



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

The Millennium Challenge Corporation intends to provide \$4,900,000 in assistance to the Government 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 sent to the Congress on January 19, 2023. The assistance may be provided, and funds obligated 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**

January 19, 2023

PROGRAM: Mozambique

APPROPRIATIONS CATEGORY: FY 2023 and 2022 Program Funds

OBLIGATION AMOUNT: \$4,900,000

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2023 (P.L. 117-328), Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103), 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 \$4,900,000 under section 609(g) of the Act for the purpose of facilitating the development of a Millennium Challenge Compact with the Government of Mozambique.

The funds are expected to finance compact development activities, including but not limited to establishment of the structures necessary for compact implementation, including mobilizing the fiscal and procurement agents, project management services, and a recruitment firm to help stand up the accountable entity. Funding these activities reflects MCC’s commitment to preparing programs in a responsible, comprehensive manner to reduce implementation risk of the proposed projects.

SUPPLEMENTAL INFORMATION – MCC 609(g) ACTIVITIES FOR MOZAMBIQUE

Background

Mozambique is one of the poorest nations on earth with over 31 million people and a per capita gross national income of \$460. 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 proximity 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 Government of the Republic Mozambique (“GRM”) has identified Zambezia, a highly impoverished province well over 1,000 miles from the epicenter of the conflict in Cabo Delgado, as a target area for investment. In Zambezia, we will work to promote inclusive economic growth, climate and coastal resilience, and improved quality/access to public services and infrastructure.

Compact Eligibility

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 FY23. Preparations for and the conduct of the 2024 parliamentary, provincial, and presidential elections provide an opportunity for the GRM to strengthen its performance on democratic and political rights. MCC continues to engage with the GRM to note this important window of opportunity.

Assistance to Develop the Compact Proposal

MCC conducted a constraints analysis alongside the Government’s designated compact development team, called the Gabinete do Desenvolvimento do Compacto-II (“GDC-II”), which identified two binding constraints to economic growth:

- **Agriculture.** 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.

- **Transportation.** 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.

Three investments are currently under development for the Mozambique subsequent compact:

- **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.
 - Significant reform to the Road Maintenance system – from collections to allocations, distribution, and execution.
- **Promoting Reform and Investment in Agriculture Project**
 - Fiscal reforms to improve the business enabling environment with a specific focus on tax reform to catalyze greater private investment in inclusive commercial agriculture.
 - Agriculture grant facility to incentivize private investment by commercial aggregators, processors, and value chain improvement.
- **Integrated Climate Management and Coastal Development**
 - Improved livelihoods of coastal communities, fisheries promotion, marine economies, and community-led management practices.
 - Conservation, reforestation, marine research, and blue carbon credits.

Unique to the design of the compact is the focus on climate-resilient infrastructure, climate finance, and coastal development. Given the expanse of the Mozambican coastline and Mozambique's status as the third most vulnerable country to climate shock on the African continent, MCC is exploring climate-positive programming including investments in climate-resilient roads and bridges as well as partnerships with philanthropic organizations for improved coastal and fisheries management.

Funds will be used to further the compact development work and advance critical pre-implementation activities, including the establishment of the structures necessary for compact implementation, mobilizing the fiscal and procurement agents, project management services, and a recruitment firm to help stand up the accountable entity. Funding these activities reflects MCC's commitment to preparing programs in a comprehensive manner to reduce implementation risk 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. 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 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 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 estimates that the compact will benefit more than 2.5 million 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. 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 \$75 million. Works are expected to begin in the first quarter of 2023 and be completed by Fall 2024.

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