participated actively in the planning meetings for the PRISE and, since November 2005, attended the Road Sector Donors meetings whenever MCC representatives were in Mozambique. The interventions financed by other entities do not conflict with the interventions of the Roads Project; they contribute to create a more comprehensive road network by incorporating roads that connect to the northern sections of the N1 that will be improved.

Donors with major commitments and experience in the road sector include: European Union, World Bank, Japan, the Swedish International Development Cooperation Agency, the African Development Bank, *Agence Française de Développement*, the International Fund for Agricultural Development, Irish Aid, Italian Cooperation, Germany's *Kreditanstalt für Wiederaufbau*, USAID, the United Kingdom's Department for International Development (DFID), the Danish International Development Agency, the Norwegian Agency for Development Cooperation, the Arab Bank for Economic Development in Africa, the Islamic Development Bank, the Nordic Development Fund, and the Organization of Petroleum Exporting Countries' Overseas Fund for International Development.

USAID is involved with the Roads Sector Working Group and has historically provided technical assistance and investments in the rural road network. MCC has coordinated with the USAID Mission in Maputo. Although USAID will not be directly involved in the implementation of the Roads Project, close coordination will be maintained to ensure synergies between existing and future activities and to capitalize on USAID's long-term in-country presence.

8. Policy, Legal and Regulatory Reforms.

In order to reach the full benefits of the Roads Project:

(a) The Government will ensure compliance of the roles and responsibilities of the Road Fund and ANE, as set out in the PIA in the form of conditions to Disbursement of MCC Funding.

(b) The Government will undertake the necessary policies to ensure that they continue to meet all of the PRISE Performance Assessment Framework indicators.

(c) The Government will undertake a program to ensure periodic maintenance of the entire paved road system.

D. LAND TENURE SERVICES PROJECT

1. Background.

Land is an important asset for income generation and wealth creation. Land has been at the center of a long-standing debate about different choices and visions for growth in rural areas, and is of increasing importance to urban development as well. In 1997 Mozambique adopted a new legal framework on land tenure aiming to address equitable access to land tenure security for local communities and private sector including recognition of customary rights. This new legal setup has been recognized by a broad range of actors as a good policy and legal framework. However, implementation of this framework has been slow and requires an efficient land administration system to play the primary role in increasing land tenure security and improving access to land, thereby enabling the use of this asset most effectively for economic growth.

On one hand, the lack of simple, fair and clear procedures for acquiring and transferring rights to land is a constraining factor for private sector investment. On the other hand, there have been concerns about improving and securing local community and small farmer land-use rights. As Mozambique has moved on from post-war reconstruction toward a market-based economy, there is an increasing demand for land access and for issuance of registered titles to land rights. This is placing increased pressure on the land administration services, which are already limited in their ability to effectively implement the existing legislation.

The Land Tenure Services Project (the “*Land Project*”) will work on improving policy, upgrading the public land administration agencies (the title registry and cadastre), and facilitating site-specific land access. These three main pillars will address concerns widely shared across private sector, the Government, and civil society with solutions that bring together their diverse perspectives. The benefits will reach private sector and local communities in the four selected provinces. The policy work and precedent set by the investments made in northern Mozambique will have a national impact, thereby contributing to an improved investment climate in the country and broader participation in the rural economy. The Land Project will enable people to increase their incomes and wealth as: (a) risk and transactions costs are reduced; and (b) more secure access to land induces increased investment and more productive land uses.

2. Summary of Project and Related Activities.

The objective of the Land Project is to establish more efficient and secure access to land particularly in the four provinces included in the Program. The Land Project will support the unified advance by the Government and stakeholders on both policy development and its implementation. This will enable the translation of local and international best practices into an improved policy and regulatory framework. At the same time, the Land Project will help specific beneficiaries meet their immediate needs for registered land rights and better access to land for investment.

The Land Project is comprised of three mutually reinforcing activity areas: (a) support for an improved policy environment, including addressing implementation problems for the existing land law and engaging in regulatory review to improve upon it (the “*Policy Activity*”); (b) building the institutional capacity to implement policies and provide quality public land-related services (the “*Capacity Building Activity*”); and (c) facilitating access to land use by helping people and business with (i) clear information on land rights and access; (ii) resolution of conflict with more predictable and speedy resolution of land and commercial disputes – which in turn creates better conditions for investment and business development; and (iii) registering their grants of land use (land titles to long-term or perpetual-use rights) (the “*Site Specific Activity*”).

(a) Land Policy Monitoring (the Policy Activity).

The Land Law adopted in Mozambique in 1997 made significant improvements to the legal, institutional and technical framework for providing more secure land use rights and access to land for all groups in society. However, land policy today is also under stress due to the implications of having only partially implemented this framework. These two trends suggest that Mozambique stands to significantly benefit from a participatory engagement in monitoring progress; development of a new, coherent vision that links together all levels of responsibility and capacity for the provision of land services; and, the pursuit of an agenda of regulatory and administrative change. Additionally, an aggressive approach to non-judicial dispute resolution (conciliation, mediation and arbitration) as well as legal professional training and public education about land administration and land rights is important to the transformational goals of the Land Project. Land tenure disputes are plentiful, yet, there are few sources of legal support for rural people. Even private enterprises find it difficult to access high quality legal services related to land issues. The Policy Activity will help address these issues.

Specifically, MCC Funding will support the following five sub-activities under the Policy Activity: (i) the further development of a national land administration vision and a coherent implementation strategy based on a needs assessment that will examine regulations, administrative processes, information systems, institutional structure, and human resources; (ii) the provision of technical and logistical support for a process to assess and monitor progress on land legislation, in coordination with the Land Policy Consultative Forum created with support from the Land Project; (iii) the development and implementation of a broad campaign of public education, outreach and awareness raising of non-judicial dispute resolution methods with partners, including but not limited to *Centro de Arbitragem, Conciliação e Mediação*, as effective cost and time-saving mechanisms to resolve disputes; (iv) investment in expanding an on-going program for legal and judicial training, training for mediators and arbitrators, studies and advocacy of the Legal and Judicial Training Center (“*CFJJ*”), as well as developing new curriculum on mediation and arbitration training for CFJJ’s paralegal students working in the

northern provinces on commercial and land issues; and (v) provision of advisory services, including international best-practice knowledge transfer, to the National Directorate of Lands and Forests.

(b) Land Administration Capacity Building (the Capacity Building Activity).

The institutional capacity to implement and enforce the present land law and its regulations and to provide high quality efficient services to clients is limited. Limitations include procedural complexity, insufficiently trained personnel and inadequate information, communications and profession-specific technology access at the national, regional and local offices. Addressing these limitations to establish an effective land registry system will yield more transparent, reliable and faster processes for accessing land and meet – as well as further motivate – a growing demand for formal land rights registration. This, in turn, will improve the investment climate while ensuring security of tenure for land-holding households and local communities. At the same time, while allowing for more affordable service fees, these improvements will generate the revenue base to sustain high quality services over time. At the municipal level, effective land administration capacity will reinforce decentralization by bolstering the information base for investment and fiscal planning. Under the Capacity Building Activity, MCC Funding will support investments and reform processes that will go a long way toward strengthening public land administration services.

Specifically, MCC Funding will support the following intervention areas: (i) implementation of a comprehensive approach to professional development and training (including in local requirements and international best practices in cadastral and registration information systems, surveying and titling procedures, land law, and other topics) at the national, provincial and local levels, thereby increasing knowledge and awareness of land tenure issues, land records management and surveying techniques, and providing a better understanding of development trends in land policy and in the demand for their services; (ii) the further development of the National Land Information System (LIMS), which was first funded by the Italian government but still requires strategic planning, final design and completion of implementation at the provincial level; (iii) investment in and technical assistance to the upgrading of facilities for four provincial and selected district land service offices; (iv) investment in and technical assistance for cadastral development in selected municipalities, including pilot implementation of cadastral registration in selected neighborhoods within each municipality. The Land Project will develop methods and criteria to select the particular districts, municipalities and neighborhoods. Such criteria and methods will be subject to approval by MCC.

(c) Site Specific Facilitation of Land Access (the Site Specific Activity).

In the PARPA, the Government committed to undertaking a mapping and inventory initiative to identify and record the actual legal and economic situation of land holdings including the type of land rights (by state authorization, good faith and community) and existing land uses. In the selected, more economically dynamic areas, this will result in readily available information for many purposes including for the planning and the management of access to natural resources (including land), a reduction in the risk of land disputes, and quicker and easier access to land for investors and small businesses (farm and non-farm). At the same time and often in these same dynamic areas, communities increasingly seek to enhance the security of their tenure or to engage in business relations with investors through joint ventures or the leasing out of their lands (as allowed for in the land law upon boundary delimitation and title issuance). Several donors

worked with the Government to establish the Community Land Initiative. This “land fund” responds to demand with grants of financial support and technical assistance, ensuring an approach fully compliant with the technical annex to the land law and thereby reducing the risk of disputes and errors. Finally, it is important to provide immediate solutions to help investors and small businesses more expediently meet their land access and registration needs. Discussions with CTA and others suggests that some simple information and facilitation services will allow progress within the current institutional and regulatory climate while the other Land Project activities work to transform the land administration system.

Specifically, MCC Funding will support: (i) the implementation of the mapping and inventory exercise and, as part of that process, the piloting of a sound approach to area-wide registration of land rights in selected areas characterized as more dynamic and/or conflictive; (ii) provision of additional funding to the existing program of support for the Community Land Initiative to allow its operation in Zambézia, Nampula and Niassa Provinces (the land fund is already operating in Gaza, Manica and Cabo Delgado with support from other donors); and (iii) make available simple informational tools to streamline investor and farmer access to land in northern Mozambique, such as legal information, guidelines regarding the requirements for negotiating land access with local communities, printed site maps showing land use and existing titles, and other tools, e.g., specialized seminars.

3. Beneficiaries.

The Land Project supports the national policy monitoring and reform process by introducing improved approaches to land registration and records management. Broadly speaking, the Project will assist anyone (local community and private sector) who has or acquires land-use rights. In particular, the Land Project is projected to benefit 1.9 million people by 2015 and 2.6 million people by 2029 by assisting four groups of beneficiaries. As a result, the value of investment on land affected by the Project will increase and the time and cost to register a land use right will be reduced.

Local communities that solicit assistance from the Community Land Initiative will benefit from registration of land rights and reduced transaction costs through improved security for productive activities on their land and increased opportunity for arrangements with outside investors for business development. Approximately 200 communities are projected to have their lands delimited over four years under the Land Project, enabling an estimated average of 3000 hectares per community to become available for commercial uses. Urban households in selected municipalities and rural smallholders in selected districts and sites selected for land service upgrading and mapping will save time and expense when accessing and/or registering land rights. These beneficiaries include nearly half a million urban parcel holders and over 220,000 rural smallholders. Investors (both local and foreign), who currently can face high transactions costs in gaining access to a registered land use right, will also have substantial savings. Benefits are expected to accrue to more than 150 firms. Additional value added can be expected from reduced conflict and increased job creation over time as a result of new commercial investments encouraged by a more efficient land use regime; however, these benefits are not easily quantifiable.

4. Sustainability.

The Land Project addresses sustainability by supporting the development of an overall strategy for modernization of land services that emphasizes client service, adoption of technology solutions adapted to the local context, and financial and human resource capacity. Re-establishing trust and creating efficiency in public land services will increase citizen and business use of services, thereby contributing to records being kept up-to-date. The increased ability to collect land rents from leases of public land and expanded collection of rationalized service fees will provide a major improvement in capacity to fund public land services at the national, provincial, and municipal levels. Finally, the program will enable significant progress toward access to and security of land tenure, which will help facilitate sustainable economic development.

5. Environmental and Social Issues.

The Land Project is classified as “Category C” according to the MCC Environmental Guidelines as Project activities are unlikely to have immitigable, adverse environmental or social impacts.

Environment and Social Impacts

Given that the major proposed interventions in the Land Project do not contemplate the construction of new, or the significant expansion of existing buildings or structures, or the introduction of new technologies or productive processes, this Project is unlikely to generate any significant adverse environmental, health or safety impacts or risks. While the implementation of the Land Project will likely lead to an increase in the demand of certain public services (e.g., electricity, potable water, waste disposal) and products (e.g., office supplies, printed materials) for the operation of new equipment or the performance of training, consultation and information activities, this increase in demand would be negligible. Thus, neither specific environmental studies nor environmental impact management measures are anticipated for the Land Project.

The Land Project includes several activities that will deliver positive social impacts, such as the delimitation of ‘common hold’ land rights held by local communities, which can protect the long-term tenure security of many rural dwellers and reduce the potential for conflict with smallholders and investors. However, several Land Project activities could potentially induce some negative social and gender-based impacts. This risk will be managed through adequate approaches to implementation and the impacts properly mitigated during implementation. For example, plans to adjudicate and register individual titles to smallholder plots may pose risks to the tenure security of certain vulnerable groups including women and those affected indirectly or directly by HIV/AIDS. Adjudication and registration of plots can lead to cancellation of access agreements and therefore greater tenure insecurity for these vulnerable groups. Initial project design has taken into account most of these potential negative impacts and gender-based constraints to participation. These issues will be furthered explored and appropriate mitigation strategies incorporated into final activity/sub-activity designs, which will be reflected in the gender integration plan. Finally, the Land Project is not expected to negatively impact public health and safety, child labor or human trafficking.

6. Consultative Process.

In addition to the overall Compact development consultative process, extensive consultations were conducted on the conceptual framework for the Land Project objectives and approaches, as

well as on specific aspects of the design. Consultations were conducted at both an individual-level with representatives of the proposed implementing agents, NGOs and the private sector, as well as at a national and provincial level, in all four of the northern provinces, usually through the Permanent Secretaries in the office of the Provincial Governor. Donors were also involved in the consultations, such as the National Program for Agrarian Development (“*PROAGRI*”) Working Group and donor focus groups at a Southern African Development Community (SADC) conference.

7. Donor Coordination.

MCC has consulted with many donors, most extensively with USAID, DFID and the World Bank. As designed, the Land Project builds on prior initiatives and complements existing ones. For example, this Compact will support the expansion of a multi-donor program called the Community Land Initiative (which is supported by DFID, the Swiss Agency for Development and Cooperation, the Danish Embassy, The Swedish International Development Cooperation Agency and the Development Cooperation Ireland). The Land Project also benefited from technical support from Food and Agriculture Organization of the United Nations (FAO), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the United Nations Development Programme, and USAID. As a part of this Compact’s support to expand a paralegal training and legal education through the CFJJ, MCC will be working alongside FAO and the Government of the Netherlands. The African Development Bank is supporting efforts to make the registry of deeds more efficient and this will link to the land administration strategy and information system development under this Compact. Finally, the Land Project indirectly complements the Government use of budget support (e.g., from the Irish and Spanish Cooperation and previous initiatives of the Italian Cooperation, GTZ, the International Fund for Agricultural Development (IFAD) and others). In fact, measures such as the ones to be supported under this Land Project are consistent with discussions held by the donor working group on agriculture (PROAGRI) under the Program Aid Partnership’s (G-18) joint review of progress on the PARPA in 2007 as well as in previous years’ joint review of progress on the PARPA.

USAID was particularly engaged throughout the development and review of the Land Project. Improved efficiency and security of land access is relevant to its programs in private sector development, trade, rural incomes, and municipal development. USAID and its stakeholders provided information useful to the design of activities, including technical guidance from USAID Washington. An area for potential coordination under this Compact will be the USAID funded pilot cadastre activity in five municipalities in northern Mozambique.

8. Policy, Legal and Regulatory Review.

The Government agrees to engage in a process of regulatory and administrative reform to significantly improve the efficiency, transparency and security of the processes for transferring and acquiring land rights, in both rural and urban areas. The Government also agrees to support a related regulatory reform, which will result from a list of targeted reforms proposed in the design study “*Land Tenure Services Final Report (February 2007)*” and as refined by additional analyses and efforts under this Compact.

E. FARMER INCOME SUPPORT PROJECT

1. Background.

Mozambique is an internationally significant exporter of coconuts and coconut products. These are grown in Zambézia and Nampula Provinces. Coconut is one of the few crops growing on the impoverished, sandy, and sometimes saline coastal soils of northern Mozambique. It has unique value as a low input, environmentally beneficial, year-round source of nutrition, income and shelter for coastal communities. In the late 1990s, outbreaks of Coconut Lethal Yellowing Disease (“*CLYD*”) were confirmed in areas of commercial smallholder plantings in coastal Zambézia. By 2003 about one percent of the total area was affected but with several new disease foci in both provinces. Disease-affected areas in Zambézia have expanded considerably since 2003, and new foci are present in Nampula as well. At the present rate of spread, more than 50 percent of the coconut area is likely to be lost over the next nine years. As the infection rate is considerably slower than that experienced in Florida and the Caribbean, the disease could be controlled by the same type of phytosanitary measures that were used in Ghana. Currently, about five percent of the total coconut area of Zambézia is likely to be affected, although in certain areas there is no remaining production. Trees that are no longer productive must be removed and replaced. Technical support is necessary to assist farm enterprises in recovering income that they formerly had from coconut trees. Unless sustained measures are taken over a large area, coconut cultivation will cease in large areas of central Mozambique, with the resulting loss of export earnings and rural livelihood for over 1.7 million people in coastal Zambézia and Nampula.

In conjunction with tree removal and replacement, this Project would assist farmers adopt new cropping systems and develop alternative sources of cash income during the time the coconut trees reach productive age at seven years and beyond (the “*Farmer Income Support Project*”). Chickpeas, pigeon peas, cowpeas and pineapples have the potential to generate alternative income for these farm enterprises, compatible with rehabilitation of coconut and diversification to reduce risks and improve livelihood options. Pulses have become increasingly significant exports, increasing by over 400 percent per year from 2000-2004. Like coconuts, they are suited to the sandy and loamy soils that are dominant in the coastal region. They are advantageous because they fix nitrogen in the soil. At the same time, crop yields in the region are extremely low due to poor practices including lack of crop rotation, poor seed selection, inadequate field preparation, untimely weeding, and other practices. Technical support to introduce better practices would increase yields considerably.

2. Summary of Project and Related Activities.

The objective of the Farmer Income Support Project is to improve productivity of coconut products and encourage diversification into other cash crop production. The Project will eliminate biological and technical barriers hindering economic growth among farms and targeted enterprises located in this Compact area’s eastern coastal belt (Zambézia and Nampula provinces), and it will increase incomes lost to CLYD through crop diversification and improved farming practices.

The Project will deliver two essential services to farm enterprises over the duration of this Compact to significantly improve and sustain incomes derived from cash crops and newly introduced crop diversification options: (a) CLYD control and mitigation will provide the short-

term control measures of surveillance, prompt eradication of diseased palms and replanting with the less susceptible Mozambican Green Tall coconut variety. The Project will replant all cleared coconut trees. In the endemic areas, this activity will support planting 160,000 new coconut seedlings, the equivalent of 2,000 hectares, benefiting 7,500-10,000 smallholder families. In the epidemic areas, this activity will support clearing and also replanting of 650,000 seedlings on 6,100 hectares; and (b) Technical Advisory Services will introduce alternate crop-diversification options that demonstrate strong market demand and income generation potential, especially for farm enterprises participating in the CLYD control and mitigation program that are seeking short-term income alternatives during period of coconut tree re-growth. These services will supply productive inputs and training to small farm enterprises operating on some 4,000 hectares (2,000 in epidemic areas and 2,000 in endemic areas).

The Farmer Income Support Project activities are as follows:

(a) Activity 1 (CLYD Control and Mitigation Services).

The objective of this activity is to control and mitigate the spread of CLYD among the holdings of commercial farmers in Zambézia and Nampula Provinces. The first step under this activity will be a Government-led public awareness campaign about the disease and the measures needed to mitigate its effects. Short-term control measures include surveillance and scouting to detect early cases of disease; prompt eradication of diseased palms (by cutting and burning); and replanting with selected seedlings from local Mozambique Green Tall coconut types (some of which show a measure of resistance).

CLYD control and mitigation strategies will be tailored to different stages of the disease epidemic and are likely to be most effective at, or in advance of, the margins of active spread of disease. Infected trees must be culled since they attract populations of rhinoceros beetle that breed in dead palm trunks and will kill or damage replacement palms. There is thus a need for collective and continuous action - by all growers and over a sustained period - not just to prevent infection moving from diseased to healthy palms, but also to remove and destroy dead palm trunks. Three sub-activities are envisioned: (i) in the endemic zone, help smallholders to clear their land of dead palms and, replant with selected Mozambique Green Tall seedlings and alternative short-term crops; (ii) in the epidemic zone, control spread of disease by prompt removal and destruction of infection sources and provision of new planting material; and (iii) a research initiative that will emphasize germplasm resistance screening, epidemiological analysis, and early disease detection.

(b) Activity 2 (Technical Advisory Services).

The Farmer Income Support Project will target smallholders impacted by CLYD control and mitigation measures to engage in crop diversification to generate income during the period of coconut tree re-growth. Emphasis will be given to improving farming practices that will increase yields and link farmers to processors and other buyers in the supported value chains. They will be provided options to diversify their production in response to proven market demand, which will lead to additional revenue streams. Dissemination of improved farming practices and market linkages will be done by experienced field agents to: (i) support demonstration trials; (ii) strengthen producer organizations' marketing capacities; and (iii) provide extensive on-farm training in intercropping methods, integrated pest management practices, and CLYD surveillance capabilities. The principal sub-activities will be: (i) in zones with lower risk profiles, improve

the productivity and yield of existing aging and under-productive palms in smallholder plantings; and (ii) enable stakeholders, through business development support, to help safeguard and/or improve profitability of the coconut industry for smallholders through innovative strategies, including linking them to carbon offset credit investment initiatives.

The Farmer Income Support Project Manager will be located in MCA-Mozambique. The Coconut Working Group, composed of Government entities in the agricultural area, will provide the Project Manager with guidance on technical matters concerning project implementation.

DNEA is the entity responsible for Government public outreach to communities about the CLYD mitigation and control activities. DNEA will mobilize the outreach campaign through media (radio, television, bulletins, posters), extension agents, coconut estate employees and other means of information dissemination as appropriate.

3. Beneficiaries.

The Farmer Income Support Project benefits 1.7 million smallholders in the coconut belts of Zambézia and Nampula who depend on coconut tree-products for cash and in-kind income. Half of these smallholders would be in poverty by 2015 even without income losses from CLYD. If CLYD is allowed to proliferate, the poverty rate would undoubtedly be higher. Coconuts are also produced on estates, which account for some 5,000 workers as additional Project beneficiaries. In addition, the Farmer Income Support Project provides targeted technical assistance to over 3,000 smallholders to mitigate significant income loss due to CLYD and assist them in improving the quality of other crops planted on their holdings. With their families, over 15,000 persons directly benefit from this technical assistance. While about two thirds of the financial benefits accrue to the estates, the estates do not receive technical assistance and benefit entirely from disease eradication. If eradication were not to include infected trees on both smallholder plots and the larger estates, CLYD would continue to spread.

4. Sustainability.

The Farmer Income Support Project is envisioned as a short-term intervention to eliminate significant biological and technical barriers to economic growth of farm enterprises located in the Program target areas. Through the delivery of the CLYD control and mitigation service, the spread of a highly contagious disease that could have significant negative repercussions on the coconut industry, a key agricultural business in the coastal belt, will be halted. This, in turn, will help ensure the sustainability of a healthy coconut industry in Zambézia and Nampula Provinces. Without ridding the area of the disease, healthy coconut groves will be susceptible to infection or re-infection, thereby affecting the continued commercial viability of the raw material suppliers and processors. Applied research and replanting of the selected variety will improve productivity of the region's "coconut economy." Research on varietal improvements will be done in conjunction with the Ministry of Agriculture, thereby transferring skills and technology in coconut-resistance trials, screening and selection. Sustainability is linked to the overall market performance of coconuts and alternate crops. The market for coconuts and its processed products is growing domestically and internationally, as are markets for targeted alternate crops. Yield improvements will be sustainable through smallholders' adoption of improved farming practices and crop diversification, which reduces their risks and vulnerability. And, there may be opportunities to improve smallholder incomes through carbon offset, which may be monetizable over five years to supplement smallholders' income until replanted trees reach productive age.

MCC is consulting with carbon credit experts and will be providing MCA-Mozambique with guidance on options for Mozambique to pursue to qualify for carbon offset credits.

Environment and Social Sustainability

The key to ensuring environmental and social sustainability of the Farmer Income Support Project is ongoing public consultation. MCA-Mozambique will ensure that comprehensive public consultation plans are developed such that Project stakeholders, including women and vulnerable groups, are afforded consultation and an opportunity to provide their inputs to Project design and implementation. MCA-Mozambique will ensure that environmental and social mitigation measures are followed for all Project activities in accordance with the provisions set forth in this Compact and in relevant supplemental agreements. MCA-Mozambique will serve as the point of contact for comments and concerns of parties affected by the implementation of all Project activities under this Compact and will lead the effort to find feasible resolutions to those problems. MCA-Mozambique will convene periodic public meetings to provide implementation updates and to identify and address public concerns. The Stakeholders Forum for this Project will also incorporate representatives of civil society that will serve as a link between local NGOs and program managers.

5. Environmental and Social Issues.

The Farmer Income Support Project is classified as “Category B” according to the MCC Environmental Guidelines. An environmental assessment and an EMP that includes provisions to address (a) safety and health risks related to the handling, use, and disposal of pesticides and fertilizers; (b) tree-cutting and disposal equipment; and (c) integrated pest and nutrient management strategies will be developed prior to full Project implementation.

Environmental and Social Impacts

Although it is unlikely that the Farmer Income Support Project will generate any significant environmental, health or safety hazards, the potential negative direct, indirect, induced, and cumulative environmental impacts of the Project will be assessed through an environmental assessment that will be conducted prior to the implementation of the Project. A number of positive environmental and social benefits should emerge from this Project. As stated, coconut is regarded as an environmentally benign and often beneficial, low-input, crop which tolerates and can help to stabilize nutrient-poor and saline soils, especially in coastal regions that are often subject to periodic floods that destroy other crops. In addition, MCA-Mozambique will ensure that a Project-specific EMP is developed, implemented and monitored during the Project in accordance with the provisions of this Compact and any relevant supplemental agreements.

Per the MCC Environmental Guidelines, the use of the following pesticides is prohibited under the Project: (a) Persistent Organic Pollutants that the United States Environmental Protection Agency has identified as of greatest concern to the global community; or (b) any pesticide listed by the United States Environmental Protection Agency as “banned” or “severely restricted” under the Prior Informed Consent Program. MCA-Mozambique will ensure that Project operators require pesticides to be handled, stored, applied, and disposed of in accordance with FAO’s International Code of Conduct on the Distribution and Use of Pesticides.

To maximize the positive social impacts of the Farmer Income Support Project and ensure compliance with MCC’s Gender Policy, MCA-Mozambique is required to: (a) develop a gender

integration plan that includes: (i) approaches for meaningful and inclusive consultations with women and vulnerable/under-represented groups; (ii) Project-specific gender analyses, as appropriate; and (iii) strategies for incorporating findings of the gender analyses into final Project designs; and (b) ensure that final Project activity designs are consistent with and incorporate the outcomes of the gender integration plan. MCA-Mozambique will also take steps to ensure that the interests and views of women and vulnerable groups are represented in any entities responsible for advising on design, ownership, management, and operation of the Project activities.

Environmental Permitting

MCA-Mozambique will ensure that environmental and social assessment responsibilities are included in the bidding documents for the procurement of Project implementers and advisors, as needed. Disbursement of MCC Funding for activities under this Project requiring environmental licenses will be contingent upon issuance of such environmental licenses, as needed, or any other required permits. Project activities, for which MCC disburses funds, should be consistent with the outcomes of the relevant environmental assessments, and MCC Environmental Guidelines, and comply with applicable Mozambique environmental law and regulations.

6. Consultative Process.

During the development of the Farmer Income Support Project in the pre-Compact program definition process, the consultant, working on behalf of the Government, consulted with a broad spectrum of stakeholders, including government officials (national and provincial), NGOs and the private sector, through local Chambers of Commerce and the coconut trade association. Ongoing consultation is envisioned through the Project Advisory Group that will be established during the Compact Implementation Funding period.

7. Donor Coordination.

Although the *Centre de coopération internationale en recherche agronomique pour le développement* (CIRAD) has provided support to combat against CLYD in Zambézia in the past, there are currently no other donors providing support to address this issue in the northern provinces. Through the Farmer Income Support Project, there are opportunities to work with other donors in the future. In particular, USAID provides assistance through its Title II Implementing Partners in Zambézia to introduce nutrient-rich crops as a means of improving their food security. In addition, USAID is providing technical assistance to the Ministry of Agriculture for strengthening institutional capacity in policy analysis. USAID also adapted one new agricultural technology in 2006 through continued assistance to the National Agricultural Research Institute and the agricultural zonal research centers and its continued funding is helping to replicate the producer-owned trading company model in other geographic areas. Moreover, USAID will continue to provide technical assistance in management and marketing to farmers and rural enterprises.

F. OVERVIEW OF IMPLEMENTATION FRAMEWORK

1. Overview of Implementation.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation and fiscal accountability for the use of MCC Funding is

summarized below and will be described in more detail in the internal regulations of MCA-Mozambique (“*Internal Regulations*”) or as otherwise agreed in writing by the Parties.

2. Government.

The Government will empower the Minister of Planning and Development in conjunction with the Minister of Finance to create a public institution within the Ministry of Planning and Development (“*MCA-Mozambique*”), which will be the Accountable Entity and will be authorized to act on behalf of the Government in order to manage and oversee the implementation of this Compact and the Program. MCA-Mozambique will have administrative and patrimonial autonomy, in addition to the financial control to engage in practices such as (a) establishing an account in a financial institution in the name of MCA-Mozambique and holding MCC funds in that account; (b) expending MCC funds without an appropriation in the national budget; (c) engaging a fiscal agent to undertake expenditures and to account for them; (d) engaging a procurement agent who will act on behalf of MCA-Mozambique to manage the acquisition of the goods, works and services requested by MCA-Mozambique to implement the activities funded by this Compact; and (e) engaging an auditor competitively to conduct audits of its accounts.

The Government will grant the Minister of Planning and Development oversight authority or “*tutela*” over MCA-Mozambique, whereby the Minister will ensure that MCA-Mozambique is complying with the terms of this Compact, fulfilling the Government’s responsibilities under this Compact, and other duties of MCA-Mozambique as described in the Internal Regulations.

MCA-Mozambique will be headquartered in Maputo, with initially one regional office in Nampula, and other provincial offices in northern Mozambique, as determined in the Internal Regulations.

MCA-Mozambique will be composed of (a) a supervisory decision-making body, the Board of Directors (the “*Board*”); (b) a smaller working group of representatives from the Board or an executive committee (the “*Executive Committee*”); and (c) the day-to-day management body or management unit (the “*Management Unit*”). The Internal Regulations will define the governance details of MCA-Mozambique.

3. MCC.

MCC will provide technical oversight and accountability in the implementation of the Program. MCC will establish a small office in Mozambique, designed to provide feedback and increased communication between MCC and the Government throughout Compact implementation.

MCC will require prior approval of certain transactions, activities, agreements and documents, as described in the PIA.

4. MCA-Mozambique Description.

(a) Board of Directors.

(i) Composition.

The Board will be composed of nine voting members; six of which are governmental representatives, two civil society representatives and one private sector representative. There will be three non-voting members, consisting of an MCC representative, a representative from an environmental NGO and the executive director of the Management Unit. The governmental representatives will be Ministers from certain Ministries involved in the Program, as agreed and defined in the Internal Regulations. The Minister of Planning and Development will serve as the chair of the Board, while the executive director of the Management Unit will serve as secretary. The civil society representatives and the private sector representatives will be determined as defined in the Internal Regulations. In the event that one of the civil society voting members is not from an environmentally focused NGO, an additional observer from such an organization, subject to the prior receipt of a no-objection notice from MCC, will be appointed. No remuneration will be paid to any Government representative on the Board, although other Board members may receive remuneration as set out in the Governance Guidelines (as defined in the PIA).

(ii) Location.

The Board will be based in Maputo, but may also conduct rotating meetings in one of the four northern provinces from time to time.

(iii) Roles and Responsibilities.

The Board will be responsible for exercising oversight and taking major decisions, such as approving annual implementation plans, Disbursement requests, annual progress reports, key contracts and policy reforms, as well as other responsibilities defined in the Internal Regulations. The Board will meet once every three months and may meet more frequently as necessary for extraordinary meetings. The specific roles of the voting and non-voting members will be set out in the Internal Regulations.

(b) Executive Committee.

(i) Composition.

The Executive Committee will be composed of seven members, who represent certain Ministries or organizations on the Board, as further defined in the Internal Regulations. The Secretariat of the Executive Committee will be the executive director of the Management Unit. Governmental members on the Executive Committee will be represented by the relevant Ministries' National Director. The private sector representative will be the same as on the Board.

(ii) Location.

The Executive Committee will be located in Maputo, but may also conduct rotating meetings in one of the four northern provinces from time to time.

(iii) Roles and Responsibilities.

The Executive Committee is a smaller working group of the Board that will be empowered to take certain limited actions normally required to be taken by the Board, such as approving quarterly implementation plans, quarterly progress reports, certain procurement decisions, as well as other actions defined in the Internal Regulations. The Executive Committee will meet as often as necessary to adequately perform its functions.

(c) Management Unit.

(i) Composition.

The Management Unit will be responsible for assisting the Board and the Executive Committee in managing and overseeing the day-to-day operations of the Program. The Management Unit will be composed of staff, competitively selected. Key staff members of the Management Unit include: the executive director, deputy director, chief financial officer, M&E/planning officer, procurement officer, environmental and social manager, legal advisory service, and Project managers for each of the four Projects will be defined in the Internal Regulations.

(ii) Location.

The Management Unit will have offices in at least two locations. One office will be based in Maputo and initially one office will be located in Nampula. If justified, other regional offices may be opened in the northern provinces, as provided for in the Internal Regulations.

(iii) Roles and Responsibility.

The Maputo office of the Management Unit will provide “back office support” services, such as financial management, legal, procurement, administrative, public relations and other activities defined in the Internal Regulations. The Nampula office and other provincial offices that may be established as part of the Management Unit will provide direct support to the programs being implemented in the provinces. The regional Management Unit offices will be responsible for preparing reports, implementation plans and budgets, preparing Disbursement requests, reviewing and approving bidding and contract documents, monitoring and evaluating project implementation, ensuring technical support to Implementing Entities (as defined in the PIA), coordinating stakeholder participation and other functions as defined in the Internal Regulations of MCA-Mozambique.

(d) Stakeholders’ Participation.

Stakeholders will continue to be involved and participate throughout Compact implementation. Through semi-annual and/or annual participatory monitoring and evaluation forums, stakeholders will be able to provide feedback to the overall Program (the “*Stakeholders Forums*”). In addition, the mechanisms for ensuring this consultative process occurs will be structured at a Project-level, allowing representatives of the private sector, civil society and local and regional governments to provide advice and input to MCA-Mozambique. In the WSS Project, autonomous Provincial Water Boards will be created, which will incorporate stakeholder participation on their respective boards.

In the Roads Project, stakeholder participation will be incorporated through the Stakeholders Forums.

In the Land Project, there are two forums designed to facilitate feedback and input from interested stakeholders. First, the Land Policy Consultative Forum, comprised of relevant governmental ministries, civil society organizations and academic institutions will conduct regular semi-annual meetings. Secondly, the National Land Project Advisory Group provides a forum for both national and local governmental representatives to provide meaningful feedback throughout Compact implementation.

In the Farmer Income Support Project, stakeholder participation is incorporated through the Coconut Working Group, whereby relevant governmental agencies, the private sector and civil society organizations may provide regular input to the implementation of the Project.

ANNEX II
SUMMARY OF MULTI-YEAR FINANCIAL PLAN

1. General.

The Multi-Year Financial Plan Summary below sets forth the estimated annual contribution of MCC Funding for Program administration, Program monitoring and evaluation, and implementing each Project. The Government's contribution of resources will consist of "in-kind" and other contributions or amounts required effectively to satisfy the requirements of Section 2.5(a) of this Compact. In accordance with the PIA, the Government will develop and adopt on a quarterly basis a detailed financial plan (as approved by MCC) setting forth annual and quarterly funding requirements for the Program (including administrative costs) and for each project, projected both on a commitment and cash requirement basis.

2. Modifications.

To preserve administrative flexibility, the Parties may by written agreement (or as otherwise provided in the PIA), without amending this Compact, change the designations and allocations of funds among the Projects, the Project activities, or any activity under Program administration or monitoring and evaluation, or between a Project identified as of the entry into force of this Compact and a new project; *provided, however*, that any such change (a) is consistent with the Program Objective and Project Objectives and the PIA, (b) does not materially adversely affect the applicable Project or any activity under Program administration or monitoring and evaluation, (c) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, and (d) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than specified in Section 2.5(a) of this Compact.

MULTI-YEAR FINANCIAL PLAN SUMMARY*						
Projects	Year 1**	Year 2	Year 3	Year 4	Year 5	Total
1. Water Supply and Sanitation						
A. Technical Assistance and Capacity Building to Water Supply and Sanitation Project	6,675,220	5,095,804	3,293,268	3,137,075	2,814,675	21,016,042
B. Rehabilitation/expansion of water supply systems in urban areas	6,377,175	6,783,982	34,182,450	25,553,040	18,187,233	91,083,880
C. Rehabilitation/expansion of six municipal sanitation and drainage systems	2,291,750	19,294,284	19,770,123	20,563,193	20,576,077	82,495,427
D. Construction/reconstruction of wells and bore holes (rural water points)	906,441	2,312,470	3,108,668	2,324,169	338,296	8,990,044
Sub-Total	16,250,586	33,486,540	60,354,509	51,577,477	41,916,281	203,585,393
2. Rehabilitation/Construction of Roads						
A. Technical Assistance for Roads Project	507,700	688,914	710,817	733,374	374,925	3,015,730
B. Rehabilitation Costs	4,922,862	3,731,628	39,023,067	78,845,125	46,769,068	173,291,750
Sub-Total	5,430,562	4,420,542	39,733,884	79,578,499	47,143,993	176,307,480
3. Land Tenure Services						
A. Support for National Policy monitoring process	2,186,408	2,521,723	2,049,460	1,929,674	1,757,958	10,445,223
B. Land administration capacity building	1,812,980	5,552,512	3,769,560	1,534,915	757,829	13,427,796
C. Site specific secure land access	1,261,886	4,295,706	3,722,369	3,359,342	2,555,985	15,195,288
Sub-Total	5,261,274	12,369,941	9,541,389	6,823,931	5,071,772	39,068,307
4. Farmer Income Support						
A. Rehabilitation of endemic areas	704,022	676,612	624,771	636,683	210,505	2,852,593
B. Control of epidemic disease	2,099,262	1,660,535	1,450,524	868,610	914,518	6,993,449
C. Research and Development Support	444,405	435,548	519,295	513,503	529,612	2,442,363
D. Improvement of productivity	252,728	427,022	737,993	1,097,880	1,168,584	3,684,207
E. Business Development Support	254,000	291,915	519,295	258,770	135,619	1,459,599
Sub-Total	3,754,417	3,491,632	3,851,878	3,375,446	2,958,838	17,432,211
5. Monitoring and Evaluation						
Monitoring and Evaluation	2,195,000	955,000	1,880,000	920,000	2,255,000	8,205,000
Sub-Total	2,195,000	955,000	1,880,000	920,000	2,255,000	8,205,000
6. Program Administration and Oversight						
A. MCA-Mozambique	9,651,474	5,012,630	5,583,165	5,254,627	5,379,999	30,881,895
B. Fiscal and Procurement Agent	12,300,000	4,800,000	3,300,000	2,550,000	2,050,000	25,000,000
C. Bank Contract	10,000	5,000	5,000	5,000	5,000	30,000
D. Auditing	1,440,000	1,140,000	1,140,000	1,140,000	1,140,000	6,000,000
E. Environmental Management – MICOA Capacity Building	176,000	57,344	58,720	60,130	61,573	413,767
Sub-Total	23,577,474	11,014,974	10,086,885	9,009,757	8,636,572	62,325,662
Total Estimated MCC Contribution	56,469,313	65,738,629	125,448,545	151,285,110	107,982,456	506,924,053

*It is anticipated that there will be at least a one-quarter lag in disbursements of these budget totals.

**Year 1 amounts include amounts for Compact Implementation Funding.

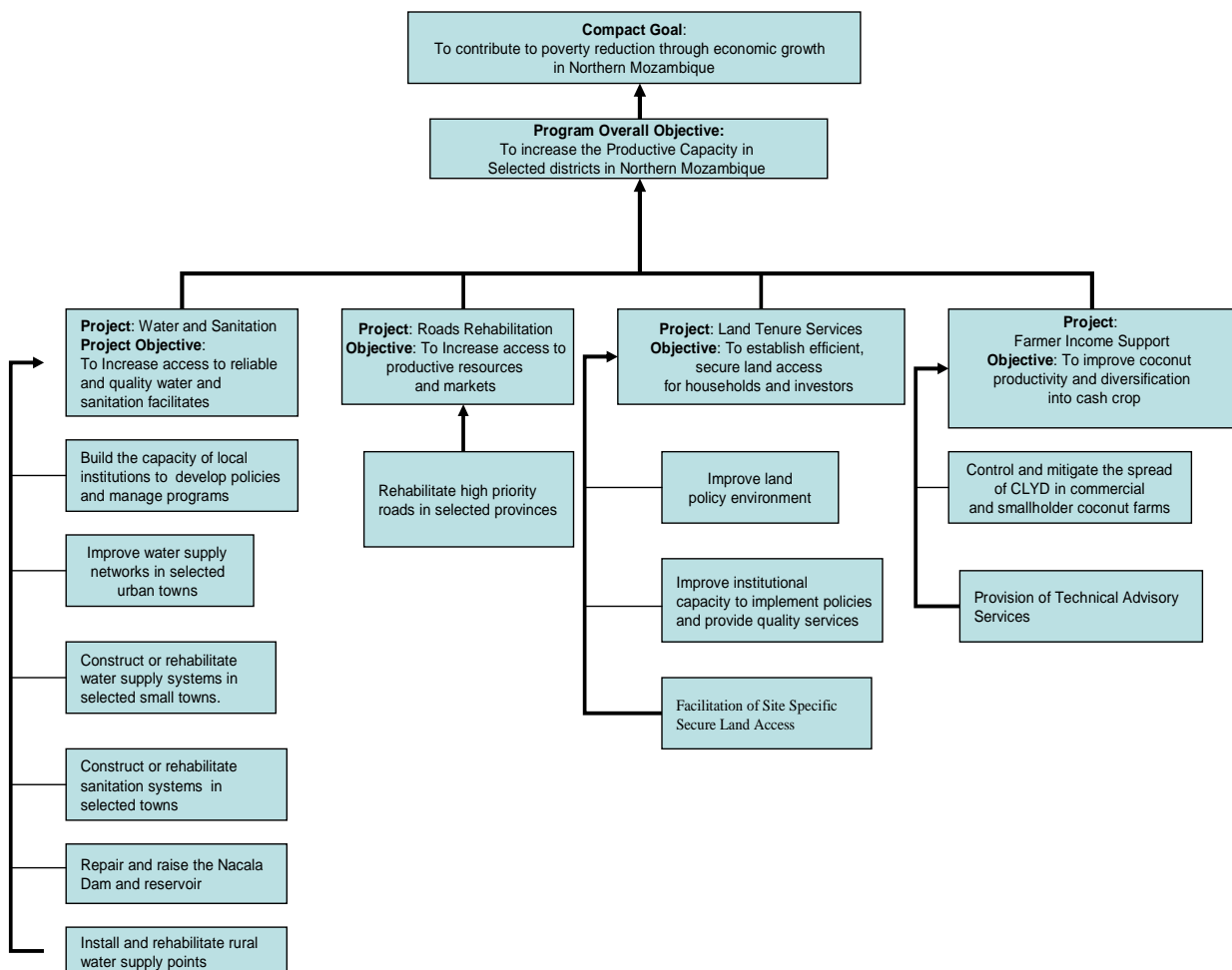
ANNEX III

DESCRIPTION OF THE MONITORING AND EVALUATION PLAN

This Annex III to this Compact (the “*M&E Annex*”) generally describes the components of the monitoring and evaluation plan for the Program (the “*M&E Plan*”). Each capitalized term in this Annex III will have the same meaning given such term elsewhere in this Compact.

1. Overview.

MCC and the Government (or a mutually acceptable Government affiliate or permitted designee) will formulate, agree to and the Government will implement, or cause to be implemented, an M&E Plan that specifies (a) how progress toward the program goal and Program Objective will be monitored (“*Monitoring Component*”); (b) process and timeline for the monitoring of planned, ongoing, or completed Project activities to determine their efficiency and effectiveness; and (c) a methodology for assessment and rigorous evaluation of the outcomes and impact of the Program (“*Evaluation Component*”). Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as progress and other reports, will be made publicly available on the MCA-Mozambique Website and elsewhere.



2. Program Logic.

The Mozambique M&E Plan will be built on the program logic model described above showing how the Program is intended to work. The program logic is a visual representation of the Program showing the sequence of outcomes and intended causality from the Project Objectives. The overall goal of the Program is to contribute to poverty reduction in Mozambique through economic growth. The stated Program Objective is to increase the productive capacity of the population in selected districts of northern Mozambique with the intended impact of reducing the poverty rate, increasing household income, and reducing chronic malnutrition in the targeted districts.

3. Monitoring Component.

To monitor progress toward the achievement of the impact and outcomes, the Monitoring Component of the M&E Plan will identify (a) the indicators, (b) the definitions of the indicators, (c) the sources and methods for data collection, (d) the frequency for data collection, (e) the party or parties responsible, (f) the timeline and format for reporting on each Indicator (as defined below) to MCA-Mozambique, and (g) the method by which the reported data will be validated.

(a) Indicators. The M&E Plan will measure the results of the Program using quantitative, objective and reliable data (“**Indicators**”). Each Indicator will have benchmarks that specify the expected value and the expected time by which that result will be achieved (“**Target**”). The M&E Plan will be based on a logical framework approach that classifies indicators as impact, outcome, output, process and input. The impact indicators (“**Goal and Program Objective Level**”) will measure the results for the overall Program. Second, the outcome indicators (“**Project Objective Level**”) will measure the final and the intermediate results of the Projects in order to monitor their success in meeting each of the Project Objectives, including results for the intended beneficiaries identified in accordance with Annex I (collectively, the “**Beneficiaries**”). Third, output indicators (“**Project Activity Level**”) will measure the direct outputs of the Project activities in order to provide an early measure of the likely impact of the Project activities. A fourth level of indicators, input and process indicators (“**Institutional Process Level**”) will be included in the M&E Plan to measure the delivery of materials, goods and actions necessary to carry out the primary Project activities. All Indicators will be disaggregated by gender, income level and age, and beneficiary types to the extent practicable. Subject to prior written approval from MCC, MCA-Mozambique may add Indicators or refine the Targets of existing Indicators.

(i) Impact Indicators (Goal and Program Objective Level). The M&E Plan will contain the impact indicators listed in the table below, with their definitions and unit of observation, baseline, and targets for the end of the compact year.

Indicator	Definition of Indicators	Unit of Observation	Baseline	Year 5
Poverty Rate	Percentage of the population in northern Mozambique who lack the ability and opportunity to have access to satisfy the necessary basic nutritional and non-nutritional requirements (2150 nutritional calories plus basic non food items)	Household	45.80%	36.64%
Increased Household Income	The total value of household food production for consumption, all crop and livestock sales, cash and in-kind pay received from off-the-farm activities and remittances, net cash and in-kind payments made to hired members of household	Household	\$202.30	\$264.12
Percent of stunted children, 0-59 months (height/age z-score)	Percentage of children under 5 years in northern Mozambique who show chronic malnutrition as a result of cumulative inadequacies in nutrition status	Household	41%	28%

(ii) Outcome Indicators (Project Objective Level). The M&E Plan will contain the outcome indicators which will measure the results at the project objective levels. The outcome indicators for the four main Projects are listed below with their definitions and units of observation.

Project I: Water and Sanitation*				
Indicators	Definition	Unit of Observation	Baseline	Year 5
Value of productive days gained due to less diarrhea illness	Value of time gained by household members due to not having to attend to other household members with diarrhea or not being absent from productive activities due to incidence of diarrhea (number of days multiplied by the value of average adult household consumption)	Household	0	US\$3.04
Value of productive days gained due to less malaria	Value of time gained by household members due to not having to attend to household members with malaria or not being absent from productive activities due to incidence of malaria (number of days multiplied by the value of average adult household consumption)	Household	0	US\$3.04
School attendance days gained due to less diarrhea	Days gained by each school-aged child in household to attend school due to less incidence of diarrhea	Number of school-aged children in household	0	3
School attendance days gained due to less malaria	Days gained by each school-aged child in household to attend school due to less incidence of malaria	Number of school-aged children in household	0	3
Number of businesses connected to an improved water source	Number of formal businesses in target districts with water connection	Business	495	947
Time to get to water source (Urban- / Rural)	Number of minutes to water source, by source	Household	32 / 39	15 / 27
Percent of urban population with improved water sources (percent increase)	Proportion of the urban population in the target districts with access to improved water sources, defined as access to private connections or standpipes.	Urban households	30%	47% (17%)
Percent of rural population with access to improved water sources (number of persons)	Proportion of the rural population in the target districts with access to improved water sources, defined as access to potable water from a deep-well	Rural households	31% (1,417,439)	33% (1,657,439)
Percent of urban population with improved sanitation facilities	Proportion of urban population with access to improved sanitation facilities, defined as access to networked sanitation, septic tanks, or an improved pit-latrine	Urban households	TBD	TBD

* Targets for water and sanitation indicators are for end of year 5 / start of year 6.

Project II: Road Rehabilitation				
Indicators	Definition	Unit of Observation	Baseline	Year 5
Value of net agricultural production (yield per hectare)	Net value of new agricultural production for both cash and subsistence crops in the road economic area of influence (15km radius each side of targeted roads)	Rural households	TBD	TBD
Change in vehicle operating cost (\$/vehicle-km)	Average change in the fixed and variable cost of operating vehicles on a km of target upgraded roads	Target roads	0.47	0.37
Total time savings (US\$m)	Value of travel time savings for road users due to change in speed on target roads	Target Roads	0	US\$1.15
Change in International Roughness Index (IRI)	Measurement of pavement roughness on targeted roads (correlated with vehicle operating costs)	IRI units of either m/km or m/ml	10	3.5
Average annual daily traffic volume	Number of vehicles by type on the target upgraded roads	Target roads (disaggregated by vehicle type)	1908	2558

Project III: Land Tenure Services				
Indicators	Definition	Unit of Observation	Baseline	Year 5
Percent increase in value of new investments on land	Summation of investments including agricultural investments, fixed investments, and improvements to existing structures.	Rural households (small- medium-holder); businesses; urban parcels; communities	0	10%
Number of new businesses	Number of new businesses formally registered and established	Businesses (small, medium, large)	TBD	TBD
Percent reduction in time to get land usage rights (DUAT)	Number of days required to obtain land usage rights (DUAT), disaggregated by beneficiary type	Community, individual, urban, commercial	0	50%
Percent reduction in costs to get land usage rights (DUAT)	Amount of money required, in local currency, to obtain land usage rights (DUAT), disaggregated by beneficiary type	Community, individual, urban, commercial	0	50%

Project IV: Farmer Income Support				
Indicators	Definition	Unit of Observation	Baseline	Year 5
Reduction in loss of coconut and coconut products' sales	Total household and estate sales of coconuts and coconut products within a calendar year	Rural households (small- medium holders) & Estates	0	3.75%
Percent increase in sales from intercropping	Total household sales of surplus crops intercropped in replanted coconut farms	Rural households (small- medium-holders)	US\$65,000	167%
Percent increase in yield among fertilized coconut trees in risk areas (number of fruits per tree)	Additional production of coconuts per tree resulting from adoption of CLYD control and mitigation measures	Rural households (small- medium-holders)	0 (30)	167% (80)
Percent increase in yield of selected intercropping crops	Additional production of cash and food crops intercropped in replanted coconut farms	Rural households (small- medium-holders)	0	TBD
Increase in improved coconut trees 2 years old or greater	Total number of recently-planted resistant, healthy coconut trees that are 2 or more years old	Rural households (small- medium-holders)	0	224,000
Percent change of the area infested by CLYD	Total endemic and epidemic land area, in trees per hectare, with CLYD control and mitigation measures	Rural land (trees per hectare)	5036 hectares	71%
Destruction of infected coconut palms	Total number of CLYD infected palms cleared (in millions)	Trees	0	1.225
Number of farmers adopting improved varieties of coconut trees	Total number of smallholders adopting the planting of the improved variety of coconuts	Rural households (small- medium-holders)	0	2260

TBD = To be determined

(iii) Process and Output Indicators. The M&E Plan will describe the process and timeline for developing a full and comprehensive activity monitoring plan that will outline most of the process and output indicators, the instruments for collecting data for the indicators, and the frequency for collecting and reporting on those indicators. The M&E Plan budget will make provision for resources to support and build on the capacity of service providers and other service agencies to collect and report the output and process indicators that will be outlined in the activity monitoring plan. Technical assistance will be provided when needed to facilitate the development of the activity monitoring plan.

(b) Data Collection and Reporting. The M&E Plan will establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible parties. The M&E Plan will use both qualitative and quantitative methods for data collection. The plan will outline various data collection methodologies, assessments, and surveys necessary to reporting on the results of the outcome indicators. It will also develop and establish instruments and procedures as part of the regular project monitoring activities to track Project activity output indicators. It will also draw quantitative information from the INE (National Statistics Institute) surveys such as the IAF (*Household Survey*), QUIBB (*Questionnaire on Basic Indicators of Well-Being*), and DHS (*Demographic and Health Survey*) and the TIA (*National Agricultural Survey*) for most of the outcome and impact indicators.

(c) Collaboration with National Statistic Institute and the National Directorate of Studies and Policy Analysis, Ministry of Planning and Development. The M&E Plan will identify areas of collaboration with INE and the National Directorate of Studies and Policy Analysis, Ministry of Planning and Development (MPD) on surveys and other data collection initiatives. The plan will specify and contain an agreement with the INE and MPD on a schedule of surveys and other data collection activities and the types of economic analysis that will be obtained by MCA-Mozambique as part of reporting requirements. The M&E Plan budget will make provision for funding for such collaborative initiatives.

(d) Data Quality Reviews. From time to time, as determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan will be reviewed to ensure that data reported are as valid, reliable, and timely as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where those levels of quality are not possible, given the realities of data collection.

(e) Participatory Monitoring and Evaluation. The M&E Plan will outline a process for encouraging participation of program stakeholders in the collection and dissemination of the information about progress being made towards the achievement of the program objectives. The effectiveness and efficiency of the Program will be jointly monitored with the beneficiary population and various stakeholders at different levels of decision-making. The M&E Plan will foster national “ownership” of the Program and will periodically disseminate program results and achievement through transparent strategies and a format of communication with the public.

(f) Management Information System. The M&E Plan will describe the information system that will be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the program information is at all times accessible and useful to those who wish to use it. The system development will take into consideration the requirement

and data needs of the components of the Program, and will be aligned with MCC existing systems, other service providers, and government ministries.

4. Evaluation Component.

The Evaluation Component of the M&E Plan will contain two types of evaluations: Project-Level impact evaluations and Program-Level impact evaluations. The evaluation plans will be finalized before Disbursement for specific Program or Project activities. The Evaluation Component will contain a methodology and timeline for analyzing data in order to assess planned, ongoing, or completed Project activities to determine their contribution to the Program's intended impact.

(a) Impact Evaluation. The M&E Plan will outline rigorous design methods that will be used to evaluate the impact of the Program's four components. Based on in-country consultation with stakeholders, the following strategies outlined below were jointly determined as having the strongest potential for rigorous impact evaluation. The M&E Plan will further outline in detail these methodologies. Final impact evaluation strategies are to be jointly determined before the approval of the M&E Plan and before entry into force (EIF) of this Compact. The following are a summary of the potential impact evaluation methodologies:

(i) The WSS Project could be evaluated using rigorous randomized design methods. In the rural water component, communities could be selected randomly over time to allow for comparison between unbiased control and treatment groups. In the urban water and sanitation components, randomized allocation of instruments such as private connection subsidies (where subsidy demand outstrips subsidy supply) and health and hygiene outreach efforts, but not direct services, could serve as the basis for an instrumental variable approach to evaluating the urban and peri-urban W&S interventions.

(ii) The Roads and Land Projects could be evaluated using propensity score matching methods with treatment and control groups. Additionally, the Land Tenure Services Project also demonstrated potential, contingent on favorable conditions at EIF, for randomized evaluations of the site specific interventions.

(iii) The Farmer Income Support Project's inter-cropping and Technical Advisory Services components could be evaluated through rigorous randomized design methods. Favorable conditions at EIF permitting, randomized allocation of particular interventions such as agricultural information will allow for comparison between unbiased control and treatment groups.

(iv) Additionally, linkages between the water, roads, and land interventions could be rigorously evaluated. For example, areas that receive more than one intervention will be compared to areas that only receive one of the interventions.

Impact evaluations will be used to assess Program and Project progress and effectiveness. The M&E Plan will take into consideration the time period various projects will demonstrate their benefits and impacts. It is anticipated that the impact evaluations' lifespan could extend well beyond the five-year implementation period and flexibility of design should be a priority. The M&E Plan also will specify different modes of contracting to carry out the evaluations, including independent and specialized contractors and agreements where necessary. If deemed appropriate, MCC or MCA-Mozambique may request ad-hoc evaluations or special studies of

Projects, Project activities, or the Program as a whole at any time during or after the implementation.

(b) Program-Level Evaluation. The M&E Plan will make provision for program-level evaluation. MCA-Mozambique, with the prior written approval of MCC, will engage an independent evaluator to conduct an evaluation at the expiration or termination of the Compact Term (“*Final Evaluation*”) or at MCC’s election, MCC will engage such an independent evaluator. The program-level evaluation must at a minimum (i) evaluate the efficiency and effectiveness of the Program activities; (ii) estimate, quantitatively and in a statistically valid way, the causal relationship between the expected impact (to the extent possible), the intended outcomes and outputs; (iii) determine if and analyze the reasons why the Compact goal, Program Objective and Project Objectives were or were not achieved; (iv) identify positive and negative unintended results of the Program; (v) provide lessons learned that may be applied to similar projects; (vi) assess the likelihood that results will be sustained over time; and (vii) any other guidance and direction that will be provided in the M&E Plan. To the extent engaged by MCA - Mozambique, such an independent evaluator will enter into an auditor/reviewer agreement with MCA - Mozambique in accordance with this Compact.

(c) Special Studies. The M&E Plan will identify and make provision for special studies, ad-hoc evaluations, and research that may be needed as part of the monitoring and evaluating of this Compact. Either MCC or MCA-Mozambique may request special studies or ad-hoc evaluations of Projects, Project activities, or the Program as a whole prior to the expiration of the Compact Term. If MCA-Mozambique engages an evaluator, the evaluator will be an externally contracted independent source selected by MCA-Mozambique, subject to the prior written approval of MCC, following a tender in accordance with the MCC Program Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter or supplemental agreement. The cost of an independent evaluation or special study may be paid from MCC Funding.

(d) Government Request for Ad hoc Evaluation or Special Study. If MCA-Mozambique requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project activity or to seek funding from other donors, no MCC Funding or MCA-Mozambique resources may be applied to such evaluation or special study without MCC’s prior written approval.

5. Other Components of the M&E Plan.

In addition to the Monitoring and Evaluation Components, the M&E Plan will include the following components for the Program, Projects and Project activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

- (a) Costs. A detailed cost estimate for all components of the M&E Plan.
- (b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Program and Project Objectives and Project activity outcomes; *provided, however*, such assumptions and risks will not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

6. Implementation of the M&E Plan.

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with this M&E Annex, the PIA, and any other relevant supplemental agreement.

(b) Modifications. Notwithstanding anything to the contrary in this Compact, including the requirements of this M&E Annex, MCC and the Government (or a mutually acceptable Government Affiliate or Permitted Designee) may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending this Compact; *provided*, any such modification or amendment of the M&E Plan has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and any relevant supplemental agreement between the Parties.