



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to negotiate a Millennium Challenge Compact with the Government of the Republic of Mozambique.

The transmission of this notification to Congress on April 24, 2023, affirms negotiations concerning the proposed Mozambique Connectivity and Coastal Resilience Compact may begin on or after 15 days from the date of this notice.

Please find enclosed the notification along with supplemental information regarding the proposed compact.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of the Republic of Mozambique, please contact Brian Forni at [ForniBJ@mcc.gov](mailto:ForniBJ@mcc.gov).

Sincerely,

/s/  
Aysha House  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION**  
**CONGRESSIONAL NOTIFICATION**

April 24, 2023

Pursuant to Division F, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2019 (P.L. 116-6), Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103), Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2023 (P.L. 117-328), and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this is (1) to advise that the Millennium Challenge Corporation (“MCC”) intends to start negotiations with the Government of the Republic of Mozambique for a Millennium Challenge Compact and (2) to initiate Congressional consultation before the start of negotiations.

The proposed compact seeks to assist the Government of the Republic of Mozambique (the “GRM”) in addressing the root causes of the following constraints to economic growth: (i) the high cost and unreliability of road freight and passenger transport services inhibits input and output market development—including farm to market linkages—as well as access to basic public services; (ii) 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; and (iii) poor agricultural policy, legal, and regulatory framework which has led to an overexploitation of fisheries and depleted economic opportunities for coastal zones. The proposed compact will include three key projects: (1) the Connectivity and Rural Transport Project (using the Portuguese acronym, the “CTR Project”); (2) the Promoting Reform and Investment in Agriculture Project (the “PRIA Project”) and (3) the Coastal Livelihoods and Climate Resilience Project (the “CLCR Project”).

**Projected Economic Justification for the Compact**

In Mozambique, two-thirds of the population resides along the coast, which is impacted by frequent and increasingly intense cyclones, flooding, and natural disasters that have overwhelmed local transport networks, large and small-scale agriculture, community opportunity, and societal cohesion.

The proposed Mozambique Connectivity and Coastal Resilience Compact (Compact) is an ambitious and innovative effort to address these multifaceted risks. MCC has developed projects that will strengthen local economies that are reliant upon agriculture and fisheries yet limited by connectivity and reliable access. The Compact showcases three projects that meet MCC’s broad investment criteria—including a 14.7% compact-level estimated economic rate of return.

The **CTR Project** seeks to enhance the quality and climate resilience of major routes in Zambezia by improving roads and bridges and reducing deferred maintenance, thereby increasing access for the rural population to district capitals, main markets, and social services (e.g., schools, and health clinics) in the larger cities via the arterial road network. The project will prioritize improvements to the sustainability and efficiency of road maintenance, by incentivizing the GRM’s commitment of increased funding for the Road Fund (Fundo de Estradas – “FE”) by 50% and through a tailored

package of technical assistance to FE and the National Road Agency (Administração Nacional de Estradas- “ANE”). The project will pointedly address barriers restricting women’s mobility in Zambezia, such as gender-based violence, lack of income generating opportunities, and restricted opportunities for women and communities to participate in transport decision-making and governance structures.

The **PRIA Project** seeks to increase agricultural investment as well as the productivity and incomes of smallholder farmers and other value chain actors in Mozambique. This will be achieved by improving the investment climate through fiscal reform and by enabling and incentivizing commercial aggregators in Zambezia to integrate smallholder farmers, prioritizing women, into their value chains.

The **CLCR Project** seeks to increase ecosystem productivity driven by both sustainable increases in the value added of fish and shellfish harvests and through non-extractive benefits from sustainable ecosystems, such as carbon credits and coastal protection benefits, by addressing the problems caused by long-term ecosystem degradation, loss of fisheries as a critical component of the local economy, and susceptibility to extreme weather events. The project leverages nature-based and youth/gender-inclusive solutions to restore coastal ecosystems and their functions—enhancing protection from extreme climate events, revitalizing the currently fragile incomes from fisheries, and leveraging new opportunities through blue carbon financing.

## SUPPLEMENTAL INFORMATION

### **Background and Context**

Mozambique is one of the poorest nations on earth with over 31 million people and a per capita gross national income of \$480. It is a nation facing deep-rooted poverty, armed conflict, and routine climate shocks and stresses. 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—water and vast expanses of fertile and arable land. Mozambique is a member of the Southern African Development Community Customs Union and holds a favorable position for trade as a result of its location between the Indian Ocean and international borders with five growing economies. The potential for improved public and private investment is high.

Mozambique must balance several competing interests, including recently finding transformational oil and gas reserves, a rise in destabilizing and violent insurgency groups led by the Islamic State-Mozambique based in the north, and continued vulnerability to climate shocks along its populous coastal zone.

In partnership with MCC, the GRM has identified the Zambezia province, a highly impoverished area well over 1,000 miles from the epicenter of the conflict in Cabo Delgado, as a target area for investment. In Zambezia, MCC will work to promote inclusive economic growth, climate and coastal resilience, and improved quality/access to public services and infrastructure.

In December 2019, MCC's Board of Directors selected Mozambique as eligible to develop a compact with MCC. Mozambique has passed the scorecard four years in a row, including in fiscal year 2023.

### **Compact Proposal Overview and Budget**

The proposed compact program is summarized in the budget table below. The anticipated budget of the compact is approximately \$537.5 million, which includes up to \$500 million funded by MCC and a GRM contribution of \$37.5 million.

### Mozambique Compact Budget

Component	Amount
<b>1. Connectivity and Rural Transport Project</b>	<b>\$310,500,000</b>
Activity 1: Licungo Bridge & Mocuba Bypass	\$201,001,000
Activity 2: Rural Roads	\$83,499,000
Activity 3: Road Maintenance Reforms and Access to Women & Youth	\$11,000,000
Activity 4: Program Management Office	\$15,000,000
<b>2. Promoting Reform and Investment in Agriculture Project</b>	<b>\$30,000,000</b>
Activity 1: Reforms Package for Taxation of Agricultural Investments	\$15,000,000
Activity 2: Province of Zambezia Commercial Aggregator Platform	\$15,000,000
<b>3. Coastal Livelihoods &amp; Climate Resilience Project</b>	<b>\$100,000,000</b>
Activity 1: Partnership Climate Resilience	\$56,300,000
Activity 2: Partnership Coastal Livelihoods	\$43,700,000
<b>4. Monitoring and Evaluation</b>	<b>\$7,000,000</b>
<b>5. Program Management and Administration</b>	<b>\$52,500,000</b>
<b>Total MCC Funding</b>	<b>\$500,000,000</b>

Total Compact Program Funding	Amount
Total MCC Funding	\$500,000,000
Government of Mozambique Contribution	\$37,500,000
<b>Total Compact</b>	<b>\$537,500,000</b>

#### Proposed Projects

The proposed compact's three projects are described below:

The objective of the **Connectivity and Rural Transport (CTR) Project** is to reduce the cost of transport in Zambezia province and Mozambique. The CTR Project will include a set of investments in arterial routes, including a major bridge, and secondary roads through rural areas to district centers as described below:

- *Licungo Bridge and Mocuba Bypass Activity* – The Licungo Bridge and Mocuba Bypass Activity is the principal activity under the CTR Project and the GRM's highest priority transport project in Zambezia. The investment will create a new major, high-level bridge, replacing a nearly 80- year-old one, diverting the traffic around the town of Mocuba at a new site across the Licungo River via a 16km bypass.

- *Rural Roads Activity* – This activity will focus on select segments of arterial and secondary routes for inclusion in the compact to improve access to regional capitals, markets, and social services.
- *Road Maintenance Reforms and Access to Women & Youth Activity* – This activity seeks to improve the reliability and adequacy of funding for road maintenance and build capacity for road asset management at the provincial level, as well as promoting gender equity and social inclusion within the transport sector, specifically enhancing opportunities for women and excluded groups in the road sector.
- *Program Management Office* – The compact will support a project-specific program management consultant to supervise the CTR Project. This project management office is necessary to ensure the geographically-dispersed construction works in Zambezia are well managed.

The objective of the **Promoting Reform and Investment in Agriculture (PRIA) Project** is to increase agricultural investment as well as the productivity and incomes of smallholder farmers (SHF), including female-headed households, and other value chain actors in Mozambique.

This project is organized into two activities:

- *The Reforms Package for Taxation of Agricultural Investment Activity* – This activity is a public financial management activity that includes support for policy and institutional reform of the national taxation framework in the agriculture sector, with a focus on improving consistency and predictability of the value added tax (VAT), the corporate income tax, and local tax application within both formal and informal markets.
- *The Province of Zambezia Commercial Aggregator Platform (ZCAP) Activity* – This activity will employ results-based financing (i.e., success payments) and technical assistance to develop and strengthen sustainable market linkages and contracts between commercial agricultural aggregators and SHFs. The ZCAP Activity will prioritize women SHFs and provide tailored training to SHF households through the ‘Gender Action Learning System’ to redress power imbalances.

The **Coastal Livelihoods and Climate Resilience (CLCR) Project** seeks to increase ecosystem productivity through sustainable increases in fish and shellfish harvests and through non-extractive benefits from sustainable ecosystems, such as carbon credits and coastal protection benefits.

This project is organized into two activities:

- *The Coastal Livelihoods Activity* – This activity will help local communities better manage their fisheries through modernization of practice, improvement to their fishing gear, improved supply-chain, and governance of local areas (establishment of no-catch zones to replenish stocks).

- *The Climate Resilience Activity* – This activity will protect and restore critical habitats through co-management with local communities, conservation and creation of protected areas, reforestation initiatives, and through carbon finance opportunities.

## **Policy Reform and the Compact**

The **CTR Project** will prioritize improvements to the sustainability and efficiency of the existing road maintenance facility, address barriers restricting women’s mobility in the province of Zambezia (such as gender-based violence), and improve women and communities’ ability to participate in transport decision-making and governance structures.

More specifically, the Road Maintenance Reforms and Access to Women & Youth Activity under the CTR Project will:

- **Support improved funding for road maintenance** through technical assistance to the FE, with an initial focus on improvements to the existing system for funding road maintenance that will benefit from increased budgetary allocations. Follow-on activities will lay the groundwork for deeper structural reform to enhance the effectiveness of the FE to generate and manage revenue for road maintenance.
- **Support the implementation of road asset management in Zambezia** through technical assistance to the ANE office in Zambezia to improve its performance in road asset management. Improvements in road asset management in Zambezia will serve as an example of good practice for the other provinces in Mozambique.

The **PRIA Project** will support the GRM with a set of policy reform measures and technical assistance to increase the ease and decrease the cost of doing business in the agriculture sector at a national level, including a new tax code for agricultural taxpayers and an improved VAT reimbursement model in the sector. These measures align with the GRM’s ‘Package for Economic Acceleration’ adopted in December 2022, which focused on improving the national agricultural investment framework to benefit the predominance of Mozambique’s farming population.

More specifically, the PRIA Project will support:

- The creation of the proper **environment to promote agribusiness investment** while also enhancing the tax revenue capacity of the government.
- Improved **administrative and governance capacity** to implement proposed reforms.
- Implementing new approaches through the provision of **systems, processes and technology** to address the current constraints to expanding the tax base and streamlining payments for users.
- The **promotion of reform measures** among Mozambican agribusiness investors and to potential foreign investors through awareness campaigns.

## **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. The compact included projects to upgrade water and sanitation systems, formalize land titles, help farmers

improve crop management and yields, and rehabilitate roads along a key national highway. The compact closed in September 2013 having spent close to 90% of compact funds. The GRM spent a further \$30 million to complete road segments that could not be constructed prior to the compact end date and has secured donor funding to complete a water supply activity that remained unfinished, a prerequisite to obtain eligibility for a subsequent compact.

- The 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 Roads Project funded 252km 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 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 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 commissioned seven independent evaluations of the various projects, four of which are completed.<sup>1</sup> 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. The GRM worked with the World Bank following compact closure 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 \$41 million. The tender is expected to be launched this Spring with works expected to begin in the second half of 2023 and be completed by Fall 2024.

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<sup>1</sup> To read the Mozambique independent evaluations and Evaluation Briefs, please visit <https://evidence.mcc.gov>.