

## Mozambique and USA consolidate Compact II development process



The two signatories: Mahmoud Bah (on the left) and Ernesto Max Tonela

**T**he Governments of Mozambique and the United States of America (USA), the latter through the Millennium Challenge Corporation

(MCC), have recently signed in Maputo a set of commitments related to the scope and objectives of the Compact II for Mozambique, whose Financing Agree-

ment is expected to be signed between July and August this year.

The commitments signed by the two governments, which comprise

the three areas to be covered by Compact II - (i) Promotion of Investment in Commercial Agriculture, (ii) Rural Connectivity and Transport, and (iii) Climate Change and

Coordinated work essential on the marshy coast of Zambezia. **Pag. 9**

Promoting reforms and investment at the heart of agriculture in Compact II for Mozambique. **Pag. 16**

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Cyclone Freddy brings 'Compact II' to Zambezia province. **Pag. 21**

Coastal Development - mark the consolidation of the process of conception of the said development initiative, which will take place throughout the national territory, but with Zambézia province as the geographical focus.

Part of a document called Aide Memoire, the agreements reached by the Mozambican government, represented by the Minister of Economy and Finance, Ernesto Max Tonela, and by MCC, represented by its Executive Vice President, Mahmoud Bah, who visited the country between the end of January and early February of this year, give particular primacy to political and institutional reforms planned for the road sector, in which Mozambique pledges to increase the funds available for road maintenance by 50 percent.

Speaking at the Aide Memoire signing ceremony on 30 January, in Maputo, Max Tonela said that “the signing of this Aide Memoire unequivocally signals the commitment of both the Government of Mozambique and the US Government,

through MCC, to the development of a robust and innovative Compact II for Mozambique. We believe that the technical teams will soon finalise the projects that will make up Compact II, creating the conditions for the Compact II Financing Agreement to be signed as soon as possible.

At the same occasion, Mahmoud Bah said that “MCC is proud to once again partner with Mozambique to support inclusive economic growth for the citizens of this country.

It should be noted that earlier this year national authorities at the highest level received correspondence from MCC’s top leadership, announcing the re-election of Mozambique to benefit from Compact II, which succeeds Compact I, implemented in the country from 2008 to 2013.

More funds for establishing Compact II

The Governments of Mozambique and the United States of America (USA), the latter through the agency Millennium Challenge

Corporation (MCC), signed last March the second addendum to the Compact II Development Financing Agreement for Mozambique, making available an additional \$4,900,000.00 (four million nine hundred thousand US dollars) for the conclusion works of the projects that will be part of the initiative in the three areas that comprise the agreement, namely Promotion of Investment in Commercial Agriculture, Rural Connectivity and Transport, and Climate Change and Coastal Development.

On the part of Mozambique, the addendum was remotely signed by the Minister of Economy and Finance, Ernesto Max Tonela, from Maputo. For MCC, the addendum was signed, also remotely, by the Compact’s Vice President of Operations, Cameron Alford, based in Washington D.C.

In total, the amounts allocated by MCC to the development of Compact II in Mozambique, which is taking place under the auspices of the Compact II Development

Office (CDG-II), now stand at \$15,650,000.00 (fifteen million, six hundred and fifty thousand US dollars). The amount of the original agreement was \$750,000.00 (seven hundred and fifty thousand US dollars), which increased to \$10,750,000.00 (ten million, seven hundred and fifty thousand US dollars) with the signing, in April 2022, of the first addendum to the Compact II Development Financing Agreement for Mozambique, to the tune of \$10,000,000.00 (ten million US dollars).

In addition to actions strictly related to the development of projects in the three above-mentioned areas, the additional funding that has just been made available will enable studies and expertise analysis in several areas of interest, as well as the preparation of the establishment of the Millennium Challenge Account Mozambique (MCA-Mozambique), the entity that will implement the Compact II in the country, after the signing of the five-year Financing Agreement.

The MCA-Mozambique's establishment actions to be supported

by the amount of the second addendum, include the hiring of

companies specialised in some key areas, such as human resources

hiring, procurement, taxation and project management.

## COMPACT II FOR MOZAMBIQUE

# MCC top leader impressed with ongoing works

**T**he Executive Vice-President (EVP) of the Millennium Challenge Corporation (MCC), Mahmoud Bah, during his recent visit to Mozambique, met with various stakeholders in the cities of Mocuba and Quelimane, in Zambézia province, the territorial constituency that will be the geographical focus of the Compact II for Mozambique. At the end of his consultations, Bah said he was happy with the involvement of everyone in the Compact II development process, from civil society, political parties, community leaders, private sector, media, religious denominations and

public and private entities in general. "For MCC, transparency is very important," he stressed.

Opening the meeting with various stakeholders held in Mocuba on 1st February, Carlos Mesquita, Minister of

Public Works, Housing and Water Resources, invited those present to take the floor, putting forward the points they



*Bah, with finger, pointing to the future...*

considered relevant, “as this is a platform for us to build a development programme which we can all review, without any distinction”.

A total of 11 participants at the meeting, most of them from the private sector, took the floor. A business leader said that “we, as Zambesian businessmen, intend to be priority beneficiaries of the projects. We have already seen cases where the main beneficiaries, in projects carried out here in Zambezia province, were entrepreneurs from other provinces of the country or even from other countries.”.

He was followed by another businessman, who said that once Compact II begins, “let there be transparency, impartiality and professionalism in all phases of project execution. We are, so far, satisfied with the involvement that has been provided”.

“This is the third meeting of its kind that I take part in and it is good to know that agriculture remains one of the priorities of the



*Minister of Public Works, Housing and Water Resources, Carlos Mesquita, explaining how the new bridge over the Licungo River and respective bypass will be, in Mocuba*

Compact II. Although agriculture is seen as the basis for the development of Mozambique, it is regrettable that there are still relevant segments of the family sector ploughing only with a short-handled hoe,” he stressed.

A citizen resident in Mocuba asked, in his intervention, that the projects being prepared should also benefit that town, “where we have serious problems of erosion and water shortages”.

Some speakers said that Zambézia province has a lot of fertile

land, “although there are few, if any, robust agricultural enterprises. Something must be done to reverse the current scenario”.

He said: “As for the bridge planned at the entrance of Mocuba, over the Licungo River, it has already been said several times that the tender for its construction will be international. But we have to see how we, local businessmen, can also be involved in the construction work.”.

Another businessman said it was positive to note, once again, that

agriculture will be one of the priority areas of Compact II for Mozambique. He added that there is the SUSTENTA Programme, currently under way, under the aegis of the Ministry of Agriculture and Rural Development (MADER), “which is providing some tractors. But we still lack machines to clear new fertile areas for agricultural production. It is not possible to remove trees with tractors”.

A farmer based in Gurué district, who took part in the multi-stakeholder meeting

in Mocuba, said that under the programme being prepared (Compact II for Mozambique), “it would be good to look into the issue of funding in general for the agriculture sector, especially for old people like me. The bank no longer gives me money, supposedly because I am old. It is therefore important that Compact II considers this issue of funding for all, without exclusion, although the logic of this programme is one of subsidy.

But we need a favourable environment to be able to sustainably develop our activities”.

Speaking immediately afterwards, Carlos Mesquita mentioned that soon after Mozambique’s eligibility was formally confirmed and a note about it published on the MCC website in January 2020, the National Coordinator of the Compact II Development Office (GDC-II) was immediately appointed, following which “studies on the

Analysis of Constraints to Mozambique’s Development were initiated, under which three priority areas were identified, namely Commercial Agriculture, Rural Infrastructure (Roads and Bridges) and Climate Change and Coastal Development”.

Mesquita also said that Zambézia province was chosen as the geographical focus of the Compact by the Mozambican government because it is

the second poorest province and has a low level of infrastructure development, in line with MCC’s eligibility criteria.

Speaking at the same event, Higino de Marule, National Coordinator of the Compact II Development Office (GDC-II), said that “in the work that we are doing, the consultation of potential beneficiaries, of the various stakeholders, is an extremely important part, which is why we have been here several times, we are here today and we will come back to give you information on what we are doing and to collect your inputs on the projects under development”.

He continued: “It is advisable that while the projects are being prepared and the signature of the Financing Agreement for Compact II is expected in July-August of this year, businesspeople should be duly prepared for the opportunities that may arise, which may include the training of human resources in various areas”.



With regards to training, the Minister of Public Works, Housing and Water Resources spoke again, saying: “The training of drivers who can serve the needs of various projects, with all the certification required in large projects, for example, is one of the

actions that may be considered by business-people in Zambézia province, in terms of potential opportunities.”

“If one considers that the opportunities will be open not only for Zambezia’s private sector, but for the whole country or even

almost the whole world, depending on their attractiveness, it would not be a bad idea for Zambebian entrepreneurs to think about establishing synergies, as individually they may not have the necessary valences,” he stressed.

Mesquita also said that “focus and rigour will

be determinant, so concentration on the essential is very urgent. Many works are planned, including at least one large bridge, a ring road, such as part of the N1 right here in Mocuba, and at least five rural roads”.

### **QUELIMANE ALSO WANTS CAPACITY BUILDING...AND “SPECIAL ATTENTION TO RURAL WOMEN”**

On the afternoon of the same day (1 February), MCC’s Executive Vice President attended a similar meeting in the city of Quelimane, capital of Zambezia province, which was mainly attended by businessmen, and which was also attended by the Secretary of State for Zambezia Province, Cristina Mafumo, and the Governor of Zambezia Province, Pio Matos.

Like their counterparts in Mocuba, the Quelimane businesspeople said that while the projects that will be part of Compact II for Mozambique are being prepared, “it would be good if something was done to build the capacity of small and medium-sized businesses, so that they are in

a position to compete with large companies as soon as the opportunities are launched”.

“It would be very important and innovative if Compact II for Mozambique paid special attention to rural women in agriculture, who so far have been marginalised,” suggested another participant.

A youth leader addressed the fact that young people, although they are the majority of the population, “usually have very low access to opportunities at the level of Zambézia province, so the Compact II should be an opportunity to reverse this situation”.

António Gusse, member of the Zambézia Provincial Assembly, suggested that, in a

consultation meeting like that, the administrators of all the districts of Zambézia Province should take part, “because they know in depth the realities of the territorial constituencies of which they are the senior leaders. In that way, the conditions would be created for us to have a programme that really addresses the real problems of the people of Zambezia”.

In fact, and as was explained at the time, the GDC-II has taken part in meetings that are also attended by district administrators, as an opportunity to provide them with information about Compact II, now under development. This was for example the case in July 2022, when a detailed presen-

tation was made at the Provincial Public-Private Dialogue Meeting, held in Quelimane city.

On the other hand, it should be noted that district administrators and leaders from various sectors have been invited to meetings with the interested parties that are held at the level of various districts in Zambézia, particularly those of Alto Molocue, Ile, Mocuba, Pebane, Quelimane and Gurué.

Another businessman took the floor to address, head-on, what he considers to be a difficult situation in that region of the country, in the following terms: “One of the fundamental problems in Zambézia, from which the entrepreneurs

have suffered a lot, is the non-transparent and manifestly unfair awards. This must end”.

Chaul Naparia, chairperson of the Zambé-

zia Provincial Business Council (CEP), a body within the Confederation of Business Associations of Mozambique (CTA), said that “contrary to what happened when it

was the first Compact (2008-2013), we asked that Compact II have a representation here in Zambézia province, so that things can be closely monitored. Although it may not have

decision-making power, we believe that it makes a great difference to have a representation here in Zambézia because this will be the priority province.”

### “TRANSPARENCY AND ACCOUNTABILITY ARE ESSENTIAL ELEMENTS” – BAH

MCC Executive Vice President Mahmoud Bah, speaking at the multi-stakeholder meetings held in Mocuba (morning session) and Quelimane (afternoon session), both on the same day (1 February), thanked those present for their interest in the Compact II development process for Mozambique, which will have Zambézia province as its geographical focus.

“In all our work, both in the phase prior to the implementation of the projects as such, as well as during implementation and afterwards, the issues of transparency and accountability are essential elements. We are here to listen to you and to register what you may have for us regarding the projects being prepared under

the scope of Compact II for Mozambique, which, by decision of your Government, will have Zambezia province as its geographical focus,” he said

He said, speaking at the meeting in Mocuba, that the issue of capacity building, or preparation in general for the opportunities that will emerge in the context of Compact II for Mozambique, is all too important, as Minister Mesquita mentioned. “This is very important, particularly for small and medium enterprises. Look also at issues like occupational health and safety, which are very important for MCC”.

At the meeting in Quelimane, Bah returned to the issue of transparency and accountability, as

follows: “For MCC, transparency is very important. We want everyone to be involved in the processes and to have information. Normally, all the documents we sign are public. The *Aide Memoire* [signed 30 January 2023 in Maputo] that I referred to earlier is one of the few exceptions because of its nature. And that is how we proceed everywhere we operate, not only here in Mozambique”.

“I have heard your concerns about the opportunities, the involvement of women and youth, etc. The opportunities will be open to everyone, to all companies, whether or not they are based in Zambezia or Mozambique. We want the best possible with the contribution

to be made by the American citizens”, stressed.

He continued: “Our experience teaches us that local people, those based where projects take place, always benefit in one way or another, as no company can bring in everything from outside, and some opportunities will not be attractive to large international or even national companies”.

Bah also said that the Millennium Challenge Account (MCA), the entity that will be created to manage Compact II for Mozambique, should make information on existing opportunities available to all and in a transparent manner, which should include sharing a specific timetable.



Delegation visiting the site where the new bridge over the Licungo River will pass, in Mocuba

## ON THE FINANCING AGREEMENT...

On the issue, in particular, of the *Aide Memoire* signed on 30 January this year between the Government of Mozambique, through the Minister of Economy and Finance, and MCC, Higino de Marrule, the GDC-II National Coordinator, said that “this [the *Aide Memoire*] is not the Compact II Financing Agreement for Mozambique, but an important memorandum in the Compact II development process, giving

priority, as has already been said, to political and institutional reforms in the road sector, for the benefit of the whole country and not only for the province of Zambezia, which is the priority focus of the Compact II”.

Higino de Marrule was thus clarifying some misinformation put at the meeting with stakeholders in Quelimane, by at least two businessmen, suggesting that that memorandum was the Financing

Agreement itself.

Before ending his intervention, the GDC-II National Coordinator invited six six experts accompanying him to introduce themselves and talk a little about their work within the Compact II development process for Mozambique.

Closing the meeting with stakeholders in Quelimane, the Secretary of State in Zambezia Province, Cristina Mafume, began by

thanking those present for the questions asked and the suggestions made. She also thanked the Executive Vice President of MCC for the visit and for his personal engagement in the process of establishing the Compact II, focusing on areas of undisputed relevance to Zambezia, namely Promotion of Investment in Commercial Agriculture, Rural Connectivity and Transport, and Climate Change and Coastal Development.

## MCC'S POSITIVE NOD TO POTENTIAL PARTNER ORGANISATIONS

Climate Change and Coastal Development is one of the areas where Compact II for Mozambique will intervene, alongside two others, namely Promoting Investment in Commercial Agriculture and Rural Connectivity and Transport.

The projects in the area of Climate Change and Coastal Development are being developed in the light of the co-creation principle, in the wake of which PROAZUL and BIOFUND were, in the third quarter of 2022,

selected in a public tender as potential partners of Compact II for Mozambique.

It is in this context that the Executive Vice President of the MCC, Mahmoud Bah, held, in the late afternoon and early evening of the same day, a consultation meeting with the two organisations, which essentially comprised the summary presentation of their projects and the open discussion, in the plenary, of both projects and other issues related to the themes covered

by them.

Bah expressed his impressions with the projects presented, which demonstrate the proponents' profound knowledge of the situation, in an area that is increasingly relevant in all development initiatives.

On the other hand, he warned that the projects should be elaborated on realistic basis, since the funds that could be made available were unfortunately limited, especially in view of the high investments that would have to be made

in the roads sector, which could consume a large part of the prospective envelope, which would in principle be around \$500 million.

The other participants at the meeting, mainly experts from GDC-II and officials from the environment and climate change sector at the Zambezia province level, suggested considering some in-depth analysis of some project components, taking into account solutions that may be locally feasible and sustainable.

# Coordinated work essential on the marshy coast of Zambezia

**The weak coordination between the various actors operating in the swampy coast of Zambezia province, which is the geographical focus of the Compact II for Mozambique, is one of the problems identified in**

**the field of Climate Change and Coastal Development, as substantiated by studies undertaken in the context of the above mentioned development initiative.**

In order to address the impacts that this

situation (weak coordination) is having on the preservation of ecosystems and their sustainable use, the Compact II Development Office (GDC-II) and the US agency Millennium Challenge Corporation (MCC) decided to involve key

sector actors, whether civil society organizations, companies, or even public law institutions, in the process of preparing Climate Change and Coastal Development projects, one of the three areas of Compact II for Mozambique, through

specialised initiatives.

It is in this context that a public tender was launched in mid 2022 to select potential partners to take part in the co-design of projects expected to form part of this area of Compact II, under which two entities were selected to potentially operate as lead partners, namely BIOFUND and PROAZUL, and other three entities were selected to potentially operate as technical partners, namely ACDI/VOCA, Conservation International (CI) and Terra Firma.

Indeed, a co-design seminar was held from 12 to 16 September 2022 at the tourist resort of Ponta do Ouro, in Maputo province. In



*From Left to right: Kenneth Miller, MCC Director for Mozambique; Higinio de Marrule, GDC-II National Coordinator; Amílcar Tivane, Deputy Minister of Economy and Finance; and Juliana Nwito, District Administrator of Matutuíne, during the opening ceremony of the Seminar on Co-Creation...*

addition to GDC-II, MCC and representatives of all the above-mentioned potential partners, the seminar included guests from the Ministry of Land and Environment, the Ministry of Agriculture and Rural Develop-

ment and the Ministry of the Sea, Inland Waters and Fisheries, as well as specialists from the academia.

It should be noted that some of the participants of the aforementioned co-design

workshop are based in Zambézia province, where the GDC-II has already done complementary work from there to date. In fact, MCC's Executive Vice President held a consultation meeting with BIOFUND and PROAZUL during his recent visit to the country, namely on the 2 February 2023, in Quelimane.

When presenting the justification for the aforementioned co-design seminar, Deolinda Mabote Nunes, GDC-II Environment and Social Inclusion specialist, mentioned that the issue of weak coordination is also an opportunity, starting with the very metho-



dology of co-design behind the conception of the project and the call for partnership.

The approach adopted was intended to reverse the current scenario, by seeking partnerships with organisations and/or entities that already work in the marshy coast of Zambézia, namely to conceptualise, design and implement the project in the area of Climate Change and Coastal Development under the auspices of Compact II.

“With this, we believe that continuity and sustainability of the actions will be guaranteed, even after the Compact II has ended,” Nunes pointed out.

The substantial reflections at the aforementioned co-design workshop began with group work in three domains, namely (i) healthy and productive ecosystems, (ii) climate and marine resistance and resilience, and (iii) developing new climate-resilient and sustainable livelihood strategies.

After the group work and in the plenary session, the interdepen-



dence that each of the objectives would have with the others became clear. For example, a long-term vision of a healthy and productive ecosystem defined by one of the groups takes into account surrounding factors such as human pressure on resources.

The five days of work were filled with approaches under the same number of major objectives, namely (i) Building a Shared Vision; (ii) Defining Key Components and Methods to Achieve Climate Change and Coastal Development Goals; (iii) Planning

for Sustainability; (iv) Building and Operationalising Effective Relationships; and (v) Moving Forward.

Integral to the discussions held at the co-design workshop was a reflection on planning and sustainability taking into account the social, environmental, economic, operational and legal dimensions, as well as on the juridico-legal framework, governance and accountability, in addition to issues of monitoring, evaluation, documentation and learning. The presentation of environmental and social performance standards, gender and social inclusion caught the attention of participants in the final moments of the event.



# The centrality of roads in promoting economic growth

**T**he Compact II Development Office (GDC-II) is currently working in partnership with the Millennium Challenge Corporation (MCC) to finalise the projects that will form part of the Compact II for Mozambique, which will be embodied in three areas, namely (i) Promoting Commercial Agriculture, (ii) Rural Connectivity and Transport, and (iii) Climate Change and Coastal Development. This article addresses the centrality of roads in promoting economic growth while providing information on what is being undertaken in the area of Connectivity and Rural Transport.

Mozambique became eligible for the Second Compact of the US agency Millennium Challenge Corporation (MCC) in late 2019, to be implemented over



*Extreme events have brought down roads and bridges in Zambézia and elsewhere in the country!*

a five year period. For the preparation of the Compact, the Compact II Development Office (GDC-II) was established in May 2020, under the tutelage of the Minister of Economy and Finance.

The CDG-II started with the Compact II preparation activities by first analyzing the impediments to inclusive and sustainable growth of Mozambique. The results of this analysis indicated

that the impediments to inclusive and sustainable growth in Mozambique are linked to the low level of agriculture development and the vulnerability of rural transport, which is not resilient to climate change. An analysis of the root causes contributing to the poor development of these two sectors was then undertaken and Concept Notes (CN) were prepared that would lead to the

development of Specific Projects in the two areas of interest.

## **Roads as catalysts for economic growth**

But what is the importance of the rural transport area in promoting sustainable economic growth, which can be translated into human development, especially in a province like Zambézia, which will be the geographical focus of Compact II, as decided

by the Government of Mozambique?

The analysis of constraints conducted for the development of Compact II indicated the area of rural transport as being one of those impeding sustainable economic growth in Mozambique, with an impact on the increase in the price of transporting products, mainly from agricultural and family production, which results in low competitiveness in the market due to the increase in the price of products in the value chain.

This shows that rural transport can be a catalyst for the economy if transport costs are reduced and products are made more com-

petitive. Competitiveness can contribute to increased rural production, which ultimately contributes to increased household income and, consequently, poverty reduction.

Thus, the development of rural infrastructures, which allow the reduction of transport costs, contributes to accelerated and sustainable economic development, as low costs allow increasing demand and household income. In particular, it contributes to poverty reduction (as employment increases) due to the economic dynamics generated. In the context of the rural economy, the reduction of transport

costs ultimately implies the increase of agricultural production, since access to markets increases.

However, this exercise is not easy, as it involves a dilemma of choosing which road to fund among several. In the case of Compact II development, using multiple criteria, project development is being done based on agricultural potential, population, fishing and forestry potential, as well as access to social services and markets, among other variables. This shows that the gain from investing in rural road infrastructure can be much greater for Mozambique's economy, especially in the

component of rural poverty reduction, particularly in Zambézia province, which is one of the provinces with the poorest population.

On the other hand, having a transport infrastructure in good condition has an added benefit because it reduces operating costs, including the time spent by transport operators, increases profits with a significant impact on increasing the development capacity of the transport system. In short, the improvement of rural road infrastructure boosts economic development, particularly rural development, whose impact on reducing poverty, operating costs and the time spent to travel the same distances is significant in improving the living conditions of rural populations.

### **On the actions carried out and under way**

Once the baseline studies were completed and the Government of Mozambique (GoM) decided on the final status of the Second Compact, detailed



studies were initiated on the rural transport component. The CDG-II, based on the demand of the Zambézia Province Government (GoPZ)<sup>1</sup>, developed a set of analyses to select the transport infrastructure with the potential to contribute to the inclusive and sustainable growth of the province. It is hoped that the model being developed will serve as a basis for replicability elsewhere in the country.

Thus, based on a list of twenty-six (26) priority roads provided by the GoPZ, using a multi-criteria analysis methodology, involving data such as population residing in the areas crossed by the roads,

<sup>1</sup> By GoPZ we mean both the Council of State Representation Services in the Province and the Provincial Executive Council, in the wake of the constitutional revision of June 2018. Based on the work carried out on the analysis of the impediments and root causes and after preparation of the Concept Notes, the GoM decided that Zambézia Province, given the levels and potential for development of the selected areas, should receive all the investment that would come from the Second Compact.

cultivated area, volume of the catch, forests, access to social services (schools, hospitals, among others), distance from the Quelimane market (considered large) and distance from the nearest city or town market (considered small), classified by district and town through which each road passes, an exercise was carried out to select the roads to be subject to intervention. The impacts resulting from the potential growth generated by the improvement of the Transport Infrastructure were also considered, in the various economic and social aspects mentioned above, including the participation of the private sector to make large investments in agriculture, transport and other sectors.

Fourteen (14) rural roads were initially selected from this list, of which nine (9) were subjected to additional reconnaissance studies, traffic counts and origin and destination surveys in order to determine those with the highest priority<sup>2</sup>. Based

<sup>2</sup> This prioritisation

on the economic and social potential, the five (5) most promising rural roads were selected and grouped to National Highway 1 (N1), between Chimuara and Nicoadala, initially considered by the GoM as a national priority.

In this regard, GDC-II and MCC have been developing detailed studies that enable the collection of data to feed the analysis models used to determine the Economic Rate of Return (a fundamental variable in MCC's decision whether or not to fund a particular project), which will culminate in the final prioritisation of the roads that will form the investment package for Compact II.

The list of rural roads considered for detailed analysis, already in the final stages, included the following:

- N1: Chimuara – Nicoadala (166 km);
- N103/R657: Magige – Cuamba (65 km);
- N322: Zero –

was done with support from Zambézia Province (Public and Private Sector).

- Morrumbala (47 km);
- R640: Zero – Mopeia (44 km);
- N324: Malei – Maganja da Costa (53 km);
- R646: Mugeba – Gilé (193 km);
- N1: Mocuba Bypass and Bridge over the Licungo River (18 km)

It should be noted that the N1, the section between Chimuara and Nicoadala, was considered by the GoM a priority for this Compact-II, but information advanced in August 2022 revealed that there was an agreement signed between the GoM and the World Bank for its financing. This situation led MCC to withdraw this section from the studies underway and instead focus on the construction of the Mocuba bypass and including the second bridge (of which the bridge is 1.8 km long) over the Licungo River, for a total of 18 km.

In one of the technical meetings between MCC and GoM representatives, held in the

administrative capital of the United States, Washington DC, between 3 and 7 October 2022, the R646 (Mugeba/Gilé) road was replaced by the R651 (Mugeba/Pebane) road, due to its strategic location to link the Pebane district to the rest of Zambézia, the importance of Pebane for the development of agriculture, fishing, tourism and mining, as well as the integration of the road project with the other environmental projects to be implemented under the Second Compact.

It should be noted that, at the request of the GoM, two stretches of the N1 were also indicated to be analysed, namely Namacurra/Mocuba (100 km) and Nampevo/Rio Ligonha (233 km).

### Some essential reforms

On the other hand, CDG-II and MCC have been working on policy and institutional reforms to ensure the financial sustainability of the Road Fund (RF) for the maintenance of the country's road network. In this re-

gard, discussions have converged towards empowering the RF and the National Roads Administration (ANE), in order to render these two institutions more efficient and effective in developing resilient road infrastructure in the country.

For these reforms, legislative impediments are the bottleneck and their amendment is the basis for reforms. The question would be whether policy makers are prepared to accept deep reforms of the RF and ANE, transforming them into active and robust institutions as is the case in some countries in Africa and the

Southern Africa region, and as proposed in the Sub-Saharan Africa Transport Policy?

The answer is yes, as embodied in the *Aide Memoire* signed between the GoM, represented by the Minister of Economy and Finance, Ernesto Max Tonela, and the MCC agency, on 30 January 2023, in Maputo.

Indeed, the GoM-II and MCC, supported by the consultancy firm Mott MacDonald (contracted by MCC to provide technical support) are finalising a reform document that will be submitted to the GoM for consideration. The adoption of this document by the

GoM will open doors for short-, medium- and long-term reforms of these two institutions (RF and ANE), so important for the development of the country.

The mission of Mozambique, Mott MacDonald and MCC, which took place in Washington from 03 to 07 October 2022, was aimed, moreover, at accelerating the pace in the drafting of a document that should form part of the draft Investment Memorandum, which will be the basis of negotiations for Compact II for Mozambique during the first six months of 2023.



# Promoting reforms and investment at the heart of agriculture in Compact II for Mozambique



**A**griculture has a great potential to contribute towards poverty reduction in a sustainable way. The levels of poverty and chronic malnutrition in Zambézia province, the geographical focus of Compact II for Mozambique, are

among the highest in the country.

In this context, the main objective of the Agriculture Project, within the framework of Compact II for Mozambique, is to improve the conditions for the development of a competitive ag-

ricultural sector by increasing investment, with notable impacts on the improvement of production and productivity, as well as the income of small farmers, through their inclusion in strategic value chains, with adherence to good agricultural practices, including phytosanitary

services.

Commercial Agriculture, one of the three areas of Compact II, constitutes a central priority, alongside the other two areas, namely Connectivity and Rural Transport Climate Change and Coastal Development.

The intention is that the projects that will make up each of the three areas of Compact II will function as a kind of ‘development models’, in other words, that they have the potential to be implemented in other provinces of the country, or that they continue to be prioritised in Zambézia, even after the implementation period of Compact II.

The Agriculture project in Compact II will use market opportunities and improved infrastructure to trigger sustainable and equitable investments in value addition and productivity in rural Mozambique.

### **Turning agricultural potential into gains**

At this stage of development of project proposals for the area of Agriculture, the focus is on the development of a support platform for commercial agriculture for Zambézia province and on nationwide tax reforms, with impact on the agricultural sector.

It is in this vein that the Zambézia Province Commercial

Agriculture Support Platform (Z-CAP or Z-PAC) grant mechanism emerges, to be results-based, which will allow aggregators to apply for funding for improved inputs, extension services, technology, and processing and storage infrastructure aimed at increasing smallholder adoption of technology.

The initiative aims at increasing the productivity of smallholder farmers through investment in aggregators for the provision of improved inputs and technology. The provision of improved inputs and technology, together with extension services, including phytosanitary services by the aggregators, is expected to lead to higher productivity per hectare and reduced pre- and post-harvest losses.

In addition, there is also the issue of investing in commercial relationships between smallholder farmers and aggregators to create more trusting commercial relationships, thereby creating better linkages to input and output markets through

long-term aggregation relationships, with better integration of women and youth into value chains through the development and implementation of visions and plans for change at individual, family and community group level.

With a view to designing a platform better adjusted to the reality of the Agrarian Sector in Zambézia Province, various data was collected from potential aggregators, with the support of the Business Council of Zambézia (CEP-Zambézia).



*Photo of the meeting with the President of Zambezia Business Council (CEPZ) and technicians collecting data from Zambezia Aggregators*

### **Nationwide tax reforms**

In an effort to improve Mozambique’s competitiveness to attract and increase investment in the agricultural sector, the Government of Mozambique (GoM), with assistance from the Millennium Challenge Corporation (MCC) agency, seeks to design a tax reform program for tax administration, specifically re-

lated to the application and setting of rates of Corporate Income Tax (CIT), Value Added Tax (VAT), and local taxes on agricultural goods and producers.

The focus of this project, in line with the Economic Acceleration Package (PAE), is to:

- Analysis of the impacts of current policy within the fiscal tools identified as

potential constraints for the agricultural sector, especially the analysis of the tax burden on the agricultural sector and particularly the impact these tools have on the incomes of small farmers and small producers and women farmers.

- How should local taxation be optimised in order to stimulate production and access to markets



*Mozambique's President, Filipe Nyusi, visiting an agricultural project in Massingir, in Gaza province*

and improve the inclusion and competitiveness of Zambézia's production and producers.

It was in this context that the Study on Fiscal

Reforms under the Development of Compact II has been underway

since November 2022, where valuable contributions are expected to be gathered to better identify opportunities for reforms that contribute to improving the business environment and attracting investment to commercial agriculture, so as to contribute to inclusive and accelerated development.



# Rural transport can be a catalyst for the economy



Higino de Marrule, GDC-II National Coordinator, giving a presentation at the ARMFA event in Maputo

**T**he Compact Development II Office (GDC-II) National Coordinator, Higino de Marrule, said that improving rural road infrastructures is of unequivocal relevance to all African countries, including Mozambique, particularly as it boosts economic development, particularly rural development, whose impact on reducing poverty, operating costs and time spent travelling long

distances is significant in improving the living conditions of rural populations.

Higino de Marrule, who was speaking on 3 April 2023 at one of the panels of the 20th

General Assembly of the African Road Maintenance Funds Association (ARMFA), held in Maputo, added that both the Government of Mozambique and the Government of the United States of America (USA), through the Millennium Challenge Corporation (MCC), believe that there is an urgent need for political, institutional and even legal reforms aimed at empowering the Road Fund, as a way to better fulfill its role in this crucial sector.

Rural Connectivity and Transport, with roads and bridges at its core, is one of the three areas of the Compact II for Mozambique, currently under development, with the signing of the Financing Agreement scheduled for July-August this year. Promoting Investment in Commercial Agriculture and Climate Change and Coastal



Development are the other two areas of this development initiative, which will have Zambezia province as its geographical focus.

The Constraints Analysis undertaken as part of the Compact II development process for Mozambique identified the area of rural transport as being one of those impeding sustainable economic growth in the country, with an impact on the increase in transport prices of products, mainly of agricultural and family production, which results in low competitiveness in the market due to the high prices of products in the value chain.



“This situation shows that rural transport can be a catalyst for the economy if transport costs are reduced and inputs/products are made more competitive. Competitiveness can in turn contribute to increased

rural production which ultimately contributes to increased household incomes and consequently poverty reduction,” stressed the GDC-II National Coordinator.

He added that in order to ensure the sustain-

nability of the investments to be made by MCC in Mozambique under Compact II, it is imperative to ensure their sustainability. To this end, policy and institutional reforms have been considered that can strengthen the capacity of the Road Fund to mobilize resources for road maintenance, as well as the capacity of the National Roads Administration (ANE).

Improving, at the sub-national level, the road network management capacity of the provincial ANE offices, in particular the Zambezia Province office, finding a mechanism that can make the Road Fund an entity capable of identifying and mobilising other sources of revenue in the e-SIS-TAFE system that are not properly registered, and working to ensure that at least 90% of the specific fuel tax is channelled into the Road Fund are other priorities from a reform perspective.

Higino de Marrule mentioned that it is equally important to prepare long-term



structural reforms, as a way to ensure that the Road Fund moves towards the Second and Third Generation

Road Fund, being certain that that public institution is already almost in the second generation, there being

some difficulties in sustaining this level due to the limitation of funds and their sustainability. “The-

se reforms should take place during the implementation of Compact II,” he emphasised.

# Cyclone Freddy brings ‘Compact II’ to Zambezia province



**A** team from the Compact II Development Office (GDC-II), led by its National Coordinator, Higinio de Marrule, undertook a working visit to Zambézia

province from 22 to 24 March 2023, with the aim of observing, in loco, the damage caused by tropical cyclone Freddy, as well as approaching some public and private

entities regarding the same phenomenon, in the context of finalising the process of preparing projects that will be part of the aforementioned programme.

On the 22nd and 24th March, the GDC-II team worked in the city of Quelimane, where it met with public and private entities - notably the Provincial Business Council (CEP), part



of the Confederation of Mozambique Economic Associations (CTA), while on the 23th it checked the current state of the

Nicoadala-Mocuba stretch along National Highway 1 (N1), and also worked in the district of Mocuba, where it met with the

District Administrator, Joaquim Fernando Pahare, and visited some infrastructures affected by the above mentioned extreme

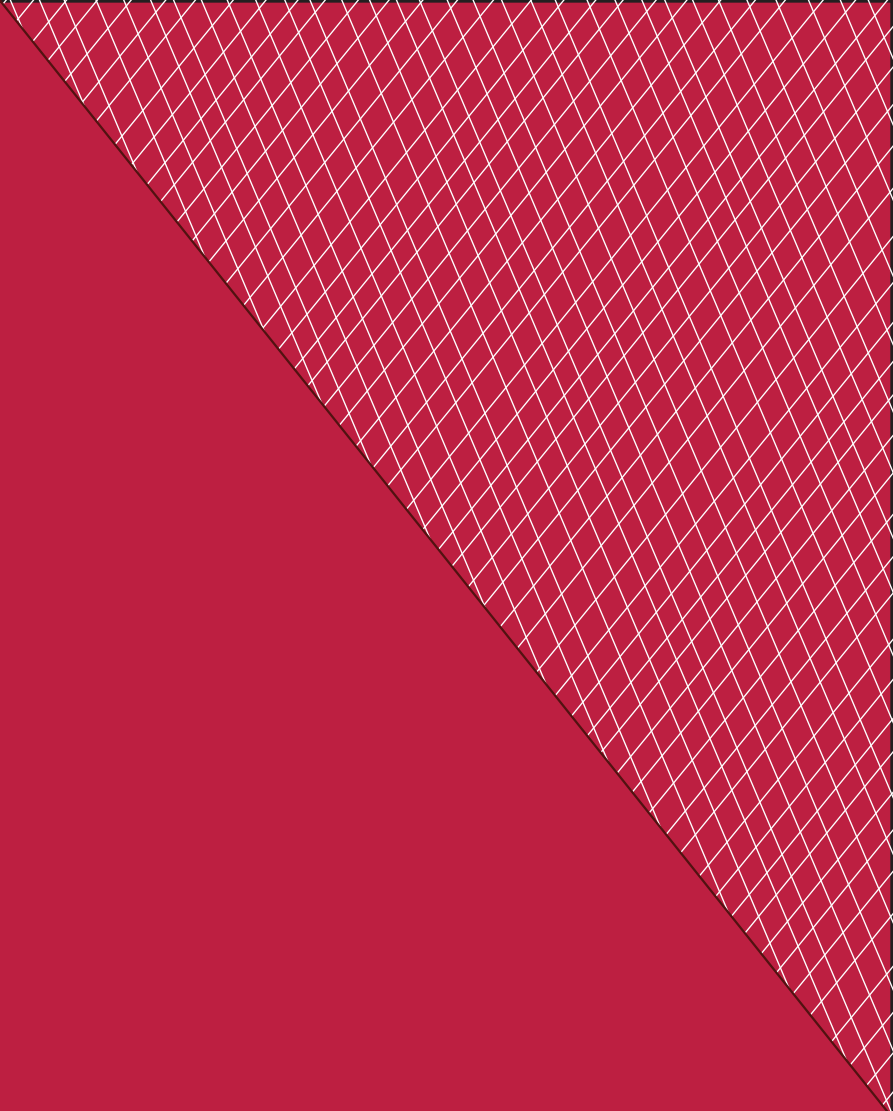
event.

As a corollary of the observations made, the review of certain aspects of projects currently in the final stages of preparation cannot be excluded, with particular emphasis on those integrated in the area of Climate Change and Coastal Development.

The pictures accompanying these notes, taken by António Zefanias, of the Zambezia Daily newspaper, and Ericino de Salema, of GDC-II, briefly document the damage caused by Freddy, which includes the unfortunate loss of 150 human lives.







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