



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

The Millennium Challenge Corporation intends to invest \$10,000,000 in development assistance to the Government of the Republic of Mozambique to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being transmitted to the Congress on February 2, 2022; with the intent to obligate funds on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

February 2, 2022

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal 2021 and 2022 Program Funds
OBLIGATION AMOUNT:	\$10,000,000

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021 (P.L. 116-260), as carried forward by the Continuing Appropriations Act, 2022 (P.L. 117-43), as amended by the Further Extending Government Funding Act (P.L. 117-70); and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$10,000,000 under section 609(g) of the Act for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with the Government of the Republic of Mozambique (“GRM”).

MCC plans to finance critically needed feasibility studies to further develop and design the proposed compact. These funds are expected to finance compact development activities, including but not limited to, assessing the expected development impact of the proposed compact, furthering project design activities with a particular focus on commercial agriculture, transportation and land management, and developing implementation strategies to engage at-risk and vulnerable populations.

SUPPLEMENTAL INFORMATION - MCC 609(g) ACTIVITIES FOR MOZAMBIQUE

Background

Mozambique is one of the poorest nations on earth with a per capita gross national income of \$460. It is a nation generally characterized by deep-rooted poverty, armed conflict, and climate shock, where economic growth has been neither inclusive nor equally distributed across the vast expanse of its territory. Mozambique is, however, endowed with abundant natural resources well-suited for agricultural production – vast expanses of fertile land, abundant water, a generally favorable climate, Southern African Development Community Customs Union membership, and a favorable position between the Indian Ocean and international borders with five growing economies. For an impoverished nation of over 31 million inhabitants spread over a vast expanse of territory, the need for improved public and private investment is high.

Mozambique finds itself approaching a critical inflection point as it confronts the opportunity afforded by potentially transformational oil and gas revenues, the real dangers of a destabilizing and growing violent insurgency led by the home-grown Islamic State-Mozambique in the north, and continued vulnerability to climate shock along its populous coastal zone.

The Government of the Republic Mozambique (“GRM”) has asked MCC to work in the strategic and highly impoverished province of Zambezia, well over 1,000 miles from the epicenter of the conflict in Cabo Delgado, to actively promote inclusive economic opportunity, climate and coastal resilience, and improved quality/access to public services and infrastructure.

Compact Eligibility and Constraints Analysis

On December 9, 2019, the Board of Directors of the Millennium Challenge Corporation (“MCC”) selected Mozambique as eligible to develop a subsequent compact with MCC. Since its selection, Mozambique has passed 13 out of 20 indicators on the scorecard, including the Control of Corruption and Democratic Rights hard hurdles. While Mozambique continues to pass the scorecard, it does not currently pass the Political Rights indicator. MCC continues to engage with the government to encourage it to take steps to strengthen its commitment to protecting political rights and the principles of democratic governance.

As a first step in the development of a second compact with the GRM, MCC conducted a constraints analysis alongside the Government’s designated compact development team, called the Gabinete do Desenvolvimento do Compacto-II (“GDC-II”). MCC is proceeding to develop a program that will address two binding constraints to growth:

- Poor agricultural policy, legal and regulatory framework, and implementation of the existing framework, which inhibit the equitable and efficient functioning of input markets, vertical coordination of value-chains, and input and output market competitiveness.
- Poor and climate vulnerable secondary and tertiary road infrastructure and low freight transport market competitiveness further inhibit input and output market development and access to basic public services.

Summary of Potential Compact Projects

MCC and the GRM are working on three areas of opportunity as the basis for potential compact projects. The proposed concepts may focus on the following objectives:

- Connectivity and Rural Transport
 - Improve road transport by providing climate-smart, sustainable, and cost-effective road transport connectivity, enabling increased economic activities and improved access to basic social services
 - Complementary sector reforms and institutional capacity building
 - Catalyze private sector-led strategies and investment
- Investment Promotion in Commercial Agriculture
 - Reform institutions and policies to catalyze an inclusive commercial agriculture sector
 - Strengthen the investment framework, capacity, and agricultural production
 - Support gender-equitable opportunities and solutions
- Integrated Climate Management and Coastal Development
 - Enable community-led mangrove and seagrass reforestation and land-use planning
 - Investigate the feasibility of marine economies and potential application of blue carbon credits

Assistance to Develop the Compact Proposal

In order to assist the GRM to further develop the proposed compact, MCC intends to use section 609(g) funding to finance the GRM's preparatory activities for each of the proposed concepts listed above. Specifically, funds would be used to:

- conduct studies, including specific feasibility studies and gender-disaggregated data collection, designs, stakeholder mapping, and implementation preparations for transport, agriculture, and coastal management.
- provide essential inputs to project selection, such as prioritization of target roads and agriculture areas, selection criteria, modeling access based on specific criteria related to potential beneficiaries, design requirements and standards.
- identify implementation approaches such as project management units, developing partnering arrangements with the public and private sector, and non-profit or community partners, as well as beneficiary analysis.

Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner, prior to compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

Update on, and Sustainability of, the 2007 Mozambique Compact

MCC and the GRM signed a five-year, \$506.9 million compact program in July 2007 to increase the country's economic growth and reduce poverty by funding four project areas: water and sanitation, roads, land tenure, and agriculture. MCC disbursed 90 percent of the compact funds. All activities were completed either by the compact closure date in December 2013 or subsequently with the approximately \$40 million the GRM dedicated to finishing work after compact closure, except for a water supply activity that remains incomplete.

- The \$203.6 million Water Supply and Sanitation Project was designed to increase the

accessibility, reliability, and quality of water and sanitation services, recognizing that a lack of access to these resources is a barrier to growth and health. The Project successfully financed water and sanitation interventions in large, medium and small towns in and around Nampula, Quelimane, Nacala, Mocuba, and Cabo Delgado – reducing the time spent collecting water and increasing household water consumption for local communities.

- The \$176 million Roads Project funded 252 kilometers of the national transportation backbone, the N-1 Highway, improving access to productive resources and facilitating trade markets along the corridor. At the conclusion of the compact, 82% of the road had been completed.
- The \$39 million Land Tenure Services Project was designed to establish more efficient and secure access to land, particularly in the four provinces included in the compact program. The project resulted in the mapping of nearly 8.8 million rural hectares, formalization, and distribution of nearly 150,000 urban titles, and establishment of an advisory forum to engage stakeholders in transparent and structured policy discussions relevant to the sector.
- The \$18.9 million Farmer Income Support Project was designed to improve productivity of coconut products and encourage diversification into other cash crops. At its conclusion, more than 8,000 hectares with diseased or dead palm trees were cleared in areas affected by the disease, more than 780,000 disease-resistant seedlings were planted, and more than 15,000 farmers were trained in coconut pest and disease surveillance and control.

MCC estimates that the compact will benefit approximately 2,685,000 Mozambicans and result in an estimated \$121 million in net benefits to Mozambique over 20 years.

MCC commissioned seven performance evaluations of the various projects, three of which are completed¹. Thus far, MCC's independent evaluations found that the Nampula and Nacala City water supply infrastructure are well-maintained, and their sustainability is linked to the capacity of the water operator. Furthermore, following compact closure, the GRM worked with the World Bank to identify financing and construction opportunities for the Nacala water supply interventions. In June 2019, the World Bank, with co-financing from the Netherlands, committed to finalizing the work through an International Development Association grant in the amount of \$75 million.

¹ To read the Mozambique performance evaluations, please visit <https://www.mcc.gov/our-impact/evaluation-briefs>.