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Report No: PAD4004

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED IDA CREDIT
IN THE AMOUNT OF SDR 52.2 MILLION
(US\$75 MILLION EQUIVALENT)

AND A
PROPOSED IDA GRANT
IN THE AMOUNT OF SDR 52.2 MILLION
(US\$75 MILLION EQUIVALENT)

TO THE
REPUBLIC OF MALAWI

AND A
PROPOSED IDA GRANT
IN THE AMOUNT OF SDR 159.9 MILLION
(US\$230 MILLION EQUIVALENT)

TO THE
REPUBLIC OF MOZAMBIQUE

FOR A
SOUTHERN AFRICA TRADE AND CONNECTIVITY PROJECT

April 6, 2021

Finance, Competitiveness and Innovation Global Practice
Eastern and Southern Africa Region

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CURRENCY EQUIVALENTS

Exchange Rate Effective February 28, 2021

Currency Unit = New Mozambican Metical
(MZN) and Malawian
Kwacha (MWK)

MWK 781.31 = US\$1

MZN 74.62 = US\$1

SDR 0.69 = US\$1

FISCAL YEAR

Government of the Republic of Mozambique: January 1 - December 31

Government of the Republic of Malawi: July 1 – June 30

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ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AG	Auditor General
ANE	Mozambique's Road Authority (<i>Administração Nacional de Estradas</i>)
APEI	Accelerated Program for Economic Integration
ARAP	Abbreviated Resettlement Action Plan
ARSO	African Road Safety Observatory
ARSPM	Mozambican Port Sector Regulating Authority (<i>Autoridad Reguladora do Sector Portuário de Moçambique</i>)
ASYCUDA	The UNCTAD Automated System for Customs Data
AT	Mozambique's Customs Authority (<i>Autoridade Tributária de Moçambique</i>)
AUFMP	African Union Free Movement Protocol
CAS	Country Assistance Strategy
CBM	Coordinated Border Management
CCB	Climate Co-Benefits
CCM	Mozambique's Chamber of Commerce (<i>Câmara de Comércio de Mocambique</i>)
CDN	Northern Development Corridor
CEAR	The Central East African Railways Company PLC
CERC-IRM	Contingency Emergency Response/ Immediate Response Mechanism
CFM	Mozambique Ports and Railways Company (<i>Caminhos de Ferro de Moçambique</i>)
CFTC	Malawi's Competition and Fair-Trading Commission
CGE	Computable General Equilibrium
CMS	Customs Management System
CMU	Country Management Unit
COC	Codes of Conduct
COMESA	Common Market for Eastern and Southern Africa
COGA	Malawi's Control of Goods Act
COST	Construction Sector Transparency Initiative
COVID-19	Corona Virus Disease 2019
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnosis
CTA	Mozambique's Confederation of Economic Associates (<i>Confederação das Associações Económicas de Moçambique</i>)
CTDMC	Malawi's Corridor Transport Development Management Committee
CVFTS	COMESA Virtual Trade Facilitation System (CVFTS)
CWG	Mozambique's Corridors Working Group (<i>Sub-comité do Desenvolvimento Integrado dos Corredores</i>)
DA	Designated Account
DE4A	Digital Economy for Africa
DFI	Development Finance Institution
DFID	United Kingdom's Department for International Development
DFIL	Disbursement and Financial Information Letter
DIME	World Bank's Development Impact Evaluation

DL	Disbursement Letter
DNSAB	Mozambique's National Directorate of Agricultural Health and Biosafety (<i>Direcção Nacional de Sanidade Agro-Pecuária e Biosegurança</i>)
DOI	Malawi's Department of Immigration
DPO	Development Policy Operation
DRC	Democratic Republic of Congo
DRS	Disaster Recovery Site
DTIS	Diagnostic Trade Integration Study
DRTSS	Malawi's Directorate of Road Traffic and Safety Services
EAC	The East African Community
ECOWAS	Economic Community of West African States
EEP	Eligible Expenditure Programs
EID	Emerging Infectious Diseases
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ES	Environmental Specialist
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
EU	European Union
FCDO	United Kingdom's Foreign Commonwealth and Development Office
FCI	World Bank's Finance, Competitiveness, and Innovation Practice
FCV	Fragility, Conflict, and Violence
FDI	Foreign Direct Investment
FI	Financial Intermediary
FM	Financial Management
FMS	Financial Management Specialist
GAC	Governance and Anti-Corruption
GBV	Gender Based Violence
GDP	Gross Domestic Product
GEMS	Geo-Enabling initiative for Monitoring and Supervision
GIS	Geospatial Information System
GIZ	German Development Agency (<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>)
GNI	Gross National Input
GOM	Government of Malawi
GPS	Geo-Positioning System
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GVC	Global Value Chains
IBRD	International Bank for Restructuring and Development
ICT	Information, Communication and Technology
IDA	International Development Institution
IDCF	Mozambique's Innovation and Demonstration Catalytic Fund
IEG	Independent Evaluation Group
IFC	International Finance Corporation

IFMIS	Malawi government's Integrated Financial Management System
IFPRI	International Food Policy Research Institute
IFR	Interim Financial Reports
IMO	International Maritime Organization
INAMAR	Mozambique's National Institute for Maritime Administration (<i>Instituto Nacional da Marinha</i>)
INIP	Mozambique's Ministry of Sea, Inland, Waters and Fisheries (<i>Instituto Nacional de Inspeção do Pescado</i>)
INNOQ	Mozambique's Institute of Normalisation and Quality (<i>Instituto Nacional de Normalização e Qualidade</i>)
IOM	International Organization for Migration
IRAP	International Road Assessment Program
ISR	Implementation Status and Results Report
JET	Jobs and Economic Transformation
JICA	Japan International Cooperation Agency
KPIs	Key Performance Indicators
LNG	Liquefied Natural Gas
M&E	Monitoring and Evaluation
MBS	Malawi Bureau of Standards and Departments
MCDA	Multi-criteria decision analysis framework
MFD	Maximizing Finance for Development
MGDS	Malawi Growth and Development Strategy
MIC	Mozambique's Ministry of Industry and Commerce (<i>Ministério de Industria e Comércio</i>)
MIMAIP	Mozambique's Ministry of Sea, Interiors, Water and Fishery (<i>Ministério do Mar, Águas Interiores e Pescas</i>)
MINEC	Mozambique's Ministry of Foreign Affairs and Cooperation (<i>Ministério dos Negócios Estrangeiros e Cooperação</i>)
MoTPW	Malawi's Ministry of Transport and Public Works
MOU	Memorandum of Understanding
MRA	Malawi Revenue Authority
MSME	Micro, Small and Medium Enterprises
MTC	Mozambique's Ministry of Transport and Communication
MTI	World Bank's Macro Trade and Investment Practice
NDC	Nacala Development Corridor
NDCTC	Nacala Development Corridor Tripartite Committee
NPF	New Procurement Framework
NPV	Net Present Value
NSW	National Single Window
NTB	Non-Tariff Barrier
NTFC	National Trade Facilitation Committee
NTM	Non-Tariff Measures
NTMP	Malawi's National Transport Master Plan
ODA	Overseas Development Assistance
OSBP	One Stop Border Post
PAP	Project Affected Persons
PBC	Performance Based Contract

PDO	Project Development Objective
POM	Project Operations Manuals
PIU	Project Implementation Unit
PPA	Project Preparation Advance
PPD	Mozambique's National Plant Protection Department (<i>Departamento de Sanidade Vegetal</i>)
PPE	Personal Protective Equipment
PPP	Public-Private Partnership
PPPC	Malawi's Public Private Partnership Commission
PPSD	Project Procurement Strategies for Development
PS	Procurement Specialist
PTCM	SADC Protocol on Transport, Communications and Meteorology
RA	Malawi's Roads Authority
RAP	Resettlement Action Plan
RBM	Reserve Bank of Malawi
RFA	Malawi's Road Fund Administration
RFB	Request for Bid
RFID	Radio-frequency identification
RICAS	World Bank's Regional Integration and Cooperation Assistance Strategy for Africa
RPF	Resettlement Policy Framework
SADC	Southern Africa Development Community
SATCP	Southern Africa Trade and Connectivity Project
SCD	Systematic Country Diagnostic
SDG	Sustainable Development Goal
SDS	Social Development Specialist
SEA	Sexual Exploitation and Abuse
SENAMI	Mozambique's National Immigration Service (<i>Serviço Nacional de Migração</i>)
SH	Sexual Harassment at Workplace
SME	Small and Medium Enterprise
SOP	Standard Operating Procedure
SPC	Shadow Price of Carbon
SPD	Standard Procurement Documents
SPS	Sanitary and Phytosanitary
SR4S	Star Rating for Schools
SSA	Sub-Saharan Africa
TA	Technical Assistance
TMEA	TradeMark East Africa
TTTFP	Tripartite Transport & Transit Facilitation Program
USAID	United States Agency for International Development
WBG	World Bank/ World Bank Group
WCO	World Customs Organization

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Malawi, Mozambique	Southern Africa Trade and Connectivity Project	
Project ID	Financing Instrument	Environmental Assessment Category
P164847	Investment Project Financing	A-Full Assessment

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
27-Apr-2021	30-Jun-2027
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

The project development objective is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.

Components

Component Name	Cost (US\$, millions)
Reduce Trade Costs	120.00

Strengthen Regional Coordination and Project Implementation	36.00
Strengthen Value Chains for Regional Integration	34.00
Strengthen Transport Infrastructure to Improve Market Access	190.00

Organizations

Borrower:	Republic of Malawi Republic of Mozambique
Implementing Agency:	Ministry of Transport and Communication, Republic of Mozambique Ministry of Transport and Public Works, Republic of Malawi Roads Authority, Republic of Malawi Fundo de Estradas, Republic of Mozambique

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	380.00
Total Financing	380.00
of which IBRD/IDA	380.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	380.00
IDA Credit	75.00
IDA Grant	305.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Malawi	75.00	75.00	0.00	150.00
National PBA	25.00	25.00	0.00	50.00
Regional	50.00	50.00	0.00	100.00
Mozambique	0.00	230.00	0.00	230.00



National PBA	0.00	76.67	0.00	76.67
Regional	0.00	153.33	0.00	153.33
Total	75.00	305.00	0.00	380.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2021	2022	2023	2024	2025	2026	2027
Annual	1.00	20.00	80.00	100.00	90.00	60.00	29.00
Cumulative	1.00	21.00	101.00	201.00	291.00	351.00	380.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Macroeconomics, Trade and Investment, Transport

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● High
8. Stakeholders	● Low
9. Other	● Substantial
10. Overall	● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36		✓
Pest Management OP 4.09	✓	
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Technical Oversight Committee in Malawi

Section I(A)(2) of Schedule 2 of Malawi Financing Agreement: By no later than one (1) month after the Effective Date, the Recipient shall establish and thereafter maintain, during the implementation of the Project, a technical oversight committee, for each Part of the Project, which shall be: (a) chaired by MOTPW; (b) comprised of all the relevant entities and agencies supporting implementation of the Project; and (c) responsible for providing support to MOTPW in overseeing activities under the Project.

Sections and Description

Technical Oversight Committee in Mozambique

Section I(A)(2) of Schedule 2 of Mozambique Financing Agreement: By not later than one (1) month after the



Effective Date, the Recipient shall establish and thereafter maintain, during the implementation of the Project, a technical oversight committee for each Part of the Project, which shall be: (a) chaired by MTC; (b) comprised of all the relevant entities and agencies supporting implementation of the Project; and (c) responsible for providing support to MTC in overseeing activities under the Project.

Sections and Description

Project Operations Manual in Malawi

Section I(B) of the Malawi Project Agreement:

By not later than one (1) month after the Effective Date, the Project Implementing Entity shall adopt and thereafter maintain, during the implementation of the Project, a Project operations manual ("Project Operations Manual").

Sections and Description

PIU in Malawi

Section I(A)(3)(3i) of Schedule 2 of Malawi Financing Agreement:

The Recipient shall not later than three (3) months after the Effective Date, recruit a financial management specialist, under terms of reference and with qualifications and experience acceptable to the Association.

Sections and Description

PIU in Malawi

Section I(A)(3)(3ii) of Schedule 2 of Malawi Financing Agreement:

The Recipient shall not later than four (4) months after the Effective Date, procure and install computerized accounting software for the Project.

Sections and Description

PIU in Malawi

Section I(A)(3)(3iii) of Schedule 2 of Malawi Financing Agreement:

The Recipient shall not later than six (6) months after the Effective Date, recruit a procurement specialist, under terms of reference and with qualifications and experience acceptable to the Association.

Sections and Description

Safeguard staffing at the Malawi Project Implementing Entity in Malawi

Section I(A)(2) of Schedule of Malawi Project Agreement: By not later than four (4) months after the Effective Date, the Project Implementing Entity shall hire one (1) manager and four (4) environmental and social safeguard specialists; all with functions, experience, responsibilities and qualifications acceptable to the Association.

Sections and Description

Project Operations Manual in Mozambique

Section I(B)(1) of Schedule 2 of Mozambique Financing Agreement and Section I(B) of the Schedule to the Mozambique Project Agreement: By not later than one (1) month after the Effective Date, the Recipient shall, and shall cause the Project Implementing Entity, to adopt and thereafter maintain, during the implementation of the Project, a Project operations manual ("Project Operations Manual").

Sections and Description

Grant Manual in Malawi

Section I(B)(2) of Schedule 2 of Malawi Financing Agreement: By not later than six (6) months after the Effective



Date or any other date acceptable to the Association, the Recipient shall, and shall cause the Project Implementing Entity, to adopt and thereafter maintain, during the implementation of the Project, a grant manual ("Grant Manual").

Sections and Description

Grant Manual in Mozambique

Section I(B)(2) of Schedule 2 of Mozambique Financing Agreement:

Mozambique: By not later than six (6) months after the Effective Date or any other date acceptable to the Association, the Recipient shall, and shall cause the Project Implementing Entity, to adopt and thereafter maintain, during the implementation of the Project, a grant manual ("Grant Manual").

Sections and Description

Third Party Monitoring Malawi

Section I(G) of Schedule 2 of Malawi Financing Agreement: By no later than six (6) month after the Effective Date, the Recipient shall hire and thereafter maintain, during the implementation of the Project, a third-party monitoring agency, with qualifications, experience and under terms of reference satisfactory to the Association, to monitor the compliance of Project-related environmental and social aspects and Project monitoring and evaluation indicators.

Sections and Description

Third Party Monitoring Mozambique

Section I(G) of Schedule 2 of Mozambique Financing Agreement: By not later than six (6) months after the Effective Date or any other date acceptable to the Association, the Recipient shall: (a) hire and thereafter maintain, during the implementation of the Project, a third-party monitoring agency, with qualifications, experience and under terms of reference satisfactory to the Association, to monitor the compliance of Project-related environmental and social aspects and Project monitoring and evaluation indicators.

Sections and Description

Stakeholder Engagement Plan in Malawi

Section (I)(E)(6)(a) of Schedule of Malawi Project Agreement: By not later than four (4) months after the Effective Date, the Recipient shall adopt, and thereafter maintain, during the implementation of the Project the Stakeholder Engagement Plan.

Sections and Description

Labor Management Plan in Malawi

Section (I)(E)(7)(a) of Schedule of Malawi Project Agreement: By not later than four (4) months after the Effective Date, the Project Implementation Entity shall adopt, and thereafter maintain, during the implementation of the Project, the Labor Management Plan.

Conditions

Type

Effectiveness

Description

Article 5 Section 5.01(a) of the Malawi Financing Agreement:

The Recipient and the Project Implementing Entity have adopted the Project Operations Manual in a manner satisfactory to the Association.



Type Effectiveness	Description Article 5 Section 5.01(b) of the Malawi Financing Agreement The Subsidiary Agreement has been executed among the Recipient, the Project Implementing Entity and the RFA in a manner satisfactory to the Association.
Type Effectiveness	Description Article 5 Section 5.01(c) of the Malawi Financing Agreement The Project Agreement has been executed between the Association and the Project Implementing Entity.
Type Effectiveness	Description Article 5 Section 5.01(a) of the Mozambique Financing Agreement The Subsidiary Agreement has been executed between the Recipient and the Project Implementing Entity in a manner satisfactory to the Association.
Type Effectiveness	Description Article 5 Section 5.01 (b) of the Mozambique Financing Agreement The Project Agreement has been executed between the Association and the Project Implementing Entity
Type Effectiveness	Description Article 5 Section 5.01(c) of the Mozambique Financing Agreement The Cooperation Agreement has been executed between the Project Implementing Entity and ANE in a manner satisfactory to the Association.



I. STRATEGIC CONTEXT

A. Regional Context

1. **The Governments of Malawi and Mozambique have requested the World Bank Group (WBG)'s support through the Southern Africa Trade and Connectivity Project (SATCP) in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.** The agreed response includes investments along the Nacala and Beira Corridors connecting Mozambique to Malawi, and along the Maputo Corridor connecting Mozambique to South Africa through Ponta Do Ouro (see map 1). Building on the best operational and analytical evidence, the project uses an *infrastructure-plus* approach in design, combining the upgrade of border posts, information and communications technology (ICT) investments, roads upgrading, as well as targeted trade-related reforms and value chain development to advance regional integration. These joint project investments and activities are expected to lead to substantial economic benefits, including increased regional trade, income growth, job creation, and resilience. Positive economic spillovers should also benefit other countries in the sub-region.¹ In line with the WBG's Crisis Response Approach Paper², the project's areas of support are key for the regional Corona Virus Disease 2019 (COVID-19) economic response.

2. **Regional integration is a leading priority for countries in Southern Africa, including Malawi and Mozambique.** While increasing intra-regional trade and investment can drive economic diversification and more inclusive growth, the potential of greater integration remains untapped. This is the result of weak trade-related infrastructure, compounded by opaque and unpredictable trade policies, the prevalence of non-tariff and regulatory barriers in services. Regional markets are particularly important outlets for non-traditional exports that tend to be more labor-intensive and therefore important for sectors in which poor people are engaged. Trade within Africa, however, remains very costly. Today, it is often easier for Africans to trade with the rest of the world than with each other. This is due to the neglect of the conditions, policies, and procedures that govern African borders, relative to those demarcating the region from the rest of the world. The higher costs of regional trade and reduced opportunities for commerce are borne by poor people and women the most.

3. **Regional integration can contribute to structural transformation, job creation, and poverty reduction in Eastern and Southern Africa.** Yet this potential remains unrealized because of the slow progress made in implementing regional commitments. As a result, the citizens of these countries have seen little in terms of economic gains from integration. This "implementation gap" has several causes. For one, the private sector, often left out of the integration process, has tended to place little pressure on governments to move forward with regional commitments. Moreover, there is often a collective action problem stemming from a lack of consensus amongst many countries on how to move in a coordinated manner and individual governments not taking the lead. This is further compounded by the limited leverage and enforcement capacity of regional economic communities, such as the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).³

4. **Following recent investments, Mozambique has become increasingly important as a transit destination for Malawi and other landlocked countries in the Southern African Development Community (SADC).** The Beira and Nacala corridors have benefited from over US\$6 billion in private and public investments, including upgrades to over 1,000km

¹ Improving the efficiency of these corridors can have significant spillovers for other countries, supporting the integration of Zimbabwe, Zambia, and the Democratic Republic of the Congo (DRC) through increased investment, trade and job creation and improving their access to the sea.

² World Bank. 2020. *COVID-19 Crisis Response Approach Paper*. World Bank. Report No 150916.

³ For an overview of these issues, see: Vanheukelom, J., Byiers, B., Bilal, S., & Woolfrey, S. (2016). The political economy of regional integration in Africa. What drives and constrains regional organizations? Synthesis Report. Brussels: ECDPM.



of roads, as well as improvements at the ports, construction of new sections of the railway line, and development of logistic hubs.⁴ In addition, the US\$682 million bridge and road that opened to traffic in 2018 connecting Maputo to South Africa through Ponta do Ouro increases the capacity and reduces travel-times between Mozambique and major South African ports of Durban and Richards Bay on the Maputo Corridor.

5. Despite the upgrade of infrastructure, trade flows between Malawi and Mozambique remain limited. While agricultural trade between the two countries has been growing⁵, the unmet annual bilateral trade potential is estimated at US\$32.5 million.⁶ Secondly, there is considerable potential to increase trade along the Beira and Nacala corridors if trade costs⁷ are reduced and inefficiencies addressed.⁸ Although the Beira and Nacala ports are cheaper to reach from Blantyre due to their shorter distance than competitors such as Dar es Salaam or Durban, they still have (a) greater per-km costs⁹; and (b) higher trade barriers¹⁰. This suggests high potential to reduce all-in costs that are limiting market shares. Given these increased efficiencies would particularly reduce costs for goods such as fuel, fertilizer, and other agriculture inputs, they would benefit primarily the poor, making the potential for poverty reduction substantial.

6. In addition, the impact of COVID-19 is increasing international trade costs through additional inspections, reduced hours of operation, and initial road and border closures. The pandemic has resulted in supply disruptions¹¹, fiscal shortfalls, and capital outflows, accompanied by declines in trade flows and export prices. GDP is expected to decline by 3.5 percent in Malawi and 0.9 percent in Mozambique in 2020. Border closures have also particularly impacted small traders who were restricted from travel and trade in both countries, while border management has become slower and more time consuming as social distancing and remote work were introduced without adequate training and ICT connectivity. In this context, keeping borders safe and open in the short term, and reducing trade costs and strengthening regional trade¹² and investment in the medium term, are essential for the ability of both countries to weather this shock as well as climate-related events such as cyclones and droughts.¹³ As a corridor project that builds competitiveness as well as complementarity, there is also salience from a climate perspective helping build resilience particularly for landlocked Malawi to access markets and have alternatives to critical supplies of food and medicines.

⁴ The Vale-Mitsui Consortium have invested over US\$4 billion in a new section of railway and rehabilitation of the existing railroad, a new terminal at Nacala-A-Velha and other major infrastructural projects along the Nacala corridor. The governments of Malawi and Mozambique have also upgraded over 1,000 kilometers of roads at a cost of approximately US\$758 million with support from the EU, AfDB, JICA, and Korea Export-Import Bank. Finally, JICA has also provided US\$573.6 million for the Nacala Port Development Project since 2015.

⁵ Malawi is a growing market for Mozambican producers: agricultural exports to Malawi comprised 1.1 percent of Mozambique's total agriculture and food exports in 2013. By 2018 it increased to 4.4 percent.

⁶ Based on ITC analysis. Trade potential is calculated based on supply capacities in the exporting country, demand conditions in the destination country, and bilateral linkages between the two.

⁷ The Malawi Country Private Sector Diagnostic (CPSD) (forthcoming) notes that Malawi's trade costs are highest in the region. The CPSD assesses opportunities for and constraints to private sector led growth.

⁸ In the larger Nacala Corridor Catchment area, the market share by transport corridor for all transit cargo was as follows: Dar es Salaam (42 percent), North-South (35 percent), Beira (11 percent), Nacala (7 percent) and Walvis Bay (6 percent). For Malawi, Nacala's share of traffic is 14 percent. USAID. 2019. Nacala and Beira Corridor and Port Performance Assessments.

⁹ The average transport cost for a 20-foot container for international flows was US\$2.11/km on the North South corridor to Durban; US\$2.42/km for Nacala and US\$3.5/km for Beira. Beira and Nacala were also identified as the two corridors with most potential to reduce costs. AFRIXIM Bank. 2020. *Study on the Trade-Carrying Infrastructure Gap in One African Region*. Nathan Consulting.

¹⁰ These include higher time to trade, poor trade facilitation, high non-tariff barriers, limited regional coordination, limited development of multimodal offerings, poor liner connectivity among others.

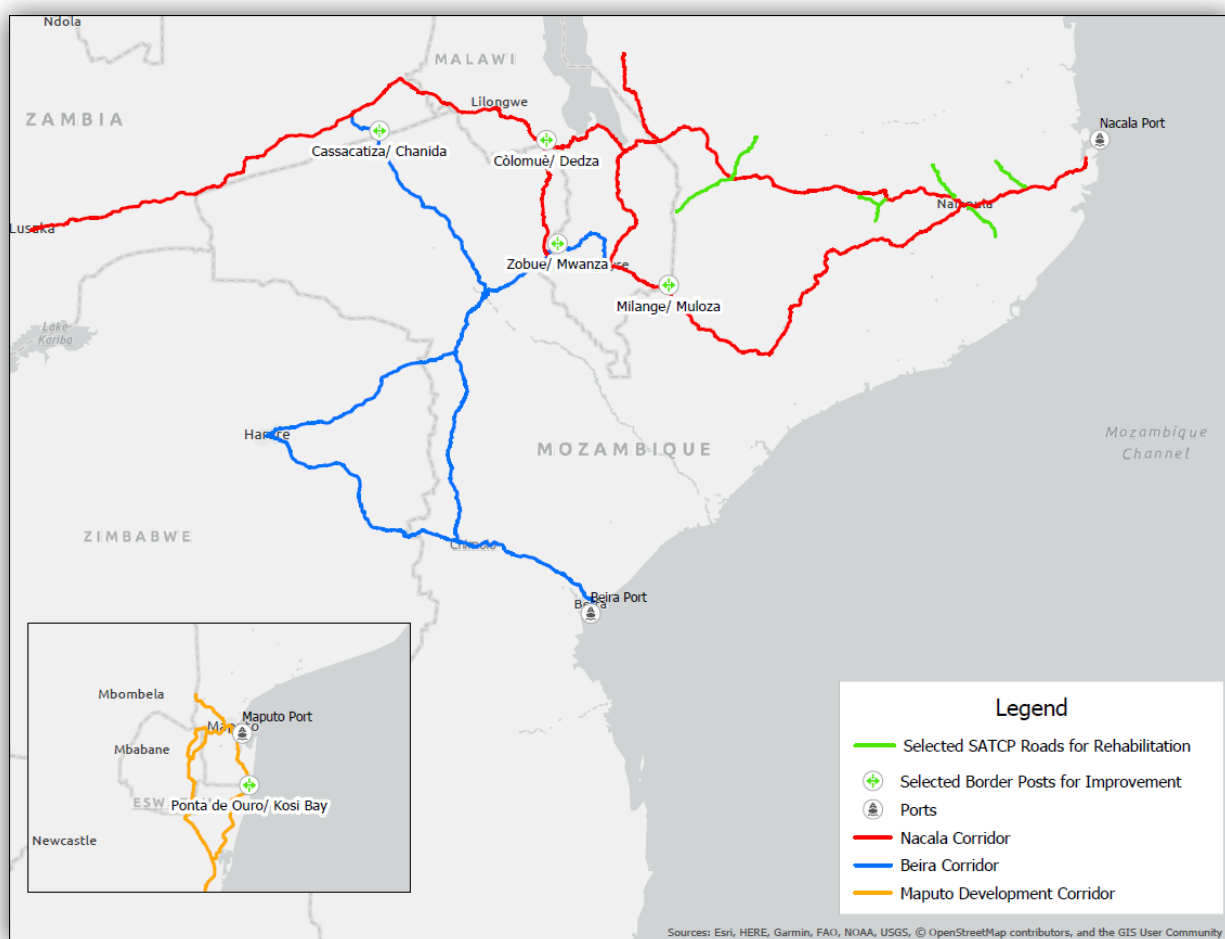
¹¹ Malawi Revenue Authority (MRA)'s customs data suggest that imports were 26 percent lower in April and May 2020 than in the same period last year, which coincides with reported delays in shipments from South Africa. World Bank. 2020. *Malawi Economic Monitor*. World Bank. Report No. 151100.

¹² World Trade Organization. 2020. "Members cite role of trade facilitation in ensuring access to goods to tackle COVID-19".

¹³ In 2019, cyclones *Idai* and *Kenneth* destroyed physical infrastructure and upended the livelihoods of millions.



Map 1: Selected Areas for SATCP Intervention



7. The four components in the project are synergistic and reinforce each other. They contribute to different sources of trade competitiveness and help reduce costs from the exporting firm to the importing market. This includes addressing behind-the-border costs (such as improving standards compliance, increasing the institutional capacity of authorities), at-the-border costs (accelerating border procedures, reducing trade restrictions) and all the costs involved in getting goods to and from the border, including both investments in hard infrastructure and improved logistics capabilities (see Figure 6). Seen comprehensively, these build on and complement existing private sector investments and ongoing activities by other development partners.

8. To better capitalize on recent investments in these corridors and reduce trade costs for wider economic benefits, follow-on coordinated investments are required. As detailed in the World Bank's *Regional Integration and Cooperation Assistance Strategy*¹⁴, supporting Africa's economic transformation requires addressing gaps in hard and soft infrastructure, as well as supporting the private sector to capitalize on these opportunities. A recent review of corridor projects suggests jointly tackling a range of impediments, including customs reforms, and targeting producers

¹⁴ World Bank. 2018. *Supporting Africa's Integration: Regional Integration and Cooperation Strategy FY18-23*. World Bank. Report No.121912. Strategy Update 'Supporting Africa's Recovery and Transformation: Regional integration and cooperation assistance strategy update FY21-23, World Bank Group, 2020, Report No. 154458-AFR.



and processors' constraints to leverage the benefits of improved physical connectivity.¹⁵ This can in turn attract additional private investment.

9. Recovery from the current COVID-19 crisis will depend on the ability of the private sector to invest in line with the Jobs and Economic Transformation (JET) agenda. Following Maximizing Finance for Development (MFD) principles, the project response intends to use public resources to mobilize additional private investment in the corridors. There is also potential to de-risk and remove barriers to investment and enhance the operating environment for private business (annex 5). This includes targeted value chains with growth and integration potential¹⁶, as well as logistics chains such as cold and dry storage facilities for agricultural output.

10. The project geographically targets very poor areas in both countries, with the project area in Mozambique bordering the fragile and conflict-affected province of Cabo Delgado.¹⁷ In Malawi, 68 percent of the population were below the US\$1.90 poverty line in 2019. In Mozambique, while the poverty rate declined from 58.7 percent in 2009 to 51.8 percent in 2019, the total number of people living in poverty went up as population growth outpaced GDP growth.¹⁸ Mozambique has one of the highest total fertility rates in Sub-Saharan Africa and the population is expected to grow to 50 million people by 2050. Poverty is distributed unevenly across the countries, with a disproportionate number of poor people concentrated in rural areas. The project will benefit small scale cross-border traders, predominantly women¹⁹ with mechanisms to reduce harassment by automating trade procedures, involving communities, and sensitizing relevant stakeholders. Lack of access to finance, particularly for micro, small and medium size enterprises (MSMEs) and women engaged in these value chains, stymies development. As such, the focus on intra-regional trade through a spatial focus can contribute to poverty reduction and address the underlying causes of fragility.

11. The project benefits from both an extensive foundation in how to effectively support regional integration within low-income contexts using a multisectoral approach, and extensive preparatory work to ensure readiness for implementation. The project's approach is in line with recommendations from a 2019 report²⁰ by the WBG's Independent Evaluation Group (IEG) that emphasize the need for regional integration projects to support the likelihood of achieving wide economic benefits and spillover effects. The project also builds on the countries' shared membership in regional institutions, such as SADC, as well as shared trade reform agendas²¹ to strengthen coordination on policy priorities and address gaps in the implementation of regional commitments. Further, the project design draws on over fifteen specifically commissioned studies to assess client needs, determine costs and benefits of different options, and in turn, inform the selected approaches for each activity. Finally, the project has benefited from project preparation facilities to conduct preparatory studies, contract project implementation units, and launch procurement of main activities.

¹⁵ Melecky, Martin, Bougna, Xu. 2018. "Transport Corridors and Their Wider Economic Benefits: A Critical Review of the Literature".

¹⁶ In Malawi, the new administration has officially released the regulations under the Control of Goods Act (COGA) in July 2020 to address ad hoc export restrictions on agricultural outputs.

¹⁷ Conflict affected violence has led to over 400,000 internally displaced people.

¹⁸ World Bank. 2020. *Mozambique Country Private Sector Diagnostic*. International Finance Corporation. Forthcoming

¹⁹ It is estimated that 70 percent of small-scale cross-border trade in southern Africa is by women. UNIFEM. 2009. 'Findings of the baseline studies on Women in Informal Cross Border Trade in Africa'.

²⁰ Independent Evaluation Group. 2019. *Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration*. World Bank Report No. 135552.

²¹ In addition to the Nacala Development Corridor Tripartite Committee (NDCTC) through which corridor countries have committed to each other, the Accelerated Partnership for Economic Integration (APEI), also supports regional integration in Malawi, Mauritius, Mozambique, Seychelles and Zambia since its inception in 2012 with the support of the World Bank.



B. Country Context

Malawi

12. Malawi is a landlocked low-income country in south-east Africa that borders Mozambique, Tanzania, and Zambia. With approximately 19.2 million people, it is one of the most densely populated countries in Africa. Malawi's population is also very young, with around 75 percent of the population under 35 years and a mean age of only 17 years. Growing at 2.7 percent per year, the country's population is projected to double by 2038.²²

13. Per capita incomes have risen slowly relative to population growth. GDP per capita has increased at just 1.5 percent over the last two decades. About 85 percent of the poor live in rural areas and are highly vulnerable to climate shocks and environmental degradation (Figure 1).²³ Malawi ranks 125th out of 157 in the World Bank's human capital index. High levels of inflation, though declining to single digits, have been a mainstay of the Malawian economy, resulting in low savings rates and a high cost of borrowing. Labor force participation rate for men is higher at 81 percent, relative to 72 percent for women.²⁴ Gender inequality is widespread, with female-led households poorer than male-headed households. This inequality is exacerbated by discriminatory customary laws that affect women's access to resources.²⁵

14. Malawi's economy is dominated by agricultural production, concentrated in tobacco and the main staple food, crop and maize. Agriculture contributes about 26 percent of GDP and 72 percent of employment, with the vast majority in small-scale farming with low returns.²⁶ Trade accounts for 65.3 percent of GDP, and 80 percent of export earnings are in agriculture. Tobacco is the most important commodity, making up more than half of exports (Figure 2). Malawi has not been able to significantly expand its export base and terms of trade have dropped since 2016. Foreign Direct Investment (FDI) inflows at 13.5 percent of GDP lag other countries in the region, holding back productivity gains.

15. The new government elected in June 2020 is actively developing policies to increase agriculture commercialization, including addressing the ad hoc export restrictions for maize and other crops that have been in place for the past several years. One of the first actions of the new government was to enact regulations for the Control of Goods Act (COGA) in July 2020. The Government has made positive steps in implementation of the new Act. On March 15, 2021, the Ministry of Trade announced that it will allow exports of maize, effectively lifting a ban on maize exports. This policy change addresses a trade restriction in place since 2018 and is expected to boost agriculture exports. It is hoped that such review of export restrictions will extend to other crops as well to boost trade and in line with provisions of the Act. To significantly increase maize production and generate tradable surpluses for both domestic and external markets, the Government has also recently increased the scope of input subsidies to cover all smallholder farmers under the new Affordable Inputs Program (AIP), raising concerns over fiscal sustainability and adequate targeting. Regular and evidence-based review of this program will be needed to ensure it is affordably improving the productivity of smallholder farmers.

²² National Statistical Office. 2017. *Fourth Integrated Household Survey (IHS 4)*. Government of Malawi.

²³ In terms of its impact on agricultural markets, Malawi would be one of the most affected countries worldwide by climate change. Costinot, Donaldson, Smith. 2016. *Evolving Comparative Advantage and the Impact of Climate Change in Agricultural Markets: Evidence from 1.7 Million Fields around the World*. University of Chicago.

²⁴ *Gender Data Portal*, World Bank. (accessed August 2, 2020)

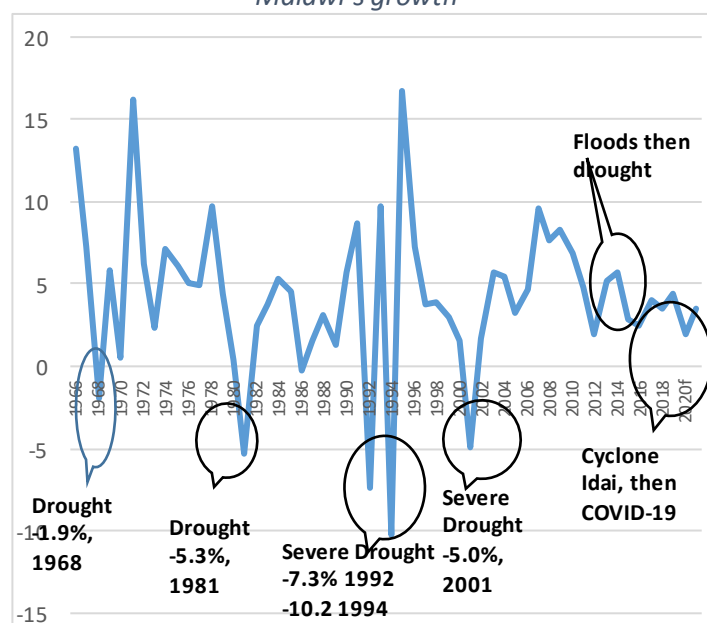
²⁵ Customary land ownership system does not guarantee women's equal right to land ownership and inheritance. UN Women. 2020. *Realizing Women's Rights to Land and Other Productive Resources*. Female agency is further undermined by pervasive child marriage and sexual and gender-based violence. New CPF for Malawi covering FY21-25 due to be discussed at the Board on May 4, 2021.

²⁶ World Bank. 2020. *Malawi Economic Monitor*. World Bank. Report No. 151100.



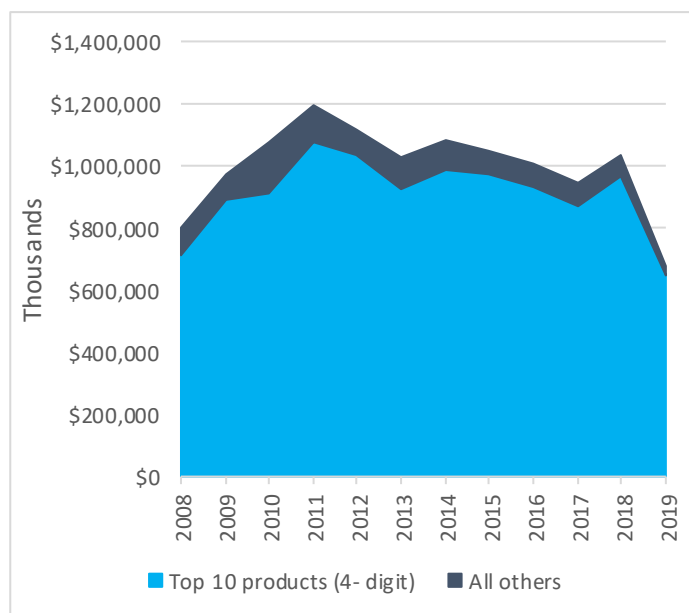
16. The COVID-19 pandemic is having a significant economic impact in Malawi, which has already experienced numerous recent shocks. Tobacco exports declined to US\$259 million by the end of October 2020, a drop of 36 percent compared to the same period in 2019, driven by a 28 percent drop in volume and 10 percent decrease in prices. Tea exports reduced by 2.6 percent through September 2020, while sugar exports fell by 11.5 percent. Imports were affected by transport disruptions, lockdowns in major trading partners, and lower international oil prices, but have partially rebounded since July 2020. Fuel imports increased by 9 percent to US\$152.5 million from January to September 2020, with an increase in volumes over 20 percent offset by lower global prices. Growth projections for 2020 have been lowered from 4.8 percent to 0.8 percent.²⁷ Vulnerability to the pandemic is high, particularly given the high population density and weak health care systems. Data from the Integrated Household Survey 2019/20 shows that poverty reduction continued to stagnate in Malawi even before the COVID-19 crisis. The share of the population below the international poverty line of US\$1.90 per day has decreased only from 69 percent in 2017 to 68 percent in 2019. Due to COVID-19 share of the population living below the poverty line of US\$1.90 per day in 2020 is projected to increase by almost a half percentage point. The sectors most impacted by the pandemic are transport, tourism, accommodation, and food services; wholesale and retail trading; and manufacturing. Increased costs and delays in trade logistics are affecting the flow of goods through the borders. Internal trade blockages, logistics breakdowns, and market distortions that tend to raise maize prices in the lean season are impacting food security, despite the increase in maize production in recent years.²⁸

Figure 1: Frequent, severe shocks have interrupted Malawi's growth



Source: World Bank staff calculations using World Development Indicators

Figure 2: Malawi's exports are highly concentrated



Source: World Bank staff calculations using World Integrated Trade Solutions- UN Comtrade

17. Following a prolonged governance crisis, Malawi's June 2020 elections have led to a peaceful transition of power. These elections took place after the High Court and Malawi's Supreme Court annulled the former President's narrow May 2019 election victory. The 2020 elections were an important milestone in strengthening the judicial system

²⁷ World Bank. 2021. *Malawi Country Partnership Framework*. Forthcoming.

²⁸ World Bank. 2020. *Malawi Economic Monitor*. World Bank. Report No. 151100.



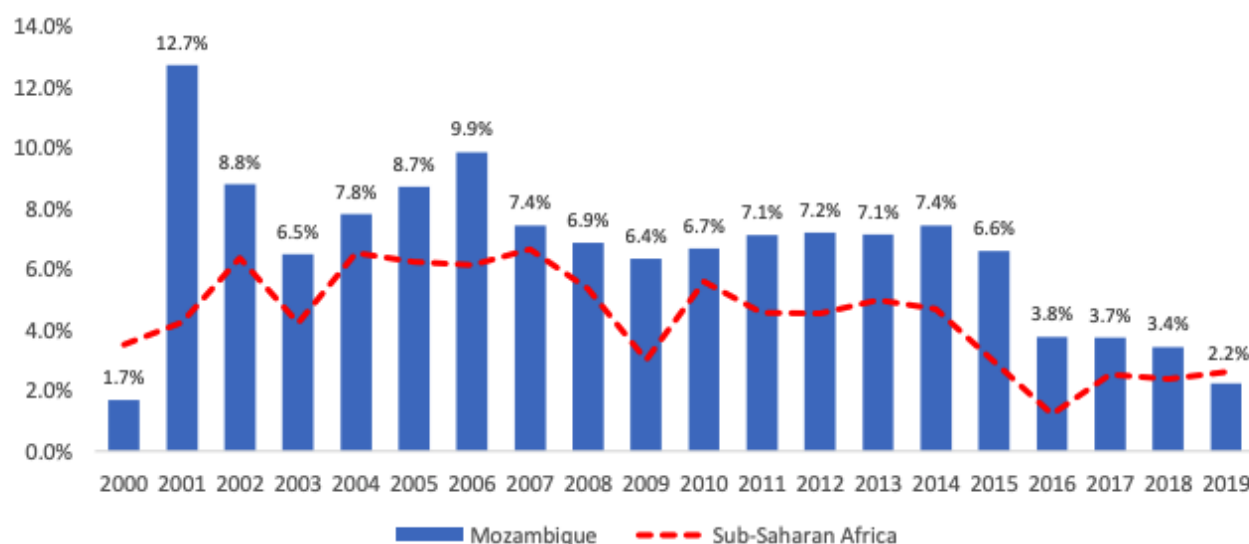
and democratic consolidation in Malawi. The newly elected government has emphasized the need to focus on improving logistics and rail access²⁹, and expanding aggregation and export processing.³⁰

Mozambique

18. Mozambique is a low-income country in Southern Africa with about 29 million people. It has over 2,400km of coastline to the Indian Ocean and favorable natural resources endowments. This includes ample arable land, water, energy, and mineral resources and recently discovered in 2012, offshore gas. It borders four landlocked countries (eSwatini, Malawi, Zambia, and Zimbabwe) along with Tanzania in the north and South Africa in the south.

19. Following an investment boom that started in the late 1990s, Mozambique's productivity has labor moved into manufacturing and services. GDP growth averaged above 8 percent during the post-war recovery until 2014 (Figure 3), making Mozambique the fastest growing non-oil economy in Sub-Saharan Africa. FDI inflows were among the largest in Africa. Unsurprisingly, given both its natural resource wealth and its role as a transit hub, Mozambique's trade-to-GDP ratio in 2019 was among the highest in Africa at 112 percent. However, the economy remains dominated by the agriculture sector, which accounts for 25 percent of GDP and employs about 70 percent of the population (90 percent in rural areas). The services sector has generated most of the employment growth since 2002.

Figure 3: Mozambique GDP growth



Source: Mozambique Country Private Sector Diagnostic (CPSD)

20. Despite gains in productivity, Mozambique remains one of the poorest countries in the world. The weak impact that sustained economic growth has had on poverty reflects a pattern of growth driven by capital-intensive and import-dependent sectors, while low-skilled jobs continue to dominate employment. As a result, the poorest people have not benefited extensively from the economic growth.³¹

²⁹ Mozambique. 2020. "Official Visit of The President of The Republic of Malawi to Mozambique", Joint Communique. October 6, 2020, Mozambique; Malawi, Ministry of Industry, Trade and Tourism.

³⁰ President His Excellency Lazarus Chakwera. 2020. "State of Nation address to Parliament." <https://www.youtube.com/watch?app=desktop&v=SJm-q3oidEA>.

³¹ World Bank. 2016. *Republic of Mozambique: Systematic Country Diagnostic*. World Bank. Report No. 103507-MZ.



21. In recent years, Mozambique's macroeconomic status has deteriorated. Following the discovery of US\$1.4 billion in previously undisclosed public debt in 2016, paired with a fall in private demand, the country entered a painful economic slowdown. MSMEs were the hardest hit as growth in demand fell, costs rose, and access to finance became scarcer.³² The hidden debt crisis was symptomatic of a general decline in the quality of governance. In 2008, Mozambique's score on the worldwide governance index was higher than the regional average for Sub-Saharan Africa. By 2017, the country scored lower than many peer countries in the region.³³

22. The country is also becoming more fragile, impacted by conflict. Since 2017, the Cabo Delgado province has suffered from violence linked to Islamic-inspired extremist ideology. The first attack happened in October 2017, when insurgents hit several police stations, government officials, and residents in the town of Mocímboa da Praia. Attacks, during which entire villages have been burnt, are becoming more frequent and visible, resulting in hundreds of casualties along with the internal displacement of over 400,000 people.

23. Progress has also been repeatedly disrupted by natural disasters and now the catastrophic impacts of the COVID-19 pandemic. In 2019, cyclones *Idai* and *Kenneth* destroyed physical infrastructure and upended livelihoods, especially among poor people. About 1.7 million people were impacted by *Idai* in the Sofala, Manica, and Zambezia provinces; cyclone *Kenneth* affected around 250,000 people in Cabo Delgado. Both destroyed houses, businesses, and core infrastructure, with losses amounting to US\$3 billion. In 2020, the COVID-19 pandemic is impacting almost all sectors of Mozambique's economy, including delaying gas investments and economic activity in tourism and various services. GDP fell by 1.3 percent in 2020, down from a pre-COVID forecast of 4.3 percent, as social distancing measures and travel restrictions disrupted supply chains, international trade, and reduced demand for goods and services. These unexpected events have laid bare the interconnectedness of the transport system to other sectors and the need to prioritize interventions that strengthen the entire system's resilience to natural disasters.

24. Given the depth of the COVID-19 crisis, Mozambique's already difficult poverty situation is expected to be aggravated further. The negative impacts on income are expected to be felt more in urban and peri-urban areas where social distancing measures and business closures are having the most effect. As such, the pandemic is expected to predominantly affect poor populations in these areas, impacting their sources of income from informal work and self-employment. Mozambique's urban poverty rate is estimated to increase from 29 to at least 31 percent in 2020, pushing an additional 250,000-300,000 urban people into poverty.

25. The pandemic is also likely to exacerbate pre-existing factors of fragility and widen inequalities and imbalances across the country. The spatial distribution of poverty is skewed with poverty almost twice as high in rural centers. The Northern and Central regions continue to lag the Southern regions, with many more people being poor in Niassa (67 percent), Nampula (65 percent) and Zambezia (62 percent) than in Maputo Province (12 percent) and Maputo City (4 percent), the two areas that have seen the largest decline in poverty rates in the past decade. The pandemic could widen these divides, heighten socioeconomic grievances, and sharpen the inequalities and sense of marginalization that have helped to underpin the escalating insurgency in the northern province of Cabo Delgado.

³² World Bank. 2017. *Mozambique Economic Update: A Two-Speed Economy*. World Bank. Report No.117784.

³³ World Bank. 2020. *Mozambique Country Private Sector Diagnostic*. International Finance Corporation. Forthcoming.



C. Sectoral and Institutional Context

Current status

26. In recent years, substantial private and public investments took place along the main corridors connecting Mozambique to neighboring countries. The Nacala corridor has been one of the largest infrastructure projects in Africa in the past decade. New investment has also flowed to the Beira corridor, including upgrading of ports and transport infrastructure, and commercial agricultural development. The new route from Maputo towards the Eastern coast of South Africa through Ponta do Ouro and Richards Bay in the Maputo Corridor was launched in late 2018. These corridors are integral to further developing Mozambique as a reliable logistics and port gateway for the region.

27. These investments are starting to pay off. Table 1 summarizes the changes in key metrics between 2016 to 2018 on the Nacala and Beira Corridors. Road investments are contributing to rapid increases in usage along the Blantyre-Nacala route. The investments in reliability and safety of the Nacala railway and port, as well as extensive marketing efforts by the concession holder CDN-CEAR (Northern Development Corridor and The Central East African railways Company PLC), are resulting in higher demand. In Beira, liner connectivity has increased at the port and the container throughput has increased from 7.7 million in 2012 to 12.1 million in 2015.³⁴ The road along the Beira corridor sees average traffic of 3,000 vehicles per day.³⁵ Container volumes grew until 2017 at an average annual growth rate of 9.4 percent since 1986.

Table 1: Changes in key metrics on the Beira sub-corridor and Nacala corridor (road and rail)³⁶

To/From Blantyre	Beira Corridor			Nacala Corridor		
	2016	2018	% change	2016	2018	% change
Imports-transit times (Days)	9	8	-11%	15	5	-67%
Imports-costs per TEU (US\$)	2,476	2,409	-3%	1,940	2,409	24%
Total transit volumes (Tons)	812,000	1,337,000	65%	241,000	468,000	94%

Source: Nathan Associates (2019)

28. However, people living along the corridors are still mostly engaged in subsistence and smallholder farming of food crops,³⁷ with a very low participation of women in established value chains. Agricultural production is largely of low productivity and rainfed, with some of the lowest yields in cereals in Southern Africa due to both low inputs and poor techniques. While the region has shown yield improvements for some crops including soya and sesame, productivity levels in primary crops such as maize and rice are one fifth of those in South Africa. Only 4 percent of farmers have access to extension services, 5 percent use improved seeds, less than 1 percent use loans for financing, and only 14 percent have information about prices.³⁸ Moreover, the share of women farmers with access to extension services is half of the men in the same communities. Less than 5 percent of women participate in farmers associations; men have double these

³⁴ World Bank. 2018. *Port Development and Competition in East and Southern Africa: Prospects and challenges*. World Bank. Report No. 137735.

³⁵ Selemene. 2019. *A Economia Política do Corredor da Beira: Consolidação de Um Enclave ao Serviço do Hinterland*. Cidade de Maputo: Observatório do Meio Rural.

³⁶ The Ponta do Ouro route is a relatively new trade route on the Maputo corridor which will open for trade after the development of the Ponta do Ouro post and as such currently there is no meaningful trade. The main section of the Maputo corridor (through Ressano Garcia border post) is not part of SATCP.

³⁷ This mainly includes cassava, maize, and beans.

³⁸ Mozambique Ministry of Agriculture and Rural Development. (2020). 2020-24 Program.



rates of participation.³⁹ Post-harvest losses are high due to the lack of consolidation centers close to production points, and poor-quality rural roads that are not well maintained.⁴⁰

Opportunity

29. Further developing these corridors can lead to strong economic benefits and address underlying causes of fragility. Up to 40 percent of the costs of exporting and importing are trade, transport, and logistics costs. Reducing these costs would substantially improve export competitiveness, increase jobs, and reduce poverty.⁴¹ The reduction in import costs⁴² would benefit consumers in Malawi and elsewhere in the region, especially smallholder farmers, through access to more reliable and cheaper fuel and fertilizer. Additionally, the development of regional value chains would help increase trade integration and private sector investments.⁴³ Finally, there is growing opportunity for private sector investment in logistics and storage infrastructure to take advantage of the improvements in the overall transit system.⁴⁴

30. While recent investments in infrastructure have greatly enhanced connectivity, large gaps remain. Roads need to be upgraded with climate-resilient techniques, key economic centers need to be connected, and there is a lack of logistics facilities. Addressing these gaps requires an environment that can attract the private sector. Moreover, increased competitiveness in the Beira and Nacala corridors (and between them and between road and rail) can further take market share from congested ports in Durban and Dar es Salaam, while strengthening the overall logistics backbone. This requires modernizing borders and their management to streamline movement of goods and persons, strengthening regulatory systems for logistics, and reducing other barriers to trade and coordination.

31. There is substantial potential for increased regional and global trade, especially in agriculture, light manufacturing, and forestry, each of which have the potential to attract private investment. Malawi is seeking to diversify away from tobacco and becoming increasingly competitive in the region on edible oil products. Agricultural trade policy reform that increases access to markets can help promote private investment, enhance competitiveness, and diversify the economy. Mozambique's central region is improving its productivity in various agricultural products, contributing to diversification away from the economy's reliance on fossil fuels. Pockets of success include soya and maize, as well as export-oriented crops (sesame, macadamia, sugar, pulses, cotton, and cashew). These would in turn benefit from reductions in logistics costs, fewer barriers to trade and improved transit options. These crops are being produced commercially, often because of anchor firms (or "aggregator" models)⁴⁵ (see Figure 4 Nacala Corridor as an

³⁹ Boxho, Campos, Montalvao, and Ploen. 2017. Enhancing Women's Market Access in Agribusiness in Mozambique. World Bank Publication. Report No. 124823.

⁴⁰ USAID. 2019. "Nacala Corridor and Port Performance Assessment" Background paper, Nathan Associates.

⁴¹ Ksoll C., Kunaka C. 2016. *Malawi's new connectivity: Paving the way for seamless corridors - A Trade and Logistics Analysis*. Malawi Country Economic Memorandum, Background Paper Series. World Bank. Report No. 132785

⁴² There is strong evidence that reducing trade costs increases exports, can stimulate growth and drive poverty reduction. For example, a 20 percent reduction in border crossing times results in a 2-3 percent reduction in transport prices (Teravaninthorn and Raballand. 2009. *Transport prices and costs in Africa: a review of the main international corridors*. World Bank. Report No. 46181). Conversely each additional day a product is delayed can reduce trade by more than 1 percent (Djankov, Freund, and Pham 2010. "Trading on time" *The Review of Economics and Statistics*, 92(1): 166-173). Non-tariff measures (NTMs) can also create unnecessary barriers to trade.

⁴³ There is a growing body of work, including by the World Bank, examining the potential for regional value chain development in the Southern African region. See Engel, Brenton, Baskaran, and McKenna. Forthcoming 2021. *Strengthening Regional Value Chains in Southern Africa*. World Bank.

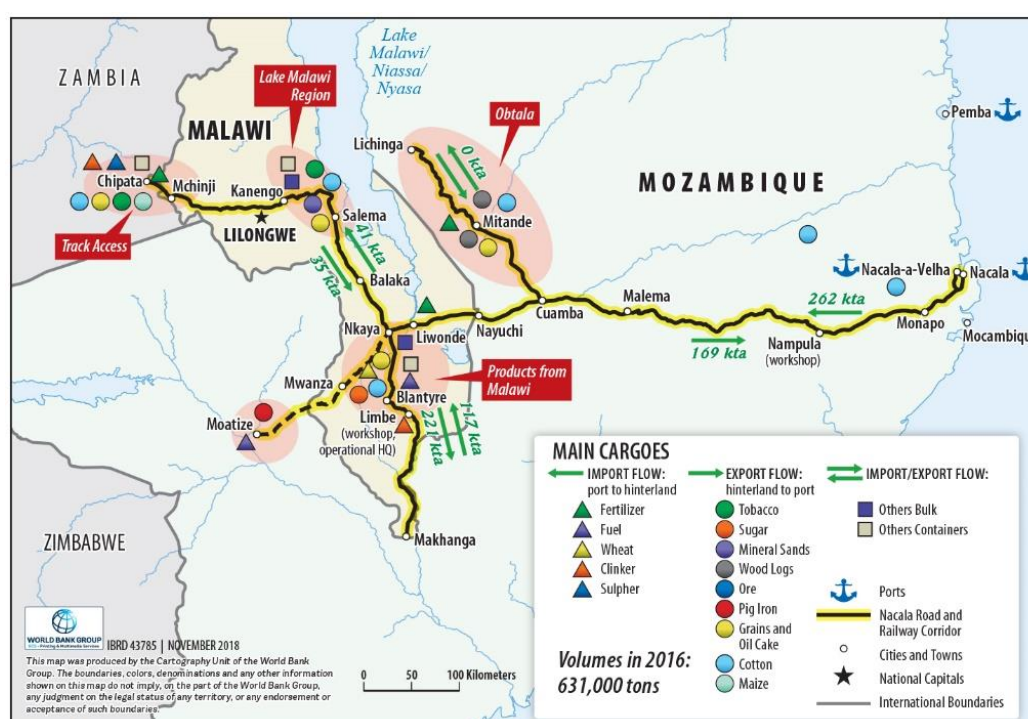
⁴⁴ Nacala Logistics that manages the port of Nacala is planning to increase the cargo handling capacity in its Malawi operations by building a Terminal in Liwonde, which will have the capacity to handle more than 150 containers per day. Nacala Logistics. 2020. *The Corridor: Commitment to Conservation*. Nacala logistics quarterly review. Mozambique.

⁴⁵ Aggregator models aim to meet the demands of commercial markets by combining smallholders into groups, and by linking the groups and individuals to larger businesses that can provide them with capital and technology packages that allow productivity and employment to increase. There is a growing consensus that aggregator models offer a potential way to resolve the market and coordination failures faced by smallholders.

example). Furthermore, investor survey data⁴⁶ indicates that 80 and 75 percent of investors in Malawi and Mozambique respectively plan to expand their investments. This presents an opportunity to not only increase efficiency and utilization of the corridors⁴⁷, but also enable them to support the economic transformation of the region.

32. Research has also shown that enhancing cross-border trade can help deter conflict and have significant positive gender impacts.⁴⁸ Developing regional value chains and deepening trade integration through cross-border trade reduces the likelihood of violence between regions by increasing the benefits of cooperation.⁴⁹ Cross-border trade is also strongly associated with reductions in gender-based violence (GBV), which is highly prevalent in border communities.⁵⁰ Additionally, the majority of cross-border traders are women, who are more likely to invest in their households, thus, increasing household resilience to shocks.

Figure 4: Main agricultural commodities along Nacala corridor



Source: World Bank Group

⁴⁶ Kantar Public South Africa. (2020). International investor survey in Southern Africa. Commissioned by the WBG for SATCP.

⁴⁷ Businesses in South Africa's Kwazulu-Natal province (KZN) are exploring new markets for exports creating strategic partnerships between MSMEs and large firms, as well as supporting reduction of logistical bottlenecks on both sides of the Ponta Do Ouro border crossing. KZN business report. 2019. "KZN, Maputo bridge gap in the market" July 7, 2019.

⁴⁸ Cali. 2015. Trading Away from Conflict: Using Trade to Increase Resilience in Fragile States. Directions in Development — Trade. World Bank. Report No 93123.

⁴⁹ Mayer and Thoenig. 2008. Make Trade not War? The review of Economic Studies.

⁵⁰ Marius, Cadot, and Himbert. 2019. Let there be light: Trade and the Development of Border Regions. CEPR Discussion Paper No. DP13515.



Constraints

33. Boosting regional trade in these corridors entails removing non-tariff barriers (NTBs) and enacting measures that improve regulatory cooperation, predictability, and transparency. The lack of coordination between Malawi, Mozambique and the remaining countries in the region increases the prevalence of NTBs across multiple sectors. Non-transparent regulations restrict foreign competition and disproportionately affect small firms by increasing uncertainty.⁵¹ Agricultural trade is particularly impacted. In Malawi, the use of ad-hoc export bans has resulted in significant underinvestment by the private sector in agro-processing.⁵² The recent removal of the maize export ban is a step in the right direction, as greater policy predictability on market access is needed to crowd in investment in the sector. There is little sharing of information between sanitary and phytosanitary agencies, no information on reference laboratories across borders for traders, and a lack of mutual recognition of test certificates or the existence of standard operating procedures that guide traders on what is expected. Transport policies and standards are often not harmonized. This includes road user charges, third-party (cross-border) motor insurance schemes, vehicle overland control systems, standards, and cross-border road permits. Lack of enforcement of rules (for example, overloading) and 'informal' road fees, all increase the cost of trade.

34. Border clearance documentation and procedures are often manual, duplicative, and cumbersome while border facilities along the corridors are in poor condition. These facilities are often constrained by cramped office spaces, overcrowded public areas, and a shortage of equipment; rehabilitation of these facilities is even more urgent because of COVID-19 and the need for reduced interaction and social distancing. Frequent power outages also disrupt border-related processing. Lack of inter-agency coordination and delegation has led to more agencies than required at border posts. There is a lack of consistency on tariff classification and valuation, non-acceptance of certificates of origin, and poorly designed procedures. Ideally, the introduction of streamlined and harmonized procedures, risk management principles to reduce inspections, and automation would accompany infrastructure improvements to create modern borders. However, where border posts are being rehabilitated often as one stop border posts, the infrastructure is developed in advance leading to mismatches that impact operational efficiency, and particularly impact agricultural trade.

35. The state of trade-related digital connectivity is a key constraint to the development of the region. To increase the impact from modernizing borders and related procedures, trade-related agencies in both countries need to invest in complementary ICT systems.⁵³ Modern trade transaction systems enable domestic resource mobilization, provide data for improved governance, and platforms for reducing corruption and revenue leakages while facilitating trade.⁵⁴ Automation of trade documentation and procedures is needed to lower transaction costs by enabling data sharing. For Malawi, sharing data with Mozambique would bring significant benefits as data would be captured in the port and transmitted down the line to the point of final clearance.⁵⁵ The absence of a rail cargo transit system in the Nacala corridor can add up to 12 hours to the journey in Malawi as the railways and the customs authorities are unable to share data electronically, which excludes pre-arrival processing. Finally, developing performance indicators and collecting statistics would help both users and customs officials by reducing information asymmetries.

⁵¹ Iodice. 2020. The sound of silence: Non-transparent technical regulations as obstacles to trade. Institute of Economics and Department

⁵² The project builds on current efforts through the IFC Advisory Malawi Trade Project and ongoing policy discussions with the government to provide greater transparency to the export restrictions process through the passage and implementation of the control of goods act.

⁵³ Malawi and Mozambique are ranked below regional leaders South Africa and Mauritius (although above the regional average) on provision of online services (sub-component of E-Government Development Index). *E-Government Development Index Portal*, UN. (accessed August 2, 2020)

⁵⁴ World Bank. 2020. Chalendar, Cyril Romain and Duhaut, Alice and Fernandes, Ana Margarida and Mattoo, Aaditya and Raballand, Gael J. R. F. and Rijkers, Bob, "Does Better Information Curb Customs Fraud?" World Bank Policy Research Working Paper No. 9254, World Bank.; Ouedraogo, Rasmané and Amadou N Sy. 2020. "Can Digitization Deter Corruption in Africa?" Working Paper, IMF.

⁵⁵ Ksoll C. & Kunaka C. 2016. *Malawi's new connectivity: Paving the way for seamless corridors - A Trade and Logistics Analysis*. Malawi Country Economic Memorandum, Background Paper Series. World Bank. Report No. 132785.



36. Inadequate physical connectivity is also an important constraint to the development of agriculture and production industries and to unleash the wider economic benefits of regional integration while generating impacts at the local level. While the main corridor infrastructure has been built, its condition varies and is impacted among other things by the effects of overloading⁵⁶, the lack of a sustainable asset management strategy leaving roads unrepaired as maintenance funds are rarely prioritized and the devastating effects of climate change.⁵⁷ Road safety is another externality that is particularly relevant given the high traffic volumes along these corridors. At the secondary level, roads connecting production areas to the main corridors often lack the required specifications and capacity to enable the development of value chains and fully benefit from the access to international markets. Developing climate resilient, efficient, and safe transport infrastructure will underpin sustainable economic development, facilitate trade growth, reduce disruptions from climate events, and encourage diversification into a broader range of goods and services.

37. The regulatory capacity of the transport and logistics sectors is also weak. Users incur indirect costs due to lack of harmonization in the region⁵⁸. In Mozambique, there is no independent regulator for any of the sub-sectors, and the competition authority is yet to be fully established despite the passage of the competition law in 2014. Anti-competitive practices include concession awards that do not follow international best practices.⁵⁹ Updating and implementing the Mozambique Strategy for the Integrated Development of Transport Systems, September 2009-2024, and implementing Malawi national transport master plan, December 2017, establishing sector regulators and harmonizing standards will help prioritize investments, improve concession regulations, and assist in monitoring compliance.

38. A formal mechanism that builds-in regular private sector feedback, dialogue, and monitoring to drive corridor reforms is lacking. Government-led interventions need to consult closely with the private sector to ensure the direct link to investment.⁶⁰ While some mechanisms for private sector dialogue already exist, these are limited and mostly *ad hoc*.⁶¹ In fact, there is no formal mechanism that builds-in regular private sector feedback and monitoring to drive reforms. Development of the corridors will thus require stronger private sector participation in the identification of reforms.

39. Private sector investment is constrained by the high cost of trade, unpredictable business environments, and a lack of access to finance. Addressing the lack of equity and debt markets to increase value added would fill a crucial gap in the regional integration. Risk sharing facilities, concessional financing, guarantees, insurance, and trade finance are all needed. Several firms need financing for inputs. Others are unable to exploit opportunities to develop the commercial infrastructure necessary to expand operations. Finally, finance is needed to reach additional rural producers in Malawi and northern and central Mozambique. Investment in agriculture value chains remain low, rounding at 3.5 percent of the total investment, whilst the share of lending to agriculture has fallen from 6 percent of total credit in 2010 to 4 percent

⁵⁶ It is estimated that on both corridors 25-35 percent of the roads are overloaded. Source: World Bank. 2020. *Mozambique Country Private Sector Diagnostic*. International Finance Corporation. Forthcoming

⁵⁷ Both countries are highly vulnerable to extreme climate events, such as cyclones, flooding, and drought, which require particularly resilient infrastructure. In 2019, 3,600 km of roads were severely damaged by Cyclones Idai and Kenneth, significantly disrupting the transport system.

⁵⁸ In Malawi, the upgrading of key rail and road corridors is a critical need, requiring strong regional coordination and collective action to address uncompetitive behaviors in the transport sector. World Bank. 2021. *Malawi Country Partnership Framework*. Forthcoming.

⁵⁹ World Bank. 2020. *Mozambique Country Private Sector Diagnostic*. International Finance Corporation. Forthcoming

⁶⁰ The investor survey carried out for this project, which uses data from 360 decision makers in foreign-owned companies operating in the countries concerning the project catchment area, reinforces the constraints to investment decisions described in previous literature.

⁶¹ For instance, the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) has catalyzed consultations on trade facilitation. There are also ad hoc sector-specific mechanisms for dialogue. The Malawi Revenue Authority has a Customs-to-Business forum to discuss tax and customs issues. Both countries also have a National Trade Facilitation Committee that includes key private sector associations. At the level of the corridors, there is feedback on specific issues that informs bilateral dialogue (e.g., fees and charges on Malawian transporters levied in Mozambique).



in 2018.⁶² Very little of the orientation is towards regional integration. Mitigating these constraints can unlock the considerable potential to develop regional value chains especially in agribusiness.

40. Finally, small-scale traders are severely impacted by current systems and procedures. Cross-border traders, especially women, often lack knowledge about border procedures and are subject to requests for bribes and harassment. Small informal traders handle a significant volume of trade but fall outside official trade statistics. Lack of information among women traders about their rights and responsibilities is also a key issue.⁶³ Experience in the region suggests that in this context of ambiguous rules, traders provided with information opt to minimize risk by making behavioral changes including to adjust border crossing times.⁶⁴ Therefore, changing the behavior of border officials may require multiple types of interventions. Some of these interventions include displaying key information at a visible place at customs offices, especially on the rights and obligations of traders; increasing safety measures at the border including cameras; help lines; improving access to information; and implementing simple trade regimes for low-volume shipments.

Relevance to Higher Level Objectives

41. The project is well aligned with WBG's crisis response approach paper⁶⁵ to address the COVID-19 pandemic and the WBG Fragility Conflict and Violence (FCV) Strategy 2020-25. Project investments in hard and soft infrastructure to support regional value chains will lead to increased resilience along with income growth and job creation. Additionally, the project seeks to stimulate private sector recovery, bolstering economic resilience in the wake of the current downturn. FCV settings require a development approach—moving from transactional to transformational methodologies, that catalyze sustainable private sector development⁶⁶ to complement public efforts. The effects of the COVID-19 pandemic in an FCV context are multi-fold. According to a recent survey, the COVID-19 pandemic has caused disruptions to food production, supply chains and financing, with farmers reporting negative impacts on their production and livelihoods, evidence of supply-chain breakdowns, and that uncertainty increased scarcity in crucial inputs and finance.⁶⁷ Women-led SMEs are more at risk as they often have smaller businesses operating in lower margin industries such as the service and trade sectors.

42. The project supports key IDA19 commitments, including the JET framework, climate, gender, and transport-related corporate requirements. JET emphasizes a comprehensive approach to inclusive and sustainable economic transformation by facilitating job-creating private investment. The project contributes to the JET framework⁶⁸ specifically by: (a) focusing on increasing productivity and access to markets of producers, processors, and traders, notably women; and (b) by providing high-quality infrastructure investments, fostering regional integration, and building integrated digital development. It also employs pro-poor strategies that reinforce comparative advantage and leverage domestic, regional, and global value chains (GVCs) in high-productivity sectors. The project is aligned with the “Sustainable Mobility for All” agenda⁶⁹, whereby the priorities for the Africa transport by addressing efficiencies in connecting international and regional markets, building climate resilient roads, improving road safety and championing gender inclusivity as part of

⁶² FSDMoc. 2016. *Analysis of Rural Financial Inclusion*. Maputo, Financial Sector Deepening Mozambique. World Bank. 2020. Mozambique Country Private Sector Diagnostic. International Finance Corporation. Forthcoming

⁶³ Similarly, a survey of small women traders in the DRC-Rwanda border found that 80 percent of respondents have been asked for a bribe, and more than half have been subject to harassment.

⁶⁴ World Bank. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa*. World Bank. Report No 135420.

⁶⁵ World Bank. 2020. COVID19 Crisis Response Approach Paper. World Bank. Report No 150916.

⁶⁶ World Bank. 2018. Maximizing the impact of the WBG in fragile and conflict-affected situations. Report No. 124654.

⁶⁷ IFC. 2020. Impacts of COVID-19 on the Private Sector in Fragile and Conflict-Affected Situations. FCS/IDA Coordination Unit. Note 93.

⁶⁸ World Bank. 2020. Additions to IDA Resources: Nineteenth Replenishment - Ten Years to 2030: Growth, People, Resilience. World Bank. Report No 139724.

⁶⁹ See <https://www.sum4all.org/>



universal access. . The components are supported by extensive analytical work on GHG emissions, climate Co-Benefits, GBV, and road safety, which are key concerns on the corridors.

43. The project addresses the Systematic Country Diagnostics (SCDs) for both countries and the constraints and objectives in the Country Partnership Frameworks (CPFs). Both countries have recognized regional integration as an avenue for undertaking trade-related reforms. The Malawi SCD (December 2018, Report No. 132785) notes that it should improve the transport system to lower the cost of domestic and international trade and highlights the Nacala corridor as an opportunity to disrupt the current transport equilibrium, if complementary investments and policy reforms are made.⁷⁰ The CPF for Mozambique (FY17 - FY21, Report No. 104733) highlights that logistics constraints limit the export potential of domestic companies and emphasizes the role of growth corridors. The Mozambique 2016 SCD (Report No. 103507) noted that reducing transport costs from inland areas to ports such as Nacala can yield substantial economic gains, particularly among the poor. To this end, the project leverages on the forthcoming Country Private Sector Diagnostics (CPSDs) and their work on agriculture, transport and logistics, and ICT. Given their focus on competition and political economy constraints, these studies are of great importance to the project.

44. The project responds to the *Malawi Growth and Development Strategy, 2017-2022*⁷¹, which advocates for enhancing market access for trade through the development of transport corridors. Specifically, it lists transport and ICT infrastructure as one of its five priority areas, emphasizing the need to develop the multi-modal networks. To this end, one priority outcome is to develop “transport corridors in order to improve the competitiveness of Malawian goods and services”. To boost productivity and trade volumes, the Malawian government’s national export strategy 2013 identifies priority products and services for maximizing value and export competitiveness. Malawi’s new 2063 vision document emphasizes economic infrastructure and predictable trade and investment-related policies, guaranteeing policy continuity for private sector dynamism.⁷² Malawi’s National Transport Master Plan (NTMP), December 2017, aims to develop an integrated transport sector for Malawi from 2016 to 2037. In addition, the 2016 Malawi national industrial policy sets increased utilization of the Nacala railway as a policy priority.⁷³

45. The project responds to “Mozambique’s Agenda 2025,” priorities in agricultural trade, transport, and rural development. To maintain its position as a trade and logistics hub for inland countries, the government’s strategy includes cost reductions along transport corridors. It also suggests that transport operation costs should be minimized by developing a balanced multi-modal system. One of the objectives in the *Agenda 2025* is to undertake “integrated actions that facilitate cost reduction: to optimize the existing network linking to neighboring countries, which comprises the Nacala and Beira corridors”. The country’s ongoing five-year plan (*Plano Quinquenal do Governo, 2020-24*) has the goal of developing transport as a means of building social cohesion in the country. This includes a focus on the Beira and Nacala corridors, as well as a view towards upgrading further corridors. The project’s focus on fostering trade by linking production centers to corridors is in line with the plan’s focus on rural development through productive activities.

46. The project supports the region’s regional integration efforts as well as the World Bank Group’s regional integration strategy for Africa, specifically the FY18-FY23 (Report No. 121912-AFR) Regional Integration and Cooperation Assistance Strategy (RICAS) for Africa and the forthcoming Strategy Update (FY21-FY23). They promote a spatial and sectoral focus as the best way of promoting integration by focusing on connectivity, trade facilitation and market

⁷⁰ This is reflected in the new CPF for Malawi covering FY21-25, due to be discussed at the Board on May 4, 2021.

⁷¹ Malawi, Government of Malawi. 2018. *Malawi Growth Development Strategy MGDS III (2017-2022)*. Government of Malawi, Lilongwe.

⁷² MW2063 was launched January 19, 2020 and includes 10-year rolling milestones. The Malawi Growth and Development Strategy III 2017–22 is in the process of being adjusted to align with the MW2063.

⁷³ Mozambique. 2020. “Official Visit of The President of The Republic of Malawi to Mozambique”, Joint Communiqué. October 6, 2020, Mozambique; Malawi, Ministry of Industry, Trade and Tourism. 2016. *Malawi National Industrial Policy 2016*. Government of Malawi, Lilongwe.



development. This includes prioritizing specific transnational economic corridors where integration can be realized. In supporting Africa's Transformation through regional infrastructure connectivity, the project can achieve economies of scale that would be difficult to reach at the national level. Further, it advises taking an "infrastructure plus" approach that simultaneously integrates financing gaps in value chain development with policy, regulatory, and institutional steps that support the functioning of markets.⁷⁴ The project activities are especially timely given the momentum towards economic integration in Southern Africa, including under the African Continental Free Trade Area (AfCFTA).⁷⁵ Additionally, the project's intervention on developing ICT infrastructure at border points is directly in line with the Digital Economy for Africa Moonshot 2030, critical in the current pandemic environment.

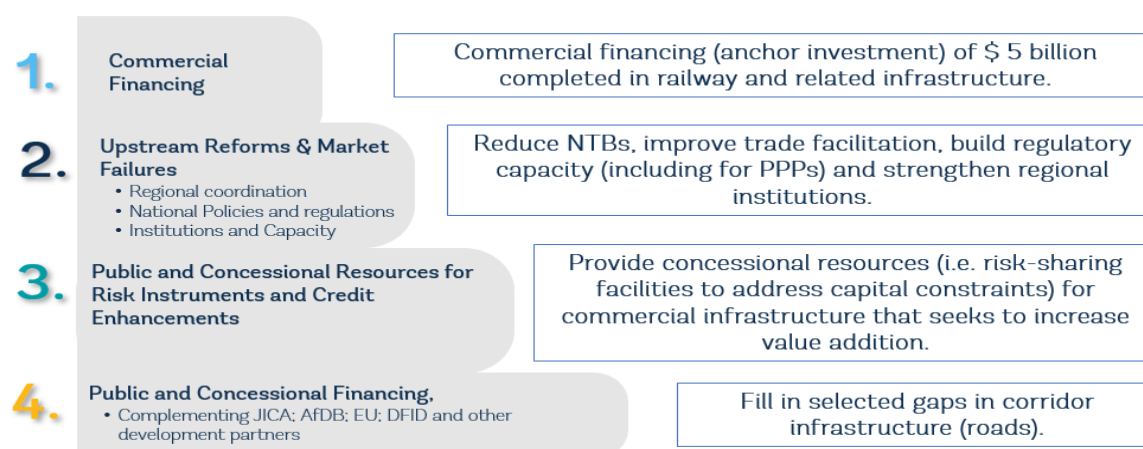
47. The project approach aligns with the WBG's MFD agenda, as one of its goals is to help mobilize additional private investment in the corridors. The specific gaps addressed by the project include support to: (a) address market failures in regional coordination; (b) modernize policies and regulations in the trade, logistics, and transport sectors; (c) strengthen key trade related agencies and ministries and their capacities, including Public Private Partnerships (PPP) capacity; and (d) develop high potential value chains. This is expected to help improve investment opportunities and mitigate risks that will encourage sustainable private sector solutions. The IFC can be an important player in this space, including through Manufacturing, Agribusiness and Services (MAS)'s investment and advisory, IFC's Global Trade Finance Program, and the identification of upstream opportunities in transport and logistic services and agriculture. Among the areas with potential for private investments, there are opportunities in the support to cold logistics chains, support in upgrading silos under warehousing management contracts (leveraging on public infrastructure that is underutilized), expanding financial services for improved logistics, and support to develop aggregation points including dry ports connected to transport and port infrastructures. This is discussed in more depth in annex 5.

⁷⁴ For example, the Malawi-Mozambique Regional Interconnector project (P164354), focuses on enabling regional power trade. Its regional approaches, particularly regarding implementation arrangements, have also informed this project.

⁷⁵ This agreement presents a major opportunity for African countries to bring 30 million people out of extreme poverty and to raise the incomes of 68 million others who live on less than US\$5.50 per day. With the implementation of AfCFTA, trade facilitation measures that cut red tape and simplify customs procedures would drive US\$292 billion of the US\$450 billion in potential income gains. Implementing AfCFTA would help usher in the kinds of deep reforms necessary to enhance long-term growth in African countries. *The African Continental Free Trade Area: Economic and Distributional Effects*. World Bank 2020. Report No. 151239.



Figure 5: MFD framework for the project



II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

48. The project development objective is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.

PDO Level Indicators

Table 2: PDO indicators

Objective/Outcome	PDO Indicators
Increase regional trade coordination	1. Percentage of key corridor performance indicators with operational improvement made as measured by the corridor performance monitoring mechanism. (percentage)
Reduce trade costs	2. Decrease in logistics cost of containerized imports/exports \$ per ton at destination ⁷⁶ (percentage)
	3. Decrease in average time to clear a border crossing ⁷⁷ (percentage)
Strengthen value chains for regional integration	4. Increase in sales of value chain actors participating in the supported value chains (Percentage, by gender)
	5. Value of private sector investments catalyzed (through matching grants) in Malawi and Mozambique (Amount USD)
Strengthen transport infrastructure to improve market access	6. Share of population with enhanced access to infrastructure (Percentage)

⁷⁶ These include: Nacala Port to Blantyre (Road) (Import Container); Beira Port to Blantyre (Road) (Import Container); Nacala Port to Blantyre (Rail) (Import Container); Blantyre to Beira port (Road) (Export Container); and Blantyre to Nacala Port (Rail) (Export Container).

⁷⁷ These include average time to clear a border crossing in: Muloza-Milange, Zobue-Mwanza, and Caloume-Dedza border posts.



B. Project Components

49. The project adopts the RICAS (FY18-23) infrastructure “plus” approach. The project’s components directly respond to the strategic pillars of the Regional Integration Strategy Update (FY21-23) which are aligned with the WBG COVID-19 approach to supporting recovery, namely: (a) “building regional infrastructure connectivity” through focusing on developing economic corridors; and, (b) “promoting trade and market integration” through focusing on accelerating intra-regional trade, development of regional value chains and addressing diseconomies of small financial markets. This approach is also supported by empirical evidence.⁷⁸

Table 3: Project cost by component

Project component	Mozambique (US\$)	Malawi (US\$)	Total cost (by sub-component) (US\$)
Component 1: Reduce trade costs			
1.1 Enabling digital trade: Development of trade ICT systems	3mn	20mn	23mn
1.2 Improving borders and their management	57mn	26mn	83mn
1.3 Strengthening trade and connectivity institutional capacity	7mn	7mn	14mn
Component 2 – Strengthen regional coordination and project implementation (Of which Project Preparation Advance)	18mn (2.5mn)	18mn (1.4mn)	36mn (3.9mn)
Component 3 – Strengthen value chains for regional integration	20mn	14mn	34mn
Component 4 – Strengthen transport infrastructure to improve market access			
4.1 Roads	110mn	57mn	167mn
4.2 Improve road safety	15mn	8mn	23mn
Total cost (by country)	230mn	150mn	380mn

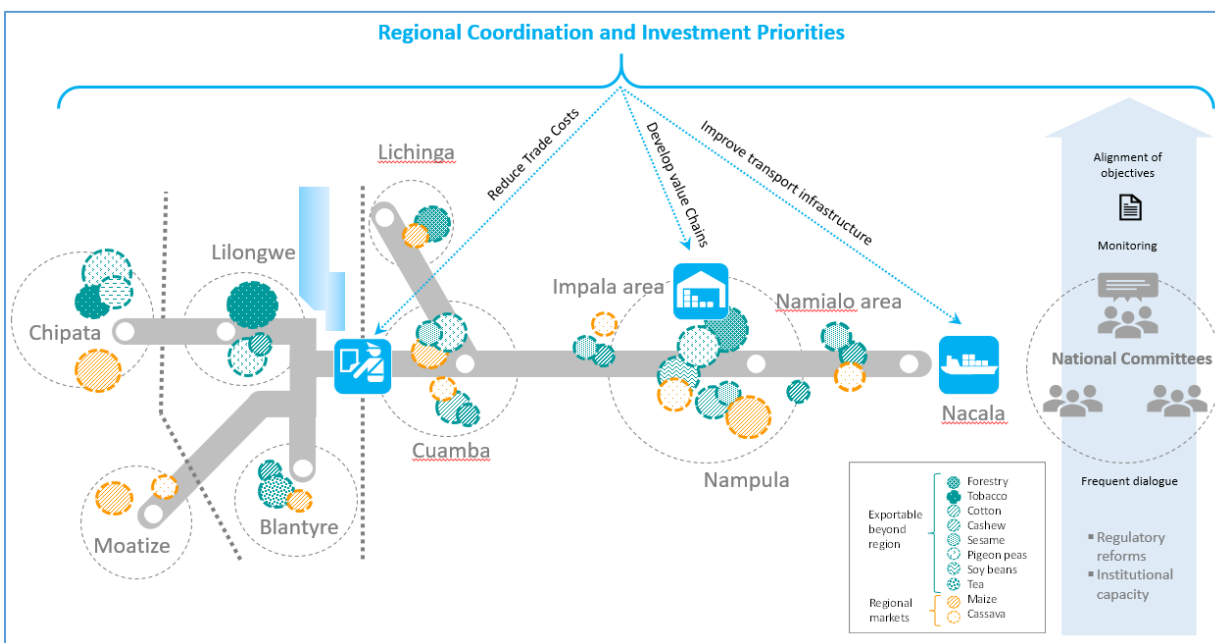
50. The project has four components: (a) reduce trade costs; (b) strengthen regional coordination and project implementation; (c) strengthen value chains for regional integration; and (d) strengthen transport infrastructure to improve market access⁷⁹. These components address key gaps and bottlenecks to strengthen the targeted corridors (Nacala, Beira, and Maputo). Jointly, the components can address complementary constraints that hinder trade, investment, and economic opportunities (See Figure 6, Nacala corridor as an example). Combining investments in border posts, trade systems, road upgrading, and value chain development in the same spatial locations allows for synergies in coordination and delivery in time. These are critical for successfully delivering poverty reduction impacts in the spatial areas of work. The approach involves selecting infrastructure upgrading in the areas with potential, and work on improving coordination and opportunities for traders, local producers, and medium-sized companies to achieve highest impact. Roadmaps and sequencing plans have been prepared by both Malawi and Mozambique and a draft for

⁷⁸ Transport projects targeting enhanced connectivity realize full benefits of better connectivity through tackling impediments imposed by other factors, such as inefficient port operations or the existence of prohibitively high tariff and non-tariff barriers to trade. (Melecky et al. 2018. Transport Corridors and Their Wider Economic Benefits: A Critical Review of the Literature. WPS No. 8302. World Bank.) Constraints due to poor infrastructure and high trade costs in developing countries can significantly lower the demand in rural areas. (Atkin and Donaldson. 2015. Who's getting globalized? The size and implications of intranational trade costs. NBER w21439.) Institutional support to corridors is also key to intensify partnerships with regional stakeholders to promote collective action and knowledge sharing within and across regions, most notably the private sector, international industry associations, and regional institutions. (Independent Evaluation Group. 2019. Two to Tango: An Evaluation of World Bank Group Support to Fostering Regional Integration. World Bank. Report No. 135552).

⁷⁹ The details of the four project components are described more fully in the accompanying document to the PAD available upon request.

component 2 is included in annex 1, Table 10. Additionally, these activities contribute to better climate resilience,⁸⁰ with the initial total climate co-benefits estimated at US\$113 million.⁸¹ Finally, to ensure that the project measures results to monitor progress, results indicators in Section VI have been selected to cover all components and corridors.

Figure 6: Visualization of project interventions in the Nacala corridor



51. Project activities include an immediate response to the COVID-19 crisis. Under component 1, support will be provided to keep borders open during the crisis while modernizing border practices, policies, procedures, systems, and facilities that will ensure process integrity during climate, health, and other emergencies. The forums supported under component 2 can be used to respond to specific measures that, during the pandemic, might be construed as non-tariff barriers. The coordination activities between countries can also be used to develop standard operating procedures for future emergencies and pandemics. Firms can use the financing instruments provided under component 3 to ensure they have access to additional capital for recovery from the pandemic. Furthermore, component 4 will directly stimulate jobs and growth to speed up the economic recovery from the pandemic including shorter-term benefits to employment.

52. Project activities are regional, national and corridor specific. Under component 1, most trade facilitation improvements are national (ICT investments, coordinated border management, and risk management), and as such impact all corridors and the region. Some improvements such as border post rehabilitation are corridor specific. Component 2 activities are regional in nature, though some coordination efforts are corridor specific. Component 3 financing will be available to firms operating in the multiple corridors. These will in turn impact regional integration.

⁸⁰ Malawi and Mozambique have both submitted their intended nationally determined contributions to the United Nations Framework Convention on Climate Change (UNFCCC). Their climate mitigation and adaptation intended nationally determined contributions actions for the period up to 2030 and 2040 respectively include: increase in production and utilization of renewable energy, promotion of climate smart and sustainable farming, protection and conservation of existing forests, afforestation, and construction of climate resilient transport infrastructure among others. The project aligns with these aspirations through its component activities. See annex 4 for details.

⁸¹ With the recent addition of US\$30 million to the rehabilitation of roads component, a second assessment of climate co-benefits is expected to result in a higher amount.



Finally, component 4 is mainly targeted in the Nacala corridor in Mozambique to connect with production centers while identification is being finalized in Malawi. Road safety improvements are to be both national and targeted along the Nacala corridor (Table 4). The results framework at the project and intermediate level tracks the progress of the activities on the Nacala, Beira and Maputo corridors.

Table 4: Components by corridor of focus

	Component 1 – Reduce trade costs	Component 2 – Strengthen regional coordination and project implementation	Component 3 – Strengthen value chains for regional integration	Component 4 – Strengthen transport infrastructure to improve market access	Total
All corridors	US\$ 73 mn	US\$ 18 mn	US\$ 10 mn	US\$ 23 mn	US\$ 121 mn
Beira only	US\$ 22 mn	US\$ 9 mn	US\$ 8 mn		US\$ 39 mn
Maputo only	US\$ 10 mn		US\$ 2 mn		US\$ 12 mn
Nacala only	US\$ 15 mn	US\$ 9 mn	US\$ 14 mn	US\$ 167 mn	US\$ 208 mn
Total	US\$ 120 mn	US\$ 36 mn	US\$ 34 mn	US\$ 190 mn	US\$ 380 mn

Component 1: Reduce trade costs US\$120 million equivalent (US\$53 million Malawi; US\$67 million Mozambique)

53. Component 1 aims to reduce trade costs through trade facilitation by combining regulatory reforms with improvements in automation and border infrastructure.

Sub-component 1.1. Enabling digital trade: Development of trade ICT systems, US\$23 million (US\$20 million in Malawi; US\$3 million in Mozambique)

54. This sub-component will support implementation of paperless trade within and between Malawi and Mozambique by focusing on automating trade related agencies and enabling data sharing and ICT integration.⁸² These interventions will reduce the time and cost to trade, as well as build a trade facilitation system that is resilient to climate, health and other emergencies. In Malawi, the sub-component will (a) update MRA's customs system, the UNCTAD Automated System for Customs Data, (ASYCUDA World), to enhance its capabilities and performance in line with good practices⁸³ and the ICT infrastructure to support system enhancements including a Disaster Recovery Site (DRS) to build resilience for data storage and business continuity⁸⁴; (b) support the implementation of phase II of the single window system⁸⁵ and (c) fund an IT system for the immigration department (the Ministry of Homeland Security), which is currently

⁸² This activity is in line with the strategic objectives of e-SADC strategic framework that encourages the use of ICT for socio-economic development and regional integration with the aim to enhance digital connectivity and access within and among the member states. SADC. 2010. *e-SADC Strategic Framework*. Economic Commission for Africa.

⁸³ Including modules for rail transit.

⁸⁴ The Malawi National Data Center will be explored as a potential location by the MRA, Immigration department Ministry of Agriculture's Sanitary and Phytosanitary (SPS) departments, and Malawi Bureau of Standards (MBS).

⁸⁵ A facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements (*UNECE Recommendation 33*). Single Window systems are a means to establish improved information sharing between government agencies and businesses involved in trade across the Corridor countries. A single window project is already underway in Malawi with financing from the Southern Africa Trade and Transport Facilitation Project (P145566) and technical assistance from the Malawi Trade Project (IFC 601527). Current financing under P145566 will cover 7 agencies while SATCP will cover the remaining 13 agencies.



operating manually.⁸⁶ In both countries, the sub-component will (a) finance backup power supplies for border offices that currently suffer frequent outages; and (b) automate the management of import and export of products for agricultural trade. The sub-component will also support data sharing and ICT integration between Malawi and Mozambique including to adopt a new electronic cargo tracking system (in Malawi only) and strengthening data and documentation (certificates and permits) exchange between institutions in Malawi and Mozambique. Based on best practices, the automation initiatives will be supported by business process analysis and reengineering, sustainability planning (environmental efficiency, maintenance, and redundancy), change management, capacity building, and performance monitoring.

55. The project will improve border management by expediting the movement, release, and clearance of goods, including through the use of increased ICT to respond to the COVID-19 crisis, and also other climate and health emergencies in both countries. The project will provide technical assistance to support business continuity for front line border agencies including instituting flexible conditions and extending border agency hours during and immediately after the COVID-19 crisis. Financing will include funding personal protective equipment (PPE), ICT equipment for remote work and training for safe handling of cargo to reduce spread of the virus. Improving ICT readiness will include strengthening online and telephone appointment management systems and scheduling to limit the physical presence and interaction of logistics workers at buildings, facilities, and border crossing points; strengthening non-physical enquiry points; and increasing the available trade-related information on websites. As such, this will enable facilitating safer cross-border trade through modern trade facilitation practices including enabling an efficient import process, enhanced use of risk management, and increased internal and external border agency coordination and collaboration, all of which are hugely important given the COVID-19 crisis but also applicable to other emergencies like climate events.

Sub-component 1.2. Improving borders and their management, US\$83 million (US\$26 million in Malawi; US\$57 million in Mozambique)

56. The project will finance the rehabilitation of one border post in Malawi and five border posts in Mozambique.⁸⁷ The border posts were identified as those with highest traffic potential that were not already being upgraded by other programs. Specifically, this financing includes the expansion and rehabilitation of the following border posts including detailed design and construction supervision: (a) Muloza, Malawi (to Milange, Mozambique) in the Nacala corridor; (b) Milange, Mozambique (to Muloza, Malawi in the Nacala Corridor); (c) Zobue, Mozambique (to Mwanza, Malawi) in the Beira corridor; (d) Calomue, Mozambique (to Dedza, Malawi) in the Beira corridor; (e) Cassacatiza, Mozambique (to Chanida, Zambia) in the Beira corridor; and (f) Ponta do Ouro, Mozambique (to Khozy Bay, South Africa) in the Maputo corridor.⁸⁸

57. The project will finance implementation of the recently developed Coordinated Border Management⁸⁹ (CBM) model across Malawi's borders, along with developing, piloting, and implementing a CBM model for Mozambique. This process includes TA to customs agencies in both countries to implement preclearance, risk management, post clearance audit, and authorized economic operators to help reduce the burden of inspections for the private sector while

⁸⁶ Except at its two international airports.

⁸⁷ The SATTFP (P145566) is providing funding for Songwe, Mwanza and Dedza border posts in Malawi and was also expected to fund Muloza but due to limited finances is no longer part of the project. SATCP is funding the Mozambique side of the border for three of these along the Nacala and Beira corridors (Calomue, Milanje and Zobue). A joint EU-AFDB project is also funding the Chiponde (Malawi) - Mandimba (Mozambique) border posts.

⁸⁸ Recent infrastructure development i.e. the Catembe bridge and the Maputo-Ponta do Ouro bridge have positioned the border as a more direct route to Durban. Reduction in time to travel between Maputo, Mozambique and Richard's Bay, South Africa has been cut by half from 10 to 5 hours. The route can only be used for regional trade if the border post has the necessary conditions to manage traffic of goods.

⁸⁹ CBM refers to a coordinated approach by border control agencies in the context of seeking greater efficiencies over managing trade and travel flows, while maintaining a balance with compliance requirements (WCO).



improving compliance and security for government.⁹⁰ National Trade Facilitation Committee (NTFC) secretariats will also be supported in both countries including some provision for technical assistance to assist in WTO TFA implementation. In Malawi, the project will also fund inland examination centers (IEC)⁹¹, including their detailed design and construction supervision in Lilongwe and Blantyre and mobile cargo scanners integrated with the customs system to strengthen risk management implementation.

58. To support MSMEs, especially women traders, who have been hit hard during the COVID-19 crisis, the sub-component will assist in implementing simplified trade regimes and border residency cards in both countries. The project will support the development and implementation of a joint simplified trade regime for selected goods that include simplified declarations and procedures and trader desks between Malawi and Mozambique to reduce trade costs. The sub-component will also assist immigration departments in both countries to pilot and implement a border residency card,⁹² a travel document issued to traders living in a certain radius around the borders which will enable easier movement for cross border trade.⁹³

59. The project will streamline agricultural trade requirements between Malawi and Mozambique, simplify complex regulatory procedures and reduce border burdens to increase exports and strengthen the development of regional value chains. Working together with Customs, standards and Sanitary and Phytosanitary (SPS) agencies in both countries will (a) identify critical products and cooperate in developing harmonized regulatory frameworks and consistent standard operating procedures for expedited clearance; (b) develop services that are tailored in a way that is specifically relevant to the needs of small producer and traders and that help with the assembly of certifiable products; (c) implement risk management to strengthen pest and disease management while reducing the burden of inspections and (d) cooperate on establishing mutual recognition of SPS and standards procedures for commodities that are produced under equivalent measures⁹⁴, thereby allowing import clearance controls to be reduced or removed. Consultancies in both countries will fine tune priorities and outline the detailed implementation plan. This support will provide improved market access to enable regional value chain development for established and emerging commodities from both countries including tea, coffee, groundnut, soya, mango and animal products (in Malawi) and fish and fish products, cashew, groundnuts, pulses, sesame, and animal products (in Mozambique) by reducing rejection rates in export markets (to be measured through surveys and evaluations) and by improving the recognition of testing and certification and other strategic capacities in equipment and infrastructure. This improved market access will in turn support the emergence of new market opportunities for small farmers and traders and help develop regional value chains.

⁹⁰ This will require improvement in the collection and analysis of risk related data through development of a risk management system to feed the Customs and Single Window systems and reduce manual interventions at the border.

⁹¹ An IEC is a legally established Customs and border agency examination facility that enables to open, unpack, mark, weigh, unload any container or goods presented for import or export, at a designated location away from the prescribed land borders and airports.

⁹² Border Resident Cards are a viable means of regulating local border traffic without compromising the security and integrity of the borders and still comply with the immigration rules of the two countries. The implementation of Border Resident Cards is encouraged in the SADC Protocol on the Facilitation of Movement of Persons and the African Union Free Movement Protocol (AUFMP). The card can be based on a national identity.

⁹³ Malawi through the World Bank's Digital Malawi project (P160533) has developed appropriate regulations on data privacy, cybersecurity, interoperability, and shared infrastructure solutions that will provide the necessary legal and regulatory framework for data collection and usage. While there is no general data protection law in Mozambique, relevant provisions can be found in the Constitution of the Republic of Mozambique, and The Electronic Transactions Law (Law no. 03/2017). In addition, there are laws in the financial and telecommunications sector that set out obligations for matters such as data security. Mozambique is also a recent signatory to the African Union Convention on Cyber Security and Personal Data Protection ('the Malabo Convention'), having ratified on December 2, 2019.

⁹⁴ Under Article 4 of the SPS Agreement, members shall accept the SPS measures of other members as equivalent measures, even if these measures differ from their own or from those used by other members trading in the same product, if the exporting member objectively demonstrates to the importing member that its measures achieve the importing member's appropriate level of SPS protection. For example, inspection and testing might be considered equivalent to HACCP production if the resulting food meets the same safety outcome.



Sub-component 1.3. Strengthening trade and connectivity institutional capacity US\$14 million (US\$7 million in Malawi; US\$7 million in Mozambique)

60. The project will help transport ministries in both countries, and the Public Private Partnership Commission (PPPC) in Malawi, to improve institutional capacity and strategies for the better development of the transport, connectivity, and logistics sectors. In Malawi, technical assistance will be provided to the Ministry of Transport and Public Works (MoTPW) to (a) help setup the rail and marine regulator, develop appropriate legislation for the sector, and support feasibility studies; and (b) support the implementation of the National Transport master plan by updating the road map for implementation, identification and development of priority projects which includes determining investment needs, building capacity and finalizing the institutional mechanism for governance⁹⁵. This support will be provided through technical assistance, consultancies, training, as well as purchase of required equipment and software. Technical assistance will also be provided to the PPPC in Malawi to expand expertise in key sectors to attract additional PPPs and to conduct feasibility studies for international bus terminals and border markets for small traders. In Mozambique, support will be provided for the establishment of a ports and railways regulator through technical assistance, consultancies, training and purchase of required equipment and software. The project will also support the Ministry of Transport (MTC) in (a) crafting a national logistics strategy that provides a holistic national view for logistics and transport development; (b) preparation of ports master plan; (c) development of a civil aviation master plan;⁹⁶ and (d) capacity building including through a technical advisor and an assessment, update and roadmap of the current Strategy for the Integrated Development of Transport Systems. These strategies have been identified as critical to orient policy for regional integration in consultations with the private sector, IFC and other development partners.

Component 2: Strengthen regional coordination and project implementation US\$36.0 million equivalent (US\$18 million in Malawi; US\$18 million in Mozambique)

61. To strengthen regional coordination, the project will provide support to the existing Nacala Development Corridor Tripartite Committee (NDCTC).⁹⁷ The governments of Malawi, Mozambique and Zambia formed the NDCTC to strengthen corridor operations and foster regional development through its organs at the Ministerial, Permanent Secretary/Director and technical expert levels. The project will provide financing for an interim secretariat and two meetings of the NDCTC each year for six years, as well as support to the NTFC.⁹⁸ The activities related to the Beira corridor included in the project are part of the NDCTC agenda given that both the Nacala and Beira corridors are part of one logistics system with some overlap in agendas, geographies, and economic catchment areas in Malawi and Mozambique. The Ponta do Ouro border post is part of the Maputo development corridor and will be coordinated through the Corridors Working Group (CWG) under the NTFC. The proposed sequenced implementation plan for component 2 is described in annex 1 table 10.

⁹⁵ This would include a review through a climate lens by conducting a climate vulnerability assessment from the adaptation perspective to ensure climate mitigation and adaptation is incorporated into the road map. The integrated strategy would bring together sectoral strategies (Logistics Strategy, the Port Master Plan, the Civil Aviation Master Plan) and would cover other issues such as Passenger Transportation, Transit Oriented Development, energy efficiency and transformation, climate adaptation and resilience, shipbuilding, dredging among others.

⁹⁶ The national logistics strategy, the ports masterplan and the civil aviation master plan would all have a climate lens to ensure climate resilient and sustainable policies and infrastructure. energy efficiency and transformation, climate adaptation and resilience.

⁹⁷ The Nacala Development Corridor (NDC) was originally established in 2000 between Malawi and Mozambique who were joined by Zambia in 2003. The NDC was influenced by the SADC Protocol on Trade (1996) and the SADC Protocol on Transport, Communications and Meteorology (1998). In 2013-2017, after the rehabilitation and construction of new rail infrastructure there was an amendment to the 2000 Corridor agreement to incorporate the concessionaires and financiers in the decision-making process of the NDC organization for improvement of transport and trade operations. The NDCTC has been tasked in revitalizing the corridor.

⁹⁸ The project will support the NTFC and the corridor working groups under them. The NDCTC is expected to develop a plan for sustainability in year five of project implementation.



62. This component will support the NDCTC tripartite process to reduce barriers to trade and investment. Project activities will include to:

(a) **Develop and implement pandemic/climate-related responses to ensure adequate trade flows between the countries.** The COVID-19 pandemic and the Idai and Kenneth cyclones have highlighted the need for the corridors to have operational mechanisms to keep trade (particularly for essential food and medicine) flowing. Government agencies will identify priority products for special handling and tax treatment as needed, support efforts with SADC⁹⁹ to adopt standard operating procedures, and train staff to implement them.

(b) **Remove non-tariff barriers, facilitate trade, and develop value chains between the corridor countries.** Trade regulations and procedures will be streamlined and harmonized through consultancies and technical assistance. This includes assessing, monitoring, and mitigating NTBs, and reducing roadblocks and checkpoints. The project will assist the Ministries of Agriculture and Bureaus of Standards on agreements and implementation of harmonization, equivalence and mutual recognition of standards, tests, and certificates for commonly traded commodities across the corridor. The project will also support the development of an agreed upon simplified trade regime applicable in the corridor for small traders, mostly women.¹⁰⁰ Finally, corridor countries will jointly work on developing value chains with regional potential. Countries will identify crosscutting issues that constrain their development and develop a joint policy and investment action plan to stimulate their development.

(c) **Implement improved transport, transit, logistics and immigration procedures.** In the transport area, project activities will support the harmonization of key transport related policies, laws, regulations and standards across borders (for instance in terms of speed management across the corridor, vehicle standards, fuel efficiency standards, low carbon considerations, enforcement of load control) in line with the Tripartite Transport & Transit Facilitation Program (TTTFP), 2017. The project will support operational improvements in logistics systems, faster turnaround time at destination, increased automation of borders, and increased transit visibility through cargo tracking. Streamlined immigration procedures that encourage trade and tourism will also be implemented.

(d) **Establish a corridor measurement and monitoring system.** The NDCTC will identify corridor performance measures to capture and sign agreements for sources of raw data. Collecting, analyzing, and publishing data on time and cost performance, transport operations including road accidents and fatality, border operations and trade volumes, and climate indicators will be critical to understanding shortcomings and to measuring corridor improvements. Designing the analytical system and developing the software will be a major component of the TA. Once developed, a website will be essential for data dissemination. Printed materials with updated data and analyses of corridor operations will also be prepared.

(e) **Implement the corridor trip monitoring system.** The SADC plans to pilot their vehicle/cargo tracking information system within neighboring countries in mid-2021. Once ready, the system will play a major role in monitoring trip progress, making data available to all corridor management institutions and providing a tool towards introduction of *SMART* corridors. As a result of COVID-19, the system has further been enhanced to provide features to maintain record of driver and crew compliance to medical requirements (for example COVID-19 test certification) and thus facilitate management of safe transit in cross border transport operations. The project will finance its implementation through technical assistance, training and procurement of equipment including ICT and personal digital assistants.

⁹⁹ SADC's procedures aim to reduce the spread of COVID-19 by cargo drivers, set standards for cleaning vehicles during pandemics and establishing a coordination mechanism for disaster risk coordination.

¹⁰⁰ This will include simplified customs forms and an international trade desk at several border posts to assist traders.



63. This component will also finance the operations and staffing for the project implementation units (PIU) within MoTPW in Malawi and MTC in Mozambique. The PIUs will support the ministries in the daily management and implementation of the project in non-infrastructure related activities totaling US\$70 million in Malawi and US\$67 million in Mozambique. In both Malawi and Mozambique, the infrastructure works in components 1 and 4, including rehabilitation of border posts, will be managed by the national roads' agencies. At the road's authority in both countries' specific specialist positions¹⁰¹ will be procured to provide additional capacity while others will be managed by the existing staff at the institutions.

64. This component will finance the implementation of environmental and social safeguards as well as the development, operation, and maintenance of a grievance redress mechanism (GRM) that will allow potential beneficiaries, the wider public, and other stakeholders to raise grievances, as well as respond to those complaints. This will include avenues to report and refer beneficiaries in cases of GBV. The PIU will have regional presence in the areas of focus of the project including on safeguards. The component will also finance steering committees that involve the main counterparts in each country. Activities under this component will support monitoring and evaluation (M&E) efforts including the design and implementation of the Geo-Enabling Initiative for Monitoring and Supervision (GEMS). This component will fund the collection of project data, gender analysis, and sector-based surveys to assess progress against project indicators, as needed. This will include the development of spatial information tools to monitor civil works projects in areas vulnerable to flood and storms. The project will also finance a rigorous impact evaluation to better measure the impact of key initiatives. All activities and data collection will be gender disaggregated.

65. Communications and stakeholder coordination activities during the project will also be financed by this component and managed by the PIUs. These will include (a) development of a comprehensive communication strategy for each project target area, as well as the preparation of all communication materials and, where appropriate, the organization of awareness raising events; and (b) coordination of stakeholder involvement in project activities. Emphasis will be given to the participation of women in these activities, as part of the efforts to address the gender inequality gaps. Relevant sectorial ministries, regional development agencies, and sub-national governments will be key implementing support counterparts.

66. A stakeholder engagement plan has been developed by respective implementing agencies to facilitate inclusive project design considerations and necessary feedback mechanisms that can continuously inform project implementation accountabilities. To ensure a beneficiary-oriented design approach, project preparation entailed a series of workshops and dialogues between beneficiaries, including users of the corridors (traders) and other private sector interests, public officials, trade and transport agencies and other relevant stakeholders. During these consultations, participants deliberated the challenges they face when carrying out trade-related activities and the possible solutions required. These informed the design of specific project components, for example, the design component 3. Furthermore, during implementation, the project will continue to actively engage and increase transparency through the following citizen engagement measures: (a) frequent multi-stakeholder dialogues and in-field consultations; (b) development of a corridor performance measurement tool that will generate publicly available targets that capture users' assessments of corridor improvements; (c) implementing agencies participation in GEMS; and (d) hire a third-party monitoring firm to monitor environmental and social compliance, including sexual exploitation and abuse (SEA)/gender based violence (GBV) bolstering implementing agency capacity to manage respective GRM systems, including handling of complaints and confidential, survivor-centered approach pathways as and when required. Additionally, throughout the project, stakeholders and citizens will be kept well informed and will be able to submit their feedback, suggestions and/or complaints using digitized tools to improve the activities envisaged under the project.

¹⁰¹ At ANE social and environmental specialists and at Malawi's RA social, environmental and procurement specialists will be financed.



Component 3: Strengthen value chains for regional Integration (US\$34 million equivalent (US\$14 million in Malawi¹⁰² and US\$20 million in Mozambique)

67. Component 3 aims to improve the productivity and market opportunities for the private sector, smallholders, and cross-border traders along specific value chains through a regional integration approach. The activities under component 3 are strong contributors to leverage in time and spatial location on the *infrastructure-plus* approach and have an impact on regional integration.¹⁰³ The component's interventions support the economic recovery from the COVID-19 crisis and improve resiliency against future shocks, including those related to climate change. Despite the existing interventions in the two countries supporting agribusiness, none of these has the focus of supporting cross-border traders, producers, and firms in developing a regional lens and integration to their development. This component can help generate private sector investment including with the support of IFC. The areas with strongest potential for private and IFC investment are agribusiness and upstream transport/logistic services for building regional markets.

68. A 'supply and demand' assessment was carried out in preparation of the project, analyzing risk sharing and access to finance programs in value chains in Malawi and Mozambique along the project corridors. This assessment included consultations with the private sector, financial institutions, and program/fund managers, as well as a review of existing programs and interventions that can help in the COVID-19 recovery phase. The activities selected for this component are based on this assessment.

69. The activities will leverage the experience in the region in supporting value chain development including knowledge generated by regional integration studies (for example, Soya regional value chain in Southern Africa) and capacity created through Mozambique Integrated Growth Poles Project's (P127303) Innovation and Demonstration Catalytic Fund (IDCF), a matching grant program that leveraged over 100 percent of its investment.¹⁰⁴ Building on existing capacity, the operational oversight of the activities in component 3 is led by the Ministry of Industry in Malawi and the Zambezi valley development agency in Mozambique.¹⁰⁵ Ongoing efforts under the Malawi Trade Project (IFC 601527) and policy discussions with the governments to provide greater transparency to address trade-related distortions in agricultural markets, in particular effective implementation of the Malawi control of goods act can enlarge over time the impact of the component of regional value chains development.

70. The component will finance upstream investments to generate private sector participation and capacity building for main actors in the targeted value chains through a regional integration lens. The upstream investments and the technical assistance under this component are customized to address the gaps that are critical for developing value chains in the targeted corridors. The component will:

¹⁰² The lower amount allocated to component 3 in Malawi than in Mozambique relates to the complementing programs in Malawi including under the Malawi Agricultural Commercialization Project (P158434)'s productive alliances program that can be leveraged for introducing a regional lens. In Mozambique, the comparable program closed in early 2020 under the Mozambique Integrated Growth Poles Project (P127303).

¹⁰³ Upgrading of value chains and building connectivity infrastructure are preconditions for enabling opportunities for e-commerce. For instance, Taobao villages in China leveraged e-commerce to foster entrepreneurship and create flexible and inclusive employment opportunities, including for women and youth. Rural areas with good infrastructure and good access to markets tend to be most conducive to e-commerce.

¹⁰⁴ Component 3 benefits from the knowledge generated by regional integration studies including the Soya regional value chain in Southern Africa (P169358). It uses lessons from the methodology of the IDCF developed under the Mozambique Integrated Growth Poles Project (P127303), the delivery capacity of the team under the Malawi Agricultural Commercialization Project (P158434), the experience of the UNDP-led Malawi Innovation Challenge Fund MICF and the Growth Accelerator, and the outreach to youth program under the Mozambique Harnessing the Demographic Dividend Project (P166100).

¹⁰⁵ The Ministry of Trade spearheads with the Ministry of Agriculture in leading the Agricultural Commercialization Project in Malawi. The Zambezi Valley Development Agency leads the IDCF in Mozambique.



- (a) **Support public upstream investment including through feasibility studies, bidding documents, and small works that can generate conditions for private-sector investment through a regional integration lens.** The investments to be pursued will typically lead to a PPP model of build-and-operate targeted infrastructures, including logistic centers, warehousing, and wholesale markets that can serve the regional markets. The location and range of the first set of upstream investments has been identified in project preparation.
- (b) **Capacity building for small-scale cross-border traders in organization, as well as management of inventories.** Since women constitute a larger proportion of small-scale cross-border traders, the component will support targeted training of groups of cross-border traders, as well interventions to reduce harassment risks for women traders following the recommendations from recent empirical studies.¹⁰⁶
- (c) **Capacity building for small-scale producers, emerging farmers, and firms.** For small-scale producers and emerging farmers, this component will focus on their organization and price information, through a regional lens, building on experiences in developing agriculture service centers, cooperative development, and outreach. It will coordinate with existing national efforts on agribusiness development. It will focus on opportunities for regional integration. For lead firms in targeted value chains, this component will provide technical assistance to improve their management capacity to serve multiple markets. In Malawi and Mozambique, the (agribusiness) companies' technical and management capabilities, financial knowledge, information about regulations, capacity to manage productive relationships with local communities, and comply with safeguards, lag the standards in nearby countries such as Zambia, Zimbabwe, and South Africa.
- (d) **Technical assistance to improve access to finance, including through value chains financing.** The project will provide technical assistance to banks and microfinance institutions to develop innovative financial solutions that can support potential opportunities for regional integration. This component will provide capacity building in developing agriculture insurance, financial technology solutions to agribusiness, ways of improving credit scoring mechanisms, support for long-term finance, integrating gender in their operations¹⁰⁷, and financing through value chains with the objective of supporting those operating in the corridors. These activities were identified under the demand and supply assessment conducted during project preparation. Such financial sector solutions are currently not available at scale. Financial institutions can, however, introduce them following this technical assistance.

71. In addition to supply-side interventions, the component will fund demand-driven risk-sharing solutions, as follows: (a) matching grants to aggregate market players and smallholders/firms with a regional integration and export orientation approach; and (b) innovation grants in value chains with a regional integration lens. The objective is to increase access to markets for local producers in selected value chains along the targeted corridors through improved capacity, productivity, quality standards, logistics, typically in partnerships with lead firms. The financing provided under this component will support equipment, trainings, and irrigation/warehousing systems.¹⁰⁸ The grants will include technical assistance to producers to ensure a level playing field with lead firms during implementation of subprojects.

¹⁰⁶ Croke, Garcia Mora, Goldstein, Mensah, O'Sullivan. 2020. *Up before Dawn: Experimental Evidence from a Cross-Border Trader Training at the Democratic Republic of Congo–Rwanda Border*. World Bank. Report No. WPS9123.

¹⁰⁷ This will build on the knowledge generated by the ongoing Mozambique Women Entrepreneurs Finance Initiative.

¹⁰⁸ In addition to the direct support to agribusiness, the component will seek to expand these risk sharing solutions to proposals in complementary areas along the corridors, especially to drive new capital investment on logistics development towards regional integration. This may include, *inter alia*, support for establishing logistics cold chains (including in the Beira Corridor through linkages to airfreight); upgrading silos and assign warehousing management contracts (leveraging on public infrastructure that is underused); expanding financial services to improve logistics; developing tourism-related value chains in connection to opportunities in the Ponta do Ouro corridor; and developing aggregation points including dry ports connected to transport and port infrastructure.



72. The following value chains are expected to be priority for this project given their incidence and potential, as well as their current level of regional integration and export potential: soya, maize, poultry, sugar, pulses, groundnuts, coffee, tea, macadamia, cotton, cashew, and fruits and vegetables.

73. The matching grants program will expand to regional development the experience in Mozambique on successfully implementing programs that support medium-size firms in working together with smallholders. The matching grants are planned to be in the range of US\$50,000-US\$500,000 requiring that a minimum of 50 percent of the benefits are transferred to the smallholders through equipment, capacity building, and irrigation/warehousing systems. The proposals have higher chance of selection the larger the private sector contribution but follow a flexible range as per the best evidence of what works with matching grant programs. The selection involves investment committees comprising private and public sector members, among several other features that ensure transparency and fair allocation of the funds available. Experienced independent teams (one in each country) are being used to help manage the risk-sharing solutions. The support includes fund management, technical expertise, consulting services to help develop proposals, financial management support, and safeguards instruments to be developed with subprojects. All the details of the design are to be described in the grant manual. Using the best criteria from successful programs in the countries, the selection criteria follows objective and quantifiable criteria, including a combination of technical viability, financial viability, regional integration lens (products with potential for selling regionally), market orientation, safeguard compliance, value addition, impacts, and not creating distortions in the market. All implementation of the matching grants will be required to apply climate resilient standards. Participating farmers' organizations will be required to have a 50 percent share of women participation.

74. Similarly, the planned innovation grants build on the experience in the countries in developing these programs successfully.¹⁰⁹ The innovative grants build among others on the experience in Malawi under the UNDP-led Malawi Innovation Challenge Fund and the growth accelerator to support through a competitive process proposals that support innovation. This component will focus on innovations that can expand regional development including through the development of new processes, high-productivity practices with the objective of reaching new regional markets, new market access solutions, digital platforms, among others. All implementation of the innovation grants will be required to apply climate resilient standards. All the details of the design are to be described in the operations manual. The innovation grants will leverage on similar teams of fund management and technical assistance as the matching grants. The selection will follow a business competition approach with an independent jury with multiple members scoring anonymized proposals using standard criteria including technical viability, financial viability, regional integration lens, market orientation, and safeguard compliance.

75. Proposals with a significant gender lens strategy will score higher in the selection processes for both the matching grants and the innovation grants. While women are highly present in agriculture production in both Malawi and northern/central Mozambique¹¹⁰, female-headed households have typically lower yields¹¹¹ and lower access to inputs. In a recent study in the region, female-headed households are estimated to sell 28 percent of the value of their production, while male-headed households sell 45 percent of the value of their production, implying a gender gap of 17 percentage points associated with women having lower production of market-oriented crops. The project will seek to

¹⁰⁹ For further discussion on models of implementing matching grants and business plan competitions, see: World Bank. 2020. PAD3254 - Harnessing the Demographic Dividend Project (P166100).

¹¹⁰ Over 60 percent of the agricultural workforce is female, and more than 80 percent of the female workforce is in agriculture. (HD Indicators, 2020).

¹¹¹ The gender gap in agriculture yields between female and male-headed households is estimated at 27 percent in the region of focus of the project. Boxho, Campos, Montalva, and Ploen. 2017. *Enhancing Women's Market Access in Agribusiness in Mozambique*. World Bank. Report No. 124823.



reduce this gender gap by integrating women in the regional value chains supported.¹¹² This component will monitor the gender disaggregated results, and in particular the reduction of the identified gender gap in share of production sold.

Component 4: Strengthen transport infrastructure to improve market access, US\$190 million equivalent (US\$65 million in Malawi; US\$125 million in Mozambique)

76. Significant gaps remain in transport infrastructure despite recent investments in roads along the targeted corridors. The gaps include anchor roads that connect economic production centers with the corridors' roads and rail and in Malawi some rehabilitation of corridor roads. Poor connectivity to major economic and production centers makes it difficult to export agricultural and agro-processing products. Enhancing transport infrastructure will improve access to markets and reduce the cost of transport, complementing with necessary infrastructure the value chain support under component 3 and trade flow facilitation support in components 1 and 2 of the project.

Sub-component 4.1: Roads, US\$167 million (US\$57 million in Malawi; US\$110 million in Mozambique)

77. The main objective of this sub-component is to enable value chain development by upgrading key roads in areas with increased economic activity along the Nacala corridor. This sub-component will finance upgrade, rehabilitation and maintenance of key corridor roads and anchors to economic centers¹¹³ in selected districts/provinces in both Malawi and Mozambique. This will include design studies and supervision activities.

78. In Mozambique, the project has identified priority roads in the Nacala corridor (see Table 5 and Figure 7).¹¹⁴ A tool developed by the World Bank in partnership with the roads agency *Administração Nacional de Estradas* (ANE) was used to prioritize these investments. The tool used a set of criteria to determine what types of roads are crucial for enabling more trade on the corridor, including: distance to aggregation centers, economic activity, existing road projects, proximity to potential agriculture, the poverty rate of adjacent districts, and climate focused on the degree of flood risk. The prioritization tool also increased the weighting of economic indicators with potential for trade and incorporated estimated traffic forecasts and potential for agricultural growth in the targeted value chains.

¹¹² Boxho, Campos, Montalvao, and Ploen. 2017. *Enhancing Women's Market Access in Agribusiness in Mozambique*. World Bank. Report No. 124823. This study in the project area showed that the share of women farmers that received information from extension services was half of the men in the same communities. It also showed that less than 5 percent of women belonged to farmers' associations and had signed agricultural loans. Men had double these rates of participation.

¹¹³ These economic centers either aggregate production from rural farms in the area, have established agro-processing industries, and/or disaggregate inputs for farms and firms.

¹¹⁴ The road rehabilitation will only focus on the Nacala corridor. Beira corridor roads are being financed through the Mozambique Emergency Resilient Recovery Project (P156559). The road to Ponta do Ouro has recently been upgraded and rehabilitated.



Table 5: Priority roads identified in Mozambique

Nr	Priority Roads identified in Mozambique						
	Roads Rehabilitated	Road Number	District	Province	Km	Type of Pavement	Type of Contract
1	Rapale - Mecuburi	(R696-8006), (R696-8163)	Rapale/Mecuburi	Nampula	55	DBST, LVSR	OPRC/PBMC
2	Connection to Iapala	(R1170)	Ribauè	Nampula	38	Gravel	OPRC/PBMC
3	Namialo - Imala	(R1156-8893), (R1156-8894)	Meconta/Muecate	Nampula	55	Gravel	OPRC/PBMC
4	Nampula - Corrane	(R687-T8090), (R686-T8123), (R686-T8122)	Nampula City/Meconta	Nampula	51	DBST	OPRC/PBMC
5	Cuamba - Metarica	(R360)	Cuamba/Metarica	Niassa	67	DBST	OPRC/PBMC
6	Cuamba - Insaca	(R720-T1012), (R720-T1013)	Cuamba/Mecanhelas	Niassa	86	LVSR, DBST	OPRC/PBMC
	TOTAL				352		

Figure 7: Priority roads identified in Mozambique (purple)



Source: ANE

79. Upgrading of roads in Mozambique will be based on paving solutions as per the Systematic Paving Decision (SPADE) analysis.¹¹⁵ The project applied a SPADE model, which is a multicriteria analysis based on socioeconomic and engineering factors to decide on the type of paving solutions to be implemented. The project will adopt the Performance Based Contract (PBC) approach to implement the upgrading and maintenance works in Malawi and Mozambique. Under the PBC approach, the contractor is responsible for final designs (an incentive to innovate), executing the initial upgrading works to bring the road to the desired standard and then maintain the asset over the contracted period to ensure agreed performance standards. The approach shifts the planning and delivery risks from the owner to the contractor as the owner's specifications focus on what is to be achieved rather than how to achieve it.

¹¹⁵ The preliminary design of all identified roads is complete. ANE is currently hiring consultants to prepare the bidding packages, which aim to be ready by October 2021 for procurement (NCB). The contractors are expected to be selected by April 2022, with civil works starting in summer of 2022.



80. In Malawi, the roads authority (RA) intends to develop a road asset management strategy, including a comprehensive and prioritized road maintenance and rehabilitation plan, in which investments shall be prioritized through a multicriteria analysis system or tool based on strategic, social, economic, technical, environmental, climate resilience, poverty aspects and agricultural production potential.¹¹⁶ This component will support development of a spatial tool for road prioritization that considers the network criticality, daily traffic, poverty rate in adjacent districts, proximity to potential agriculture cluster, and location of agri-businesses and that is in line with the NTMP. In particular, the RA has conducted road and traffic surveys that will be used for building this prioritization tool. A climate vulnerability assessment would also contribute to the development of the road asset management strategy.

81. Road assets in Malawi will be enhanced by climate resilient design guidance, as well as consideration of any trenching, ducting and utility access for potential fiber optic installations.¹¹⁷ Consultant services will be engaged by RA to finalize feasibility and detailed engineering design studies including preparation of the associated environmental and social impact instruments, as well as bidding documents, and supervision services. This sub-component will also finance workshops and trainings expected to sensitize construction industry practitioners on PBC for upgrading and maintenance, including potential South-South learning opportunities within Africa to demonstrate new approaches to asset management. Attention will also focus on national expectations and regional industry commitments to better manage environmental and social risks by elevating ownership of environmental, social, health and safety performance in the preparation of bids and in the execution of civil works. They will also serve to further deepen on-going development of effective GRMs that are grounded in cogent mitigation strategies for handling of GBV/sexual exploitation. In Malawi this sub-component will provide resources for RA to further operationalize and maintain a grievance redress mechanism to respond to grievances, including the hiring of a service provider to support prevention and response to SEA/GBV.

82. Finally, this sub-component will also finance a third-party monitoring firm in Mozambique to monitor environmental and social compliance including on SEA/GBV, citizen engagement and selected indicators. In Malawi, this firm will report to the MoTPW and is financed under component 2.

Sub-component 4.2: Improve Road Safety, US\$23 million (US\$8 million in Malawi; US\$15 million in Mozambique)

83. The project will help to improve road safety along the corridors. Both Malawi and Mozambique face large numbers of annual road fatalities, with the cost of deaths and injuries amounting to 10 percent of GDP annually.¹¹⁸ Ensuring smooth operation of the targeted corridors as such must include investments to improve road safety.

84. The following activities are designed to promote cross-country and regional synergies:

- (a) **Safer road users: safe school program.** As a regionally focused, corridor initiative, the project intends to conduct a pilot of the International Road Assessment Programme (iRAP) Star Rating for Schools (SR4S) program¹¹⁹ in both Malawi and Mozambique. The objective of this initiative would be to assess the participating school's risks and bring the iRAP star rating at least 3 stars (where 1 is the least safe and 5 is the

¹¹⁶ This systematic process of road prioritization is anticipated to be coordinated through a Quality Infrastructure Investment grant associated with the Southern Africa Trade and Transport Facilitation SATTF Program - Phase 2 (SATTFP SOP2) (P145566).

¹¹⁷ Road selection is ongoing, and selection should be completed within first year of implementation.

¹¹⁸ World Bank. 2019. *Guide for road safety opportunities and challenges: Low- and middle-income countries country profiles*. World Bank. Report No. 145961.

¹¹⁹ The SR4S is the first ever evidence-based tool for measuring, managing, and communicating the risk children are exposed to on a journey to school. It is an easy-to-use, low-cost application that harnesses the power of the iRAP Star Rating for pedestrians and combines a mobile app with a global reporting web application. The SR4S supports awareness of risk and physical interventions (small scale works) that save lives and prevent serious injuries for pupils/students.



safest school) by addressing the problematic areas through physical improvements (speed humps, pedestrian crossings, speed management traffic signs, and so on.) at school locations, which will be accompanied by road safety education and awareness campaigns.

- (b) **Safer vehicles and safer road users.** The transport sector plan for the SADC Regional Infrastructure Development Master Plan (2012) calls upon member states to effectuate coordinated traffic control and enforcement programs for overloading control, speed management, driver alcohol abuse, and vehicle safety and documentation. Project activities are designed to facilitate implementation of SADC policies for road and corridor management. A sub-component will finance (i) construction of a semi-permanent weighbridge station along the Nacala corridor in Liwonde, in Machinga district (Malawi) to screen the goods vehicles with regards to overloading; and (ii) procurement of a multi deck scale for a new weighbridge station between Mwanza and Blantyre (as part of the plans for relocation of the current Mwanza Border)¹²⁰ to facilitate a once off weighing of the vehicles at a station. Targeted enforcement campaigns along the corridor will aim to ensure corridor speed limits are maintained. Four double cabin vehicles and 10 new speed cameras (increasing Malawi's Directorate of Road Traffic and Safety Services (DRTSS) total inventory to 33 cameras) will be procured for DRTSS, which will be used to patrol the corridor. DRTSS officer training on road traffic and safety management enforcement will also be undertaken before and throughout campaigns to curb unsafe driver behavior.
- (c) **Collection of crash data following African Road Safety Observatory (ARSO)¹²¹ endorsed minimum datasets and data sources in both Malawi and Mozambique.** The project will support the collection and reporting of up to 25 indicators as endorsed by the ARSO member states. The project will finance production and printing of new crash reporting templates; IT equipment (computers and printers) for the police to consolidate the data received; training of police officers and hospital staff on the new reporting template, and the definition of indicators. In Malawi, DRTSS is in the process of deploying the data for road incident visualization, evaluation, and reporting platform, which is designed to capture the ARSO data requirements that will facilitate Malawi's accident and fatality reporting.

85. Country-specific road safety initiatives will include:

- (a) **Safer roads and mobility. Black spots improvement program in Mozambique.** The project will finance a black spot improvement program along the Nacala corridor in Mozambique where the traffic police have identified eight black spots with a high concentration of crashes.¹²² The project will undertake an IRAP assessment of the entire Nacala corridor and support the traffic police, Instituto Nacional de Transportes Terrestres (INATTER), the Ministry of Public Works, and ANE with prioritization and costing of these black spots, and preparation of detailed designs, execution of improvement works for a selected number of priority black spots, as well as technical supervision.
- (b) **Road safety management and institutional capacity building. Development of a national road safety strategy and an action plan.** In Mozambique, the project will support the government with the preparation of the new national road safety strategy and as well as a road safety action plan to accompany the strategy.

¹²⁰ A proposed site has not yet been identified but expected to within the first year of project implementation.

¹²¹ <http://www.africanroadsafetyobservatory.org/>

¹²² Black spots are specific locations prone for high number of crashes. Crashes may occur for a variety of reasons, due to the poor geometry of the road within sections, unfortunate environmental factors, lack of traffic signs, lack of adequate lighting at night; lack of road shoulders, inappropriate sight distance; lack of guard rail and passage of animals across the road; lack of interchanges at residential areas, and others.



These policy documents should be developed with safe system approach at its core.

- (c) **The project will invest in the professional development and training of key road safety stakeholders in Malawi and Mozambique.** It is suggested to focus the professional development on the safe system approach to road safety, road safety audit¹²³, data collection protocol, data analysis system, black spot identification, design of remedial measures and commercial driver training programs.
- (d) **Safer vehicles. Vehicle inspection.** In Mozambique, the project will finance a comprehensive assessment of vehicle inspection systems and stations. This assessment has been prioritized by SADC at the regional level and would help the government of Mozambique understand the links between vehicle safety and environmental sustainability, particularly regarding emissions and fuel consumption, as part of a wider climate change agenda. The assessment would include three parts: (i) periodic, ongoing inspection of in-use vehicles; (ii) certification systems for first use of a vehicle within the country; and (iii) training/capacity/institutional development needs to develop and/or strengthen these systems. This assessment will also review and develop recommendations on a scrapping process for out-of-use vehicles, spare parts, and tires. It is common in Mozambique to reuse spare parts and tires above and beyond the duration of their functional useful life, this compromises vehicle safety in a major way.
- (e) **Safer speeds.** In Mozambique, the project will finance the development of an integrated speed management plan for the Nacala corridor based on the road safety audit/IRAP assessment to be conducted. The plan will include low-cost infrastructure changes (including lower speed limits supported by engineering to bring speeds down, well-designed speed humps and roundabouts, raised platform crossings, gateway treatments, other measures as appropriate) where necessary, dedicated police enforcement, combined with public promotional campaigns related to the consequences of enforcement. The project will also finance an assessment of Mozambique's readiness to introduce speed cameras and address any issues this process identifies in order to introduce speed cameras broadly around the country and dedicate the net fine revenue to road safety.
- (f) **Preparation of future road safety projects.** In Mozambique, this sub-component will finance preparation of future road safety projects, including iRAP assessments of other corridors, development of a post-crash response pilot; introduction of a graduated driver licensing system, preparation of black spot improvement programs in other corridors, and so on).

¹²³ An RSA is a formal, robust technical assessment of road safety risks associated with road transport projects. The objective of an RSA is to identify foreseeable hazards for all road users. The RSA process provides a reasonable, but not absolute, hazard identification method for all road users with focus on the reduction in fatal and serious injuries. RSAs (a) are completed by independent and qualified audit teams; (b) are completed by applying Safe System principles while seeking to ensure that roads will operate as safely as practicable by eliminating fatal and serious injury crash potential; (c) consider the safety of all road users (unless specified within the audit brief), and (d) can be conducted on proposed or existing roads (Austroads. 2019. "Guide to Road Safety Part 6: Managing Road Safety Audits.").



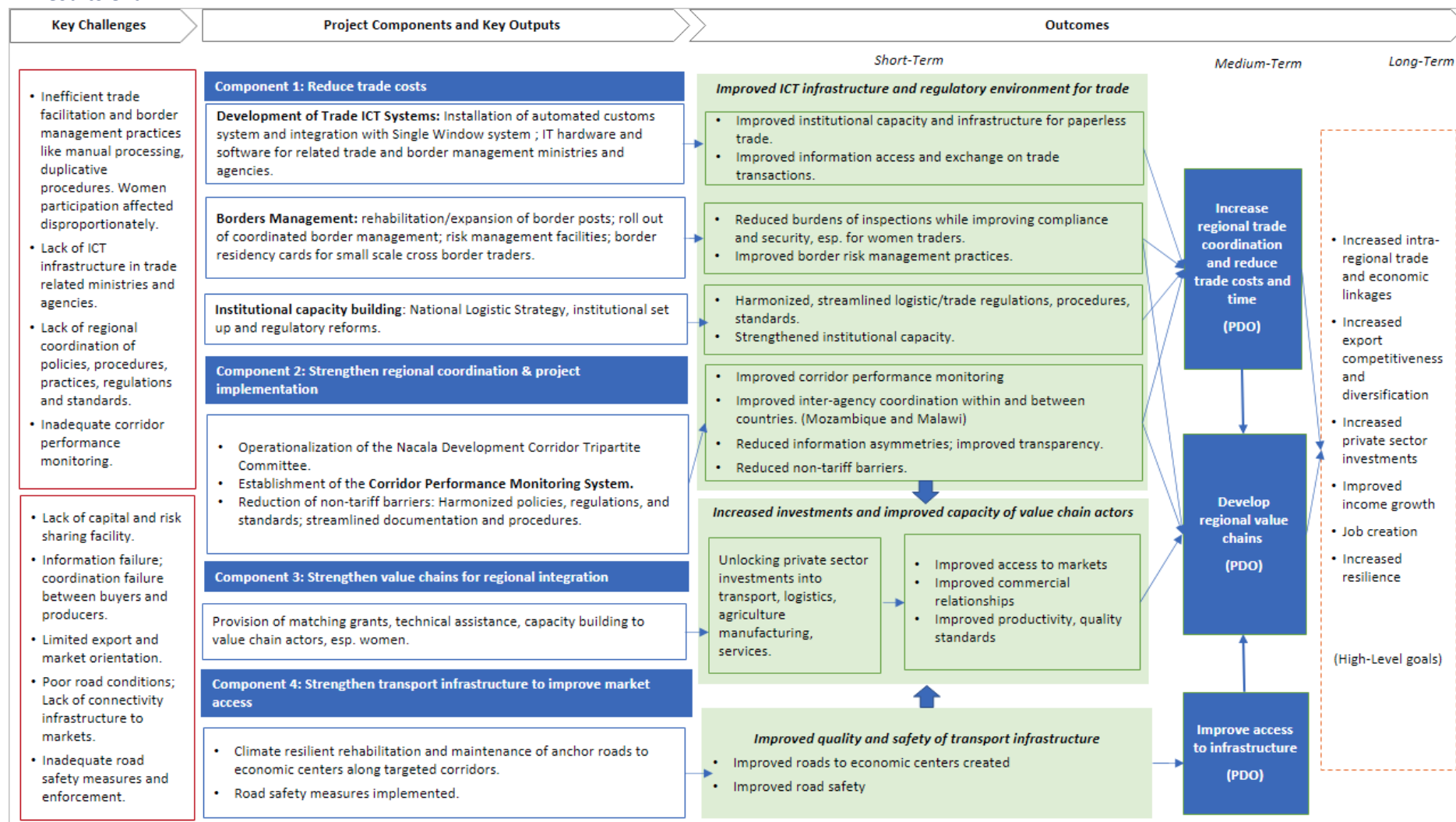
C. Project beneficiaries

86. The project will help improve access to economic opportunities for the local populations along the targeted corridors. The north and central parts of Malawi and Mozambique, where the poverty levels are the highest, and the region near Ponta do Ouro will benefit most. The project will ensure that youth and women are well represented among its beneficiaries. Specific beneficiaries per project component include:

- **Component 1 beneficiaries.** Traders, importers, exporters, and MSMEs. Small scale traders who frequently cross the border to access markets will benefit from border residency cards. The digitalized border posts will increase revenue collection for the governments.
- **Component 2 beneficiaries.** Government agencies represented at the NDCTC. The private sector will gain from greater collaboration and feedback loops established with regulators.
- **Component 3 beneficiaries.** Participants along value chains, including producers, processors, buyers, consumers, (women) traders, and financial institutions.
- **Component 4 beneficiaries.** Road users who are engaged in economic activity in the two countries, including those supported in component 3. There are shorter-term benefits to employment in the context of COVID-affected populations. The road safety initiatives are also expected to reduce fatalities for road users.



D. Results Chain





E. Rationale for Bank Involvement and Role of Partners

87. The World Bank brings its unique convening power to support the corridor development agenda, ensuring that policy reform accompanies both public and private investment. The World Bank can leverage and complement existing programs including those managed both by the WBG and development partners. The World Bank has previously demonstrated technical leadership in corridor projects across the continent. A corridor approach will allow supply chain constraints to be addressed through a regional lens, enabling spillovers that bring additional economic benefits. The World Bank can help reduce coordination failures through investments in building and strengthening institutions to ensure strong articulation among government agencies at the national and regional level, as well as catalyzing participation between the public and private sectors. The NDCTC has recently advocated for better government coordination of infrastructure investments along the Nacala corridor, involving all three corridor countries. Meetings in Lusaka in February 2019 and Lilongwe in September 2019 culminated in the development of a draft action plan, a revised Trilateral Railway Agreement, a draft Trilateral Road Transport Agreement, as well as a new institutional arrangement, much of which was supported by the World Bank in partnership with the United States Agency for International Development (USAID).

88. The World Bank is working closely with the Governments of Malawi and Mozambique in their efforts to reduce poverty and promote economic growth. The country teams recognize the importance of regional integration for Malawi, a landlocked country whose growth is ultimately dependent on how its private sector can trade to build competitiveness, and for Mozambique, whose northern region's poverty reduction efforts need a sustained focus on trade not just on global markets but also its regional partners. The World Bank has also engaged with other development partners, particularly African Development Bank (AfDB), Foreign, Commonwealth and Development Office (FCDO) (previously Department for International Development (DFID)), the European Union (EU), the Japan International Cooperation Agency (JICA), TradeMark East Africa (TMEA), and USAID, many of which have previously supported the corridor agenda and some of whom will have new engagements that will complement the bank operation.

89. The project will learn from existing experience in Malawi and Mozambique on GBV prevention and response. In Mozambique, the mitigation and response strategy will be linked to the gender coordination group, which connects most of the multilateral and development partners, and has expanded its membership to civil society and to the multisectoral mechanism on integrated response for women victims of violence. In Malawi, the project will learn from other World Bank projects which have recruited GBV service providers and are collaborating and networking with civil society organizations and various government departments at community, district and national levels, including the Malawi Ministry of Gender Children, Disability and Social Welfare. In both countries, active coordination will take place with bilateral donors with experience on GBV such as USAID.

90. This project has strong linkages with other WBG projects in Malawi. The Agricultural Commercialization Project (P158434) aims to increase the productivity of selected agriculture value chain products, which complements well the regional integration approach of component 3 of this project. The project also leverages the Financial Inclusion and Entrepreneurship Scaling Project (P168577), which seeks to increase financial inclusion and access to finance opportunities for MSMEs. Additionally, the Second Phase of the Southern Africa Trade and Transport Facilitation Program Project (P145566) seeks to facilitate the movement of goods and people along the North-South corridor and at key border crossings in Malawi, whilst supporting improvements in road safety and health services along the corridor. Component 4 will build on this. Recognizing the political economy challenges, the project has been working jointly with the Malawi Governance to Enable Service Delivery Project (P164961) to address political economy constraints in the transport sector. The project also benefits from the Digital Malawi project to improve connectivity and develop capacity for digital service delivery in the cross-border trade sector. Finally, the project will build on an ongoing ASA to strengthen competitiveness



and develop mechanisms for regional coordination and private sector engagement in the soya regional value chain in Southern Africa (P169358).

91. The proposed project directly complements and adds to several related projects in Mozambique. In Northern and Central Mozambique, component 3 builds through a regional lens on the work of the Integrated Growth Poles Project (P127303) which concluded in April 2020. Additionally, the Mozambique Integrated Feeder Road Development Project (P158231) improves road access in selected rural areas to enhance connectivity to markets, ports, and other economic and social services, a focus shared with the proposed project. The project also links with rural and recovery development projects in Mozambique, including *Sustenta* (P149620/P168940), the second phase of Mozambique Conservation Areas for Biodiversity and Development (P166802), the *Terra Segura* project (P164551), the Economic Linkages for Diversification Project (P171664), the Digital Governance and Economy Project (P172350), the Cyclone Idai and Kenneth Emergency Recovery and Resilience Project (P171040). Finally, the project builds on recommendations from the Sub-National Doing Business Project (P164666), which measured the efficiency of several ports and border posts, the Mozambique Country Private Sector Diagnostic/CPSD (IFC Investment Climate Project IFC603043), and the Enterprise Survey analysis (P164659).

92. The COVID-19 pandemic presents unprecedented challenges and addressing these issues will require a flexible and adaptive response to minimize likely disruption. The World Bank experience throughout the world can be very important in this process. Internal trade blockages, logistics breakdowns, and market distortions witnessed during COVID-19 initial phase raised prices and caused shortages because of higher trade costs. Reducing trade costs becomes even more essential in this context, because COVID-19 impacts input costs including fertilizer. Keeping borders open and safe and digitalizing processes at the border (reducing manual and duplicative procedures) increase both countries' abilities to deal with social and economic challenges of COVID-19. In the next year, efficient trade procedures will be critical in the import of essential food and medicines. Based on extensive consultation with the governments and technical work, the project activities have been re-prioritized to allow for targeted action and greater flexibility as the situation continues to evolve (see Box 1).



Box 1: How SATCP activities are being adapted to COVID-19

Component 1. To establish a resilient trade facilitation system for climate and health emergencies, support will be provided to keep borders open during the crisis while modernizing border practices, policies, procedures, systems, and facilities for the future. The project will fund ICT readiness and ICT infrastructure for remote work from both the policy and procedural perspectives such as strengthening online appointment systems, websites for trade related information, policies for flexible work hours, enable a paperless transactions system and an efficient import process for essential items. This will especially be useful for small-scale cross border traders including women traders. The use of GEMS will assist in providing real-time, on-site information on project locations, providing visibility to environmental, social, health and safety assurances.

Component 2. The NDCTC supported under the project can provide a platform to respond to specific measures that, during the pandemic, might be construed as non-tariff barriers. The forums can also be used to develop standard operating procedures for future emergencies and pandemics. The countries held the virtual fourth tripartite meeting to continue working on regulatory and policy issues, especially one-stop border posts. An interim secretariat is needed to ensure that goods move smoothly and there is effective communication and coordination amongst the countries as the situation on the ground unfolds. The project will also implement the SADC's corridor trip monitoring system for vehicle/cargo tracking, which has been enhanced to provide features to maintain record of driver and crew compliance to medical requirements (for example COVID test certification) and thus facilitate management of safe transit in cross border transport operations.

Component 3: Firms can use the grant mechanisms provided to ensure they have access to additional capital for recovery from the pandemic and invest to reach new markets. Digital solutions will also be promoted to connect regional trade. This builds on the evidence in the region and elsewhere of best mechanisms of overcoming the impacts of COVID-19 on existing firms. With closure of firms at less than 5 percent for now in these countries, building activities for the recovery phase that can expand markets in the region is critical. In addition, for smallholders and especially cross-border traders, the project will include in their capacity building elements of health and safety to ensure they can continue to operate within social distancing. The financial institutions are also being encouraged through the technical assistance under the project to prepare solutions to clients with COVID-19 orientation. Third party monitoring as well as use of local members of communities to track data (disaggregated by gender) will inform the M&E of the component.

Component 4: Transport investments will directly stimulate jobs and growth to speed up the economic recovery from the pandemic. Across all project activities, there are potential challenges to meeting the implementation schedules. The project will proactively put in place mitigation measures to avoid or minimize the risk of infection, and likely delays in project implementation for construction/civil works, movement of personnel, strengthen contractual obligations for occupational health and safety, and monitoring/compliance. Workers will be encouraged to use the existing project grievance mechanism to report concerns relating to COVID-19. Preparations are being made by the project to address COVID-19 related issues, how procedures are being implemented, and other concerns about the health of all staff.

93. The project builds on related interventions being conducted by other development partners which address trade, infrastructure, private sector participation, regulatory, and coordination challenges. USAID, through its SPEED+ program has undertaken analyses of the Beira and Nacala ports (and corridors) that serve as critical background documentation for this project and provided trade facilitation support. JICA has also developed a comprehensive approach to regional development with strategies for the Nacala Corridor Region and has contributed to upgrading and rehabilitating several roads along the corridors. The recently launched COMESA-EAC-SADC TTTFP, supported by the EU, provides legal, regulatory and technical support to countries along eight regional corridors, including the Nacala and Beira Corridors.¹²⁴ The FCDO including with TMEA is also developing a new program on trade integration in the region. A full listing of these programs can be found in annex 7.

F. Lessons learned and reflected in the project design

94. The project reviewed several relevant past and ongoing projects by the World Bank and other development partners to draw on lessons. Insights, including from the World Bank Africa Regional Integration and Cooperation Assistance Strategy on how to tackle regional integration projects, were integrated into project design. Lessons were also drawn from country-specific strategic documents and IEG reports.

¹²⁴ See COMESA-EAC-SADC. 2017. "COMESA-EAC-SADC launch the TTTFP during the First Meeting of Tripartite Sectoral Committee of Ministers of Infrastructure in Dar es Salaam." Press Release, October 26, 2017, Dar es Salaam.



95. IEG's trade facilitation evaluation¹²⁵ highlights the importance of promoting an approach of complementary (simultaneous and/or sequential) interventions, substantiated by consistent diagnostics. Success in implementing and sustaining complex reforms requires continued and coordinated engagement over time, as well as careful attention to political economy challenges. Therefore, better outcomes are generally achieved when countries are supported through an integrated approach, including advisory and lending. For example, several areas of trade facilitation reform (such as agency support, border function, and technology and rules development) are mutually complementary. In addition, continued support over time is important. In Malawi, apart from the SATCP, the SATTFP (P145566) and the Malawi Trade Project (IFC 601527) both support the government on trade facilitation and transport investments. Similarly, in Mozambique, the project builds on the experience with the IDCF, and complements the Mozambique Integrated Feeder Road Development Project (P158231) and the Smallholder Irrigated Agriculture and Market Access Project (P164431).

96. Lessons from previous regional projects in east and southern Africa have also been integrated into the design.

These include:

- **Collaboration.** Stakeholder ownership, coordination, and collaboration are required from the outset. This needs to include a wide variety of stakeholders operating at the local, provincial, national, and regional level and across public and private sectors and development partners.
- **Coordination.** Programming on trade is multi-sectoral, requires intense coordination with numerous ministries and agencies, and is best channeled through a corridor approach.
- **Regional ownership:** A regional institution (that is NDCTC) needs to coordinate, plan investments, conduct joint policy dialogue, and monitor the implementation plan. Further, this regional institution must update the relevant SADC committees and members and seek to implement the regional agenda agreed by SADC to ensure regional policies are implemented consistently.

97. The project's strategy to mitigate and respond to cases related to SEA is based on local context and lessons of international experience. Since knowledge on SEA in the context of a linear transport project is evolving, the project retains flexibility to incorporate future adjustments as may be necessary during the implementation phase. The project will benefit from international best practice, including the recommendations from the *good practice note addressing SEA and SH in Investment Project Financing involving major civil works* and the interim technical note on *Grievance Mechanisms for SEA and Sexual Harassment in World Bank-financed Projects*. It will also consider the lessons from ongoing projects, such as the Mozambique Integrated Feeder Roads Development project and Malawi SATTFP (Karonga-Songwe border), which have been recognized for their robust approach in their SEA/SH mitigation and response. Some of the key elements to consider for appropriate response to survivors is to have an assessment of care seeking behaviors to ensure that adequate entry points to respond to violence are well defined and contemplated within the mapping exercise; to identify ways to bring services closer to survivors, for example by training community groups on psychological first aid, as main formal services are normally far from community, and to enhance as possible the capacity of formal services so that the project can contribute to the development of a more sustainable response strategy.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

98. PIUs were established in both countries within the Ministries of Transport and the respective Road Authorities. The Road Authority (RA) in Malawi, the *Fundo de Estradas* (Mozambique's Road Fund) and the *Administração Nacional*

¹²⁵ Independent Evaluation Group. 2019. *Grow with the Flow: An Independent Evaluation of World Bank Group Support to Facilitating Trade 2006-1*. WBG.



de Estradas (ANE, Mozambique’s Road Authority), and the Ministry of Transport in Mozambique have experience in implementing World Bank-financed projects. In both countries, the Road Authorities are responsible for the implementation of infrastructure (roads, border posts, and inland examination centers), while the Ministries of Transport are responsible for fiduciary arrangements related to the non-infrastructure components of the project. The Road Fund Administration (RFA) in Malawi and the MTC in Mozambique operate a Designated Account (DA) for project preparation activities (PPA). The National Road Fund (*Fundo de Estradas*), a quasi-government entity in Mozambique is the lead implementing entity for the implementation of infrastructure components under the project¹²⁶. The financing for the infrastructure components will be made available to National Road Fund (lead implementing agency) under a subsidiary agreement, and it will exercise fiduciary responsibility for financial management, auditing of project resources and coordinating with ANE (Mozambique’s Road Authority), another quasi-government entity through a Cooperation Agreement. ANE will be the executing agency or implementor to undertake procurement and contract management related to construction of roads and border posts as in past World Bank Projects¹²⁷. In Malawi, the Road Fund Administration (RFA) and the Malawi Roads Authority (RA) are quasi-government entities where the RFA is responsible for the collection of road levies and administration of public funds for the improvement of public roads in Malawi and RA is responsible for ensuring that public roads are constructed, maintained, or rehabilitated. Under the project, the RFA will be responsible for financial management and the RA will be responsible for procurement and contract implementation for the infrastructure components under the project as in past World Bank projects¹²⁸. The PIUs in the RA are operational, building on existing projects. The PIUs in the Ministries of Transport require at least a coordinator, a social safeguards specialist, an environmental safeguards specialist, a procurement specialist, a financial management specialist, M&E specialist, and technical experts. The Ministries of Transport are experienced in working with multiple agencies supporting the oversight of individual activities and they will setup technical oversight committees with designated lead agencies for the project (see annex 1). In component 3, the project includes further technical advisory teams comprised of program manager, technical lead, financial management specialist, safeguards specialist, and communications specialist. The oversight in component 3 will be completed through the government agencies in value chain development. The section on “Risks for Institutional Capacity for Implementation and Sustainability” discusses the capacity of the implementation units and measures to strengthen it.

99. The funds per country will be managed by the PIUs as follows:

Table 6: Project size per implementing agency/country

	Malawi	Mozambique
Roads Authorities (RA, ANE/Fundo Estradas)	US\$ 74 million	US\$ 182 million
Ministries of Transport (MoTPW, MTC)	US\$ 76 million	US\$ 48 million
	US\$ 150 million	US\$ 230 million

100. In Malawi, both the Roads Authority and the MoTPW are members of the Corridor Transport Development Management Committee (CTDMC), an interagency working group for transport, logistics, and corridor development. The CTDMC has been established under the NTFC. The NTFC is a 20-member body comprising public, private and civil society institutions related to trade facilitation that was established in 2015. CTDMC members include key stakeholders who impact policy, procedures and investments along the corridors including the Ministry of Agriculture, the Immigration

¹²⁶ In Mozambique, the Project Agreement with the World Bank has been signed with the National Road Fund while in Malawi it has been signed with Malawi’s Road Authority.

¹²⁷ As such ANE is referred to the implementing agency in the PAD. For example, of previous World Bank project see Integrated Feeder Road Development Project (P158231).

¹²⁸ For example, of previous World Bank Project see the Southern Africa Trade and Transport Facilitation Project (SATTFP) (P145566).



Department, the Malawi Bureau of Standards, Malawi Police, the rail concessionaire (CEAR) and key private sector associations. (See annex 1)

101. In Mozambique, ANE, Fundo de Estradas and the MTC are members of the CWG, which is an interagency working group that will provide institutional oversight on project implementation. The CWG was established under the NTFC in 2017 and is comprised of public and private stakeholders related to trade facilitation. The Ponta do Ouro border post development will also be coordinated by the CWG. (See annex 1).

102. The following activities were identified to be already contracted or to be ready for contracting by effectiveness:

Table 7: Readiness: Activities ready to be procured by effectiveness or to be already contracted by then

	Component 1	Component 2	Component 3	Component 4
Malawi	Upgrade of customs system; second phase for the single window; disaster recovery system; COVID-19 immediate response; Muloza border post; coordinated border management; scanners; inland examination center; and technical assistance to the MoTPW and PPPC.	Regional Coordination: Institutional support and selected projects; PIU's key positions including project coordinator, procurement specialist, FM specialist, safeguards, and technical positions.	Project team including project manager, technical expert, safeguards, FM specialist, and communications specialist; launch of call for proposals; first set of capacity building programs.	Most road safety activities.
Mozambique	Technical Assistance to MTC; strategic capacity at the Ministry of Agriculture, Fisheries and INNOQ; coordinated border management; COVID-19 immediate response.	Regional Coordination: Institutional support and selected projects; PIU's key positions including project coordinator, procurement specialist, FM specialist, safeguards, and technical positions.	Project team including project manager, technical expert, safeguards, FM specialist, and communications specialist; launch of call for proposals; first set of capacity building programs.	The preliminary design of all identified roads is complete ¹²⁹ ; road safety implementation plan.

103. The project operations manuals articulate the coordination process between the PIUs, project officers, and technical focal points in the national technical committees, as well as the frequency of meetings of the technical committees. The organization of regular meetings between the beneficiary institutions, PIUs, and the Technical Committees will be necessary to ensure effective information sharing among beneficiaries. These arrangements will also be complemented by periodic workshops and regional level activities to foster coordination and sharing of lessons/experiences between the various stakeholders. Operations manuals are being further updated to guide the institutional and implementation arrangements.

B. Results monitoring and evaluation arrangements

104. The project will be supported by a robust M&E plan that will measure the progress of activities, outcomes, and achievement of program development objectives. It will also ensure synergies between the program of activities. At the project level, two M&E specialists will be hired, one within each PIU in the respective countries. They will primarily

¹²⁹ ANE is currently recruiting consultants to prepare bidding packages which are expected to be ready for procurement in May 2021.



be tasked with coordination, timely and regular data collection and preparation of the regular implementation progress reports/analysis in coordination with the national technical committees. The relevant national agencies will ensure timely collection of robust data, which will be communicated to the M&E specialist consistent with the results framework and project operations manual. Reports will be shared with the World Bank. Details on the structure, content, granularity, and frequency of the progress reports will be laid out in the project operations manual. The results of the project will be tracked through implementation status and results report (ISR) and mid-term review which will measure progress by tracking individual project components, compliance with safeguards and covenants, procurement, financial management, disbursement schedules and M&E systems and indicators as applicable.

105. The project will also include one or more rigorous impact evaluations. The details of the impact evaluation design are being developed and will be finalized within the first year of implementation. The impact evaluation will focus on a component of the intervention and works towards enhancing its benefits. The measures to be evaluated will be selected during a workshop¹³⁰ with the respective stakeholders and PIU to ensure alignment with the client's objectives. A principal investigator will lead the impact evaluation analysis and an in-country field coordinator, will provide day-to-day operational support to the implementation of the impact evaluation, including supervising data collection. A third-party consultancy will be responsible for conducting the survey work/data collection and for preliminary data processing. The World Bank research team will provide significant technical assistance for adequate implementation of the impact evaluation.

106. Third-party monitoring agencies will be hired to monitor main activities under the project. These firms will also act as independent verification agents for results of the interventions. Moreover, to enhance M&E in the operation's FCV setting, the project will design and implement a GEMS system that leverages field-appropriate technology for digital data collection and analysis. The project will also finance costs of implementing GEMS that includes consultancies, enumerators, logistics costs, and safety and other equipment.

C. Sustainability

107. Institutional. The project will support the corridor institution and other relevant government agencies to ensure coordinated project implementation, along with providing capacity building for key government agencies. All these institutions will as such be strengthened by the project and will continue to operate after project closure.

108. Financial. Sustaining infrastructure strategies include different approaches for the components. PBC will be critical for road maintenance in Mozambique while border posts in both countries are maintained by Customs agencies. Users of data systems typically pay a small processing fee, which are used for capital upgrades and maintenance. In component 2, the NDCTC is discussing a medium-term financing plan to fund corridor operations. As such a sustainability plan for the NDCTC will be developed by the fifth year of the project.

109. Technical. Technical sustainability of the project is addressed by ensuring that the physical infrastructure that is supported is of good technical design, including climate resilient technologies, and good construction and operational standards, along with the use of PBC. The ICT investments will build in sustainability by building larger maintenance responsibilities into the contracts with consultants and vendors and incorporating provisions for equipment upgrades. The value chain investments will also require close assessments from multiple teams to ensure the design of high-quality subprojects. Both countries will utilize regional policies, practices and standards from SADC and other regional

¹³⁰ Virtual sessions are being held generally for all activities because of COVID-19.



commitments. Corridor activities will also be reported by the project countries to SADC. Across all project activities, close implementation support will play a key role to ensure technical sustainability.

110. Environmental. Environmental sustainability is addressed through careful consideration of the region's climate vulnerabilities. Additional measures are incorporated into the project design to make the necessary infrastructure climate-resilient using environmentally low-impact construction methods and diligent supervision arrangements.

IV. PROJECT APPRAISAL SUMMARY

A. Economic Analysis

111. The project development objective (PDO) is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure. The improvements of hard and soft infrastructure, the reduction of non-tariff barriers and other trade facilitating measures, and support to institutional and policy coordination are expected to reduce trade and transport time, cost, and variability (components 1 and 2). The provisions for improved access to finance for traders, producers and firms through risk-sharing facilities and capacity building is expected to increase productivity and regional integration (component 3). Finally, the upgrading, rehabilitation of anchor/connector roads should improve access to regional and global markets for producers and firms (component 4).

112. A detailed economic analysis based on direct and indirect costs and benefits has been conducted (see annex 2). The costs and benefits of each component were estimated separately, except for components 1 and 2 on trade facilitation and regional coordination. This is because the benefits from investments in trade facilitation, border infrastructure and ICT are dependent on the institutional structures that enable regional coordination and cooperation. Separate estimates of the component impacts should provide a lower bound estimate of the overall benefits, as total project benefits are deemed to exceed those of individual components through their interdependencies and spillovers. Further, this analysis assumes a status quo, for instance, in Malawi, reforms related to agricultural markets will enhance the net benefits accrued.

113. The analysis covers the following activities:

- Reduction in trade costs due to improvements in trade facilitation and regional coordination, including investments in automation, border agency cooperation, procedures (including single window implementation and removal of pre-shipment inspection) and greater involvement of the trade community in both countries.
- Increased revenue and jobs created by MSMEs, smallholder farmers, and traders due to increased capital and skills to support risk-sharing facilities in value chains.
- Road user cost savings (vehicle operating costs and time costs) due to investments in upgrading road connectivity to the Nacala Corridor and GHG Accounting.

Where relevant, the approach of the economic analysis drew on existing studies for other corridor projects. The cost-benefit analysis was carried out over twenty years and at the World Bank-recommended discount rates of 6 percent, with sensitivity analyses conducted for each component.

114. Corridors can generate a chain of multiple impacts beyond reductions in generalized transport costs, potentially affecting broader socioeconomic outcomes. For estimating the wider economic benefits of the project, a global computable general equilibrium (CGE) model with a microsimulation framework was used to determine impacts of trade



costs and NTM reductions on welfare, exports, private consumption, GDP at aggregate level and trade and employment at sectoral level through 2030 and 2035.

115. As the economic analysis described in annex 2 shows, the project's internal rate of return is 36.8 percent. (Table 8) The project remains viable under several different parameters, demonstrating the robustness of its rationale.

Table 8: Summary of NPV and EIRR for all project components over 20 years at a 6 percent discount rate

	Malawi	Mozambique
Benefits (US\$ million)	US\$ 248.6	US\$ 965.2
Costs (US\$ million)	(US\$ 88)	(US\$ 207.4)
Net benefits (US\$ million)	US\$ 160.6	US\$ 757.8
EIRR	36.8%	

Note: Analysis for Malawi currently covers components 1-3 only and analysis for Mozambique does not include sub-component 4.2.

B. Fiduciary

116. The Fiduciary risk is Substantial. The actual procurement risk associated with the project is Substantial, in view of the previous experience of the proposed PIUs in World Bank-financed projects. In Mozambique, MTC, Fundo de Estradas and ANE are currently implementing World Bank-financed projects, while in Malawi the Roads Authority is also implementing World Bank projects.¹³¹ As such, these institutions in both countries are familiar with World Bank procedures, including knowledge of the World Bank's New Procurement Framework (NPF). The overall financial management risk rating is Substantial due to country risk and capacity issues.

(i) Financial Management

117. A preliminary Financial Management (FM) Assessment was undertaken in Malawi to evaluate the adequacy of the FM arrangements for the implementation of the proposed project. The assessment was carried out in accordance with the Directives and Policy for Investment Project Financing (IPF), and the World Bank guidance on FM in World Bank Investment Project Financing operations issued on February 28, 2017. The assessment focused on the Malawi Road Authority (RA) and Road Fund Administration (RFA) responsible for infrastructure related activities, along with the transport ministry, which will be responsible for non-infrastructure related activities. The RA is currently implementing several World Bank funded projects and the required FM arrangements are managed by the RFA which has satisfactory FM arrangements to support project implementation. The transport ministry however does not have direct experience in implementing World Bank funded projects. The accounting and control environment within the ministry is weak, characterized by weak accounting software, weak compliance to policies and procedures, and weak internal audit function. The proposal to have a PIU within the ministry to manage FM arrangements is therefore a key mitigation measure. The PIU will have qualified and experienced FM staff and an appropriate accounting software for accounting and reporting on project transactions. The project will also have a POM that will include policies and procedures required in use of project resources.

¹³¹ The MoTPW in Malawi has been a beneficiary in World Bank projects but has no prior experience in implementing them, and as such, it has no experience in either FM or Procurement and will be bolstered by individual consultancies.



118. IDA disbursement will be report based, requiring the project to make fund forecasts every six months and requesting drawdown into the project exclusive designated bank account. Expenditures will be reported on a quarterly basis using interim financial reports to be submitted to the World Bank within 45 days after the end of each quarter. Apart from advances to the designated account, other disbursement methods will include direct payments, reimbursements, and special commitments/letters of credit. The project financial statements will be audited by the Auditor General in accordance with International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Standards Board within International Federation of Accountants (IFAC). The project financial statements will be prepared based on the International Public Sector Accounting Standards (IPSACs)-cash basis. The FM risk has been assessed as Substantial due to both country and implementing entity risks.

119. In Mozambique, the overall FM arrangements of the National Road Fund, the agency responsible for fiduciary aspects of the infrastructure components, were assessed as acceptable. However, for the MTC components, the FM arrangements (budgeting and planning, accounting staff and systems, internal control produces, and project external auditors) are not yet in place as the new PIU is not yet established. However, the project coordination unit within the MTC, currently responsible for fiduciary aspects of the components III and IV of the National Statistics and Data for Development Project (P162621) will support implementation of this proposed project until the appointment of the new PIU FM staff is completed. The FM assessment was carried out in accordance with World Bank Directive and Policy for IPFs issued on September 30, 2018, the World Bank Guidance on FM in World Bank IPF Operations issued on February 10, 2017. Overall FM risk is rated Substantial due in part to country risk, capacity issues in the country, and the new PIU having not yet been established.

120. The project funds, expenditures, and resources will be accounted for using an automated accounting software. The National Road Fund in Mozambique will make use of the existing automated accounting software, while the PIU/MTC will purchase, install, and customize an accounting package within four months after project effectiveness. The basis of accounting will be financial reporting under cash basis. IDA funds will be disbursed on a transaction basis (statements of expenditures) using the following methods: (a) reimbursement, (b) advances, (c) direct payments, and (d) special commitments. Both implementing entities will prepare separate quarterly unaudited interim financial reports (IFRs) and provide such reports to the World Bank within 45 days of the end of each calendar semester. The project financial statements for MTC components will be audited annually by the Administrative Tribunal, while for Road Fund components will be audited by audit private firms already auditing their entity financial statements. Separate audit reports together with separate management letters for each implementing entity will be submitted to the World Bank no later than six months after the end of each fiscal year.

(ii) Procurement

121. Applicable procurement procedures. Procurement activities under the proposed project will be carried out in accordance with the World Bank's "Procurement Regulations for IPF Borrowers" (Procurement Regulations) dated July 2016, revised November 2017, August 2018, November 2020 and as revised from time to time and the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016, and other provisions stipulated in the Financing Agreements.

122. Procurement Implementation Arrangements: Procurement planning, procurement processing, contract management and related decision-making authority under the proposed project will be carried out by the Ministry of Transport and Public Works (MoTPW) and the Road Authority (RA) in Malawi and by the Ministry of Transport and



communication (MTC) and the Roads Authority (RA) through ANE (Administração Nacional de Estradas) in Mozambique. There will not be any joint procurement by two countries in this project. The activities are clearly defined for each country.

123. Procurement Capacity Assessment for the project:

- **Malawi:** The capacity of MoTPW and RA was reviewed during project preparation and concluded that even though requiring some improvements, both entities have adequate organizational structures and relatively qualified staff to manage and implement the project. RA also has prior experience in conducting procurement in accordance with the World Bank procurement procedures. Key risks that could lead to delays in project implementation and/or non-compliance, if not properly mitigated, include: (a) gaps in knowledge and experience of MoTPW staff with new features allowed by the World Bank's procurement regulations, (b) limited contract management capability for both MoTPW and RA staff, (c) Impact of COVID-19 on supply chains. To mitigate these risks and strengthen the procurement capacity of MoTPW, the following measures will be undertaken, (a) apart from hiring qualified procurement specialist, MoTPW will benefit from the RA PIU assistance in the commencement of initial activities during implementation of the project, (b) providing procurement and contract management training for MoTPW and RA staff during project implementation, (c) the POM will include a chapter on procurement comprising of clear rules, step-by-step procedures and responsibilities, timeline requirements for procurement activities, actions and decisions, sample documents and evaluation report for small procurements, and (d) The implementing agencies will apply COVID-19 flexibilities in the bidding process in accordance with emergency operations norms agreed by the Bank to mitigate the impact of the COVID 19 pandemic.
- **Mozambique:** The capacity of ANE and MTC in Mozambique was reviewed during preparation of the project and noted that, even though requiring some improvements, were found to be acceptable for managing the project's procurement activities. Both Agencies are currently implementing projects financed by the World Bank, therefore are familiar with the World Bank procurement procedures including the knowledge of the World Bank's NPF. All the units are well equipped with office space and the means to perform the work satisfactorily. Action plans to improve the capacity of the PIUs were put in place and will be continuously monitored, during the project implementation, to ensure that the units are performing at an acceptable level. The key risks identified include: (a) Limited capacity of the market and supply chain to meet the demand, due to the global nature of COVID-19 pandemic and (b) Challenges of bids submission due to COVID-19 movement restrictions imposed by many countries worldwide. To mitigate these risks the following measures will be undertaken: (a) ANE and MTC will apply COVID-19 flexibilities in the bidding process in accordance with emergency operations norms agreed by the Bank to mitigate the impact of the COVID 19 pandemic and (b) ANE and MTC project implementation teams will closely monitor country restrictions, and promptly propose more efficient procurement approaches and methods based on flexibilities provided for in the procurement regulations.

Based on the findings of the assessments and corresponding mitigating measures laid out in the action plan the project's residual procurement risk is **Substantial**.

C. Safeguards

(i) Environmental and Social Safeguards



124. Environmental Category A – Full Assessment. The project has been assigned the Environmental Category A - Full Assessment, since likely risks and impacts are expected to be transboundary and of regional scale, however manageable with application of appropriate safeguards management tools. Proposed activities that are likely to generate adverse impacts include, but not limited to the upgrading of roads with potential physical and economic displacement of people, new construction for inland examination centers, and the upgrade of border posts. The scope of activities and potential scale of impacts for the proposed project and their impacts have been rated as substantial for environmental risk. However, risks do not seem to be irreversible and impacts can be mitigated and compensated. The prevention, mitigation and/or compensation measures are also known and have been used previously in other World Bank projects. The project activities trigger the following environmental and social safeguards policies: Environmental Assessment (OP4.01), including the WBG General Environmental, Health and Safety (EHS); Natural Habitats (OP/BP4.04); Pest Management (OP/BP4.09); Physical Cultural Resources (OP/BP4.11); and Involuntary Resettlement (OP/BP4.12). These policies are triggered mainly due to the proposed interventions under components 1.1, 1.2, 1.3; 3.1, 3.2, 4.1 and 4.2, which include provision of backup power sources at border offices, rehabilitation of border and construction of border posts, construction of inland examination centers, strengthening of laboratory capacity for sanitary inspection and testing, feasibility studies on border markets and bus terminals, weighbridge relocation, investment in corridor value chains and rehabilitation and upgrading of trade connectors (rural roads and bridges). The location of the project interventions is not expected to cause any direct negative impacts on natural habitats and forests, including critical or sensitive areas given that most interventions are expected to be within an existing right-of-way of road, or within the footprint of existing facilities, or on public land in Malawi. However, in Mozambique, indirect and cumulative impacts on natural habitats are also expected due to significant traffic increase along Maputo special reserve conservation area. As such, the risk of accidents/fatalities due to interactions with large herbivores (such as elephants) are expected, therefore OP/BP4.04 is triggered. Particularly under component 3, through value chain support to agricultural sector, there is potential to indirectly increase usage and storage of pesticides by farmers and owing to that OP/BP4.09 is also triggered. The Involuntary Resettlement Policy (OP/BP 4.12) is triggered due to foreseen civil works activities that may require temporary use or permanent acquisition of land and/or loss of access to natural resources and means of livelihoods. The project activities involve rehabilitation and upgrading of trade connectors (rural roads) in Nampula and Niassa provinces, which may involve temporary displacement of people and/or involuntary restriction and/or loss of access to assets, means of livelihood, or natural resources, with adverse impacts on the livelihoods of the displaced persons. The borrower has prepared a Resettlement Policy Framework (RPF) to guide the preparation of site-specific Resettlement Action Plans (RAPs)/Abbreviated Resettlement Action Plans (ARAPs) acceptable to the World Bank.

125. Environmental and social risk assessment (E&S). The overall E&S risk is rated high due to weak institutional capacity of the implementing agencies and the potentially complex implementation arrangement for the various sub-components and the wide geographical scope of the project that cover several towns and communities. The project has high social risks if the corridor is viewed as a whole, given potential regional and cumulative social safeguards impacts. The contexts are complex, even if the subprojects per se may be limited in scope. Risks and regional implications could relate to issues such as increased in-migration, impacts on food security, health impacts (including infectious and sexually transmitted diseases), as well as risks related to traffic, security, crime Gender, GBV and SEA in contexts of increased inflows of people/labor, goods and services. Given the nature of the proposed interventions the anticipated scale of potential adverse environmental or social impacts on human populations are expected to be site-specific, reversible and, mitigation measures will be readily used to address such impacts. To manage environmental and social risks associated with the project, the borrowers, developed two (2) Environmental and Social Management Frameworks (ESMFs) for each country during the project preparation phase, that were disclosed prior to project appraisal. Each ESMF provided an overview of the project and its components, the applicable legislative and regulatory frameworks and policies, an overview of the baseline conditions and a summary of key anticipated environmental and social impacts. The documents further provide mitigation and monitoring measures and a screening tool for assessing and classifying impacts at the sub-



project level and will provide guidance for the preparation of a sub-level project specific Environmental and Social Management Plans (ESMPs). Both ESMFs also include information on the institutional capacity of the implementing agency and provide measures for capacity building along with an estimate of the budget needed for sound implementation of safeguards requirements and stakeholder engagement plans.

Table 9: Safeguard policies triggered

Safeguard	Triggered	Explanation
Environmental Assessment OP/BP 4.01	Yes	<p>The SATCP will trigger this policy due to the involvement of civil works (rehabilitations, construction works) of public infrastructure. Sub-components under the project that would trigger this safeguard policy are included in component 1.1 Enabling digital trade: Back-up power supply, supply of ICT hardware and data storage; component 1.2 Improving borders and their management: expansion and rehabilitation of six border posts, strengthen pest and disease management capabilities and regional laboratories diagnostics capacities; construct inland examination centers in Lilongwe and Blantyre; Sub-component 1.3 TA and feasibility studies for international bus terminals and border markets for small traders operating in the Nacala and Beira corridors, national transport planning, support to regulators and value chain analysis; component 3.1: Value chains development including matching grants to market players and smallholders/firms, seed capital investments, and technical assistance to value chain players; component 4.1 Rehabilitation of roads; component 4.2: Improve road safety. Civil works will possibly generate negative environmental and social externalities such as: soil erosion and siltation, loss of trees, pollution to surface and ground water resources, dust emissions and wastes loss of livelihoods assets and access resulting from the taking of land, impacts on both community and occupational health and safety, and labor influx related impacts such as escalation in SEA/SH and HIV/communicable disease transmission.</p> <p>Proposed activities under the SATCP has been classified as Category A under OP 4.01 due largely to the proposed road works in component 4. The exact location, scope and scale of specific sub-project investments are not known in Malawi at this stage. An ESMF in each country has been prepared which provides the criteria and procedures for screening subproject investments and guide the preparation of site-specific environmental and social management plans. The ESMF addresses the institutional capacity of the implementing agency and provide measures for capacity building along with an estimate of the budget needed for the implementation of the ESMF. It is already assumed that an ESIA will be required for the road works. The project safeguards instruments in Malawi (ESIA/ESMP, RAP) for the Muloza border post are completed and included in the ESMF. Border posts, value chain and road safety investments in Mozambique were covered under an ESMF, where subprojects screening will be undertaken in line with the requirements embedded in it, whilst road upgrading in Nampula and Niassa provinces, as locations are already known, site-specific ESIA and ESMPs were also prepared in parallel with ESMF, for appropriate activities risks and impacts management. In addition, the World Bank Group Environmental, Health and Safety guidelines are applicable to the project, with the following specific guidelines to be adopted and utilized by the contractors and other project implementers: general, occupational health and safety, community health and safety, waste management facilities. Given the nature of the proposed interventions the anticipated scale of potential adverse environmental or social impacts on human populations are expected to be site-specific, few if any of them are considered irreversible and, mitigation measures can be expected to be designed to address the impacts.</p>
Performance Standards for Private Sector Activities OP/BP 4.03	No	Not triggered by this operation. The project will not finance private sector activities as defined by OP/BP 4.03.
Natural Habitats OP/BP 4.04	Yes	<p>In general, the project is not expected to involve the significant conversion or degradation of critical natural habitats, and civil works are expected to be sited on lands already converted e.g. rehab/upgrading road, border posts and inland examination centers; while the civils works may necessitate the removal of vegetation this is not expected in critical natural habitats or areas of high conservation value and can easily be addressed through compliance with Environmental Assessment OP/BP 4.01.</p> <p>In Mozambique, specifically, the proposed subproject for Ponta do Ouro Border Post upgrading, will significantly increase traffic along the road to Maputo city; Customs Authority expects traffic increase around 400 percent. This traffic towards Maputo city will cross Maputo Special Reserve (REM), a Conservation Area that is natural habitat for larger herbivores and provides a migration Corridor for Elephants (and antelopes),</p>



Safeguard	Triggered	Explanation
		<p>from Southern areas of Mozambique to South African Conservation Areas. During operational phase of the project, but also during construction phase, the indirect impact from drivers/traffic increase will impose a risk of accidents with large fauna and a risk of large fauna's natural migration corridor disturbance, due to high traffic increase.</p> <p>OP 4.04 is triggered to adequately manage these project impacts and risks on Critical Natural Habitat; the ESMF will build upon the existing conservation area management plans, proposing additional measures to address such risks.</p> <p>A preliminary meeting with National Administration for Conservation Areas was held to early involve this key stakeholder.</p> <p>Budget to assess and manage these risks properly must be provided by the project's financing, according to BP 4.04, para 4.</p>
Forests OP/BP 4.36	No	The project is not expected to have impacts on the health and quality of forests. While the civil works may necessitate the removal of individual trees this is not anticipated in a forest setting and can be addressed through compliance with Environmental Assessment OP/BP 4.01.
Pest Management OP 4.09	Yes	While the range of interventions to be considered within the support for value chains development in component 3 are not yet identified the possibility exists that this may include the support for primary producers of commodities which may well include support for improving production of agricultural products. These activities may include the support for the use of fertilizers. Similarly, there may be instances where support for supply chain actors involved in processing, storing, or transforming agricultural commodities may include the use of pesticides and chemicals. While the agricultural commodities, locations of use, target pest and diseases, range of pesticide and non-pesticide options available are not known it is not appropriate to prepare a Pest Management Plan (PMP) (as this would be largely generic and pointless in terms of providing support for specific uses), however as these attributes of the component are developed a pest management plan must be developed and in place in advance of the provision of support to value chain actors in component 3.
Physical Cultural Resources OP/BP 4.11	Yes	As not all sites have been identified, it is not possible to categorically identify the presence or otherwise of physical cultural resources in the project area. While there are no indications that the project may be located in physical cultural resources hotspots, the project has triggered this policy in case contractors during rehabilitation and reconstruction of public infrastructure discover archeological sites, historical sites, remains and objects, including graveyards and/or individual graves. The project has prepared chance find procedures as part of the ESMF to guide contractors in the identification and proper management of physical cultural properties in case they are found.
Indigenous Peoples OP/BP 4.10	No	This OP/BP is not triggered as in both Malawi and Mozambique there are no groups that meet the criteria for OP/BP 4.10.
Involuntary Resettlement OP/BP 4.12	Yes	Given that the project will entail civil works (selected trade connectors/rural roads, border facilities, inland examination centers, etc.), both in Mozambique, where the rural roads has been identified and five border posts not identified; and Malawi where the project locations for the roads and inland examination centers not identified, but the border post at Muloza was identified. Since these works could potentially entail land acquisition, and impacts on private assets, OP4.12 is triggered, and a combination of framework and site-specific studies approach was carried out for both countries respectively. Resettlement Policy Frameworks (RPF) have been prepared, consulted upon disclosed in country and World Bank (December 21, 2020) external website and sub-project specific RAPs/ARAPs has been prepared for Mozambique already identified rural roads, and for Malawi will be prepared as required according to final subproject site selection and design of the inland examination centers and roads. In Mozambique the rehabilitation of identified trade connectors (rural roads) will require land for temporary or permanent use hence economic and physical displacement is expected for households. Potential risks include loss of access to natural resources, loss of assets, and loss of income sources or means of livelihoods whether affected people must move to another location. As the footprint of the investment subprojects is largely unknown at this stage (for Malawi roads and inland examination centers – and Mozambique border posts), an RPF has been prepared in each country to guide the land acquisition procedures be applied to individual investments. For Mozambique where the rural roads section have already been selected (in Nampula and Niassa provinces), and footprints/locations are already known, ARAPs have been prepared, consulted upon, reviewed and cleared by the World Bank and disclosed in country and WB external website.
Safety of Dams OP/BP 4.37	No	The Project does not involve dams.



Safeguard	Triggered	Explanation
Projects on International Waterways OP/BP 7.50	No	The Project does not involve activities on international waterways.
Projects in Disputed Areas OP/BP 7.60	No	The Project is not being implemented in disputed areas.

126. The potential negative environmental and social impacts will largely occur during construction and rehabilitation works for roads, facilities, and buildings. These include: (a) soil erosion and degradation as well as fauna and flora disturbance leading to loss of habitats due land clearance in preparation for civil works; (b) public nuisance from dust and noise due to earth movements and construction works (c) land degradation due to use/increase of quarries and borrow pits for materials sourcing; (d) waste generation, including hazardous and non-hazardous substances during civil works; (e) soil and water contamination from oil and lubricants spillage; (f) loss of access, assets and livelihoods resulting from the taking of land; (g) since the project will take place in a community settings, the borrower is required to undertake an assessment of the risk and impacts of the project on the health and safety of the project affected communities; risks and impacts on the community could relate to the design and safety of infrastructure, traffic and road safety during construction, security and emergency situations and community exposure to nuisance and public health issues; (h) occupational health and safety risks to workers mainly during civil works; (i) influx of labor/population inflows as the sub projects may cause increased migration and will attract an external labor force with associated risks such as GBV/SEA/SH, spread of HIV, sexually transmitted and communicable diseases etc.; and (j) possible disturbance of physical and cultural resources due to earth movements, excavations, quarrying and impounding. During the operational phase, the main environmental and social adverse impacts and risks are indirect and related to borrow pits mitigation/restoration and traffic increase. While project component 4.2 finances road safety improvements, these risks are expected to be well mitigated, not only along community settings but also along Maputo special reserve. Nonetheless, pest management risks around component 3 value chain support in the agricultural sector will be maintained, or even increased, and ESMP measures and training should also be kept. These are likely to be aggravated by any cumulative and the transboundary nature and scope of some of the project's interventions. Risks are also expected in the strengthening of testing capacity at laboratories with the handling of hazardous materials and the disposal of hazardous wastes of note. Potential impacts are also identified through the support for value-chains and technical assistance to value chain players and the ESMF includes specific processes to react to the environmental and social risks for these demand-driven activities. All activities will have to be compliant with current COVID-19 guidance.

127. Environmental and Social Management Framework (ESMF). Social and environmental safeguards issues for individual subprojects will be managed through the provisions and mitigation measures provided in the ESMF, prepared consistent with applicable Malawian and Mozambican laws respectively and World Bank safeguards policies. In addition, the World Bank Group Environmental, Health and Safety guidelines are applicable to the project, with the following specific guidelines to be adopted and utilized by the contractors and other project implementers: general, occupational health and safety, community health and safety, waste management facilities. In line with Environmental Assessment OP 4.01, respective governments have prepared ESMFs to guide the mainstreaming of environmental and social planning for the project. The ESMFs provide screening procedures for typical anticipated environmental and social impacts for all project activities and the preparation of ESIs / ESMPs. The screening process has been prepared in alignment to the requirements of the OP 4.01 Environmental Assessment and will complement the respective National Environmental Policy and Guidelines for Environmental Impact Assessment (EIA) in Malawi (1997) and Mozambique (1990) which require environmental and social screening for developments projects. The environmental and social screening process consists of four steps: (a) review of environmental and social impacts checklist for projects; (b) screening of impacts from the subprojects and sites; (c) assignment of environmental categories; and (d) preparation, review and approval of an



environmental and social action plan. The screening process will be carried out using a screening form to be attached in the respective ESMFs. The ESMF also integrate provisions to adequately cope with OP/BP4.04 and OP4.09 requirements and management tools.

128. Awareness raising on Environmental and Social mitigation measures. The ESMFs outline provisions for the awareness/orientation sessions and for environmental and social trainings aimed at contractors of civil works, staff from Roads Authority and local district councils. The borrower will put in place measures to prevent the spread of infectious and communicable diseases including COVID-19 management plan as part of the ESMF in line with the WHO guidelines. Appropriate training will cover areas such as: screening of projects, policy and legal framework on environment and construction, disposal of solid and liquid waste from premises, measures to prevent the spread of HIV, sexually transmitted and communicable diseases, measures to raise awareness on SEA/SH risks, inclusion and monitoring of mitigation measures such as Codes of Conducts (CoC) for contractors, construction workers, sub-contractors and staff and specific trainings on CoCs content and accountability measures in cases of non-compliance, to be integrated in a disciplinary policy, enhancement of the Grievance Mechanisms (GMs) through the inclusion of a survivor center approach and appropriate linkage to the referral pathways for SEA/SH survivors. Awareness activities will be directed to communities on the SEA/SH mitigation measures, including on the referral pathway and the different mechanisms to report potential cases derived from the project. Environmental and social clauses for contractors will be incorporated within construction bids and contracts to enhance obligations on contractors. Mitigation measures will also take into account the indirect risks and impacts over natural habitats of Maputo Special Reserve, as well as the preventive measures related to COVID-19, particularly in work construction sites.

129. RPF. As subprojects in the operations are largely undefined, RPFs consistent with Malawi and Mozambique laws and World Bank Safeguard Policy OP.4.12, has been prepared to clarify the principles, legal and institutional procedures for resettlement to be applied to individual investments. With regard to project activities structured as a purchase of services from private sector providers and where such private providers undertake any new investments in infrastructure and related civil works in order to provide these services, they will be expected to use the RPF to guide their own policy on resettlement and thereby conform to national laws and policies as well as international best practice.

130. Disclosures. In accordance with the applicable OP/BP 4.01, the governments have drafted the following Environment and Social instruments: (a) ESMFs, (b) RPFs, (c) ESIAs, (d) ESMPs, and (e) ARAPs, that will guide the management of risks and impacts associated with the project. Subsidiary safeguards instruments required for the other specific project interventions such as other ESIAs/ESMPs and ARAPs for defined scope, location identified in Mozambique (rural roads) have been developed. The ESMFs, ESIAs, ESMPs and ARAPS have been consulted, cleared by the Bank, and disclosed in-country and on the World Bank's website on December 21, 2020, December 23, 2020, February 12, 2021, March 1, 2021, and March 2, 2021 respectively. During project implementation, site specific instruments will be prepared to reflect the actual site-specific conditions according to the disclosed ESMF and RPF when project locations and designs are known. The specific safeguards instruments could include Resettlement Action Plans (RAPs), Environmental and Social Management Plans (ESMPs) or Environmental and Social Impact Assessments (ESIAs) as determined by the E&S screening analysis. Each follow-up action/management plan will require World Bank approval and will be publicly disclosed in accordance with the World Bank disclosure policy.

131. Capacity to manage safeguards in Malawi. The project will be implemented by the RA and the Ministry of Transport and Public Works (MoTPW) both of which will set up PIUs that will have overall responsibility for environment and social risk management, oversee preparation and implementation of environment and social safeguard instruments. RA has experience with World Bank funded projects and is currently implementing components of 2 of the Southern Africa Trade and Transport Facilitation Program SOP2 P145566, and the Agriculture Sector wide Approach II Project



P164445. A review of safeguards implementation in preceding projects indicates serious environmental and social safeguard capacity gaps at institutional level. As part of a safeguards action plan prepared for one of the projects, the Road Authority committed to institutional and system level environmental and social enhancements including (a) setting up an environment and social unit with additional staff and senior (manager/director) level interaction with RA management, (b) establishment of a steering committee to oversee safeguards implementation, and (c) updating the RA environmental and social management guidelines to recent advances in environment and social risk management and in alignment to international best practice. To ensure that environmental and social risk management is given adequate attention and to build the capacity of the implementing agency, the RA will implement the agreed institutional level environment and social capacity enhancements. Although MoTPW has experience with World Bank funded projects¹³², environment and social risk management is a nascent field. MoTPW will designate qualified staff to environment and social risk management for the components that it is implementing and set aside funds for capacity enhancement of implementing agencies on environment and social risk management and sustainability.

132. Capacity to manage safeguards in Mozambique. ANE has gathered considerable experience in delivering previous similar IDA-financed projects through the implementation of ESMFs ESIAs/ESMPs and RPFs/RAPs. ANE's central monitoring unit is staffed with professional environmental and social specialists (six) who are moderately versed in both national regulations and World Bank safeguards requirements and will be responsible for the overall safeguard's implementation of the project. The ANE currently has Environmental, Social, Health and Safety (ESHS) focal points in their provincial offices and is also in the process of strengthening their environment and social presence in the provinces. Therefore, ANE will ensure that the site-specific ESMPs and ARAPs for individual roads being upgraded are incorporated into the works and supervisory contracts and that reporting on safeguards implementation is timely and detailed enough to be useful for project monitoring and supervision. Notwithstanding, ANE's capacity to manage environmental and social aspects associated with roadwork is deemed weak. Notably, issues of regular safeguards compliance report and oversight have been identified including the ability to adequately oversee and report Occupational Health Safety (OHS) issues. Hence, the WBG recently conducted on October 2020, a series of training workshops on the Environmental and Social Framework (ESF), OHS and safeguards supervision to all ANE staff and it is expected that will contribute to the overall improvement of safeguards management at all levels. Furthermore, ANE capacity is being strengthened as part of the ongoing Integrated Feeder Roads Development Project (P158231) (with two additional specialists at headquarter level and another two specialists at provincial level, under hiring process, as well as training on safeguards is also expected). In order to properly implement the safeguard Instruments, the project includes budget for capacity building, especially with respect to recruiting of new environmental and social specialists (seven additional specialists to be hired to ANE, at HQ and province level, and to MTC), to safeguard training at different levels (including district SD PI focal points), to also ensure Grievance Redress Mechanism (GRM) and management of SEA/SH issues, and for retaining an independent supervising consultant and third-party monitoring/NGO.

(ii) Other Safeguards

133. Labor influx and GBV. GBV is prevalent both in Malawi and Mozambique. Based on the results from the WB GBV risk assessment tool, the project rates high for GBV risk in Malawi and Mozambique, considering context and project related risk factors and the transboundary nature of the project. In overall, the project will be rated as high for GBV given the cross-boundary activities. For the case of Mozambique, even if there is an institutional framework to prevent and respond to GBV, such as laws on domestic and sexual violence, and the prevalence of intimate partner violence and sexual violence are lower than regional average, other indicators are worrisome such as high levels of child marriage, trafficking and presence of peace keeping missions (derived from internal conflict and affected natural disasters). The contextual risk in terms of prevalence of intimate partner violence in Malawi is similar or higher than that of other Sub-

¹³² Southern Africa Trade and Transport Facilitation Program SOP2 (P145566).



Saharan Africa countries. According to the National Plan of Action to combat GBV in Malawi 2014-2020, and specifically violence against women and girls, is prevalent and deeply entrenched in Malawi and care seeking behaviors are below average. In addition, taking into consideration the potential additional risks raised by the project an initial screening of the labor influx profile of the project heightened SEA/SH risks due to the prevalence of drivers such as high levels of poverty, rural context with low absorption capacity, poverty in the lowest quintile and difficulties in supervising works. GBV risks and mitigation measures have been incorporated in the ESMF, including the need for capacity enhancement of the implementing agency (hiring social specialists with experience in GBV) and training for contractors, sub-contractors and suppliers on their obligations and contents of the CoC. The client will ensure that complementary GBV/SEA/SH risk assessment is undertaken within subsequent project ESIAs/ESMPs and that prevention and response measures are put in place including provision of an external GBV service provider; a mapping of service providers and defined referral pathway; definition of SEA/SH requirements and expectations in contractor bid documents, use of CoC which addresses behaviors with regards to SEA/SH; preparation and monitoring the implementation of contractor ESMPs with labor influx management and camp management as well as a SEA/SH Prevention and Response Action Plan (with its Response and Accountability Framework); and availability of an effective GRM with multiple channels to initiate complaints including a survivor centric approach to SEA/SH related grievances.

134. In addition, the project is adopting a series of measures to mitigate the SEA risk and respond promptly and adequately to any case that may arise, including:

- (a) Hiring an independent Third Party Monitor (TPM)/NGO with experience and expertise in SEA to undertake monthly worker- and community-training programs to mitigate the risk of SEA as well as verify that the provisions to prevent and respond to SEA/SH are in place and functioning and provide early warning of problems that may surface. The TPM will report on; the implementation of the SEA/SH Prevention and Response Action Plan; the functioning of an appropriate mechanism to address and resolve SEA/SH complaints; the functioning of the GBV service provider; and the functioning of the GM and the verification of all project environmental and social indicators, including the indicators related to GM and beneficiaries.
- (b) Providing funding for implementing agency to recruit GBV services providers to facilitate access to timely, safe, and confidential services for survivors (including money for transportation, documentation fees, and lodging if needed).
- (c) Mapping of formal services (for example, medical care, safe accommodation, psycho-social counselling, police protection, and legal advice), NGOs and informal resources (such as community-based organizations) that the GRM can refer survivors of SEA for support with a survivor centered approach.
- (d) Including requirements in the contract documents for works and supervision consultants to establish CoCs for employees and subcontractors, and to prepare and implement action plans for environmental, social, health and safety and occupational health and safety standards, and for SEA mitigation.
- (e) Developing a grievance redress policy for the road sector and for integration of protocols to track complaints related to SEA, including a feedback system for timely response on actions taken to respond to complaints.
- (f) Requiring the monitoring and supervising consultants under the project to have adequate environment and social safeguards staff with expertise in GBV/SEA/SH in teams assigned to the project. They will consider having a separate, specialized GRM sensitive to GBV risks and impacts.

135. Stakeholder/Citizen engagement/Beneficiary feedback. As part of a citizen engagement process, the project level GRM will provide a framework for complaints tracking, response, resolution within the stipulated response times, thus closing the feedback loop. The project will put in place an engagement and communication strategy that will elaborate relevant and acceptable communications methodologies with citizens including women, youth and vulnerable



groups, throughout the life of the project as well as information sharing and feedback techniques about all aspects of the project throughout construction. A series of public consultations will be held throughout project construction to raise awareness on the project and its impacts, about the GRM and to allow citizens to raise concerns in face-to-face meetings with the PIU. The intermediate result indicator on “Grievances responded and/or resolved within the stipulated service standards” will be used to assess citizen engagement during implementation.

(iii) GRM

136. GRM. The project will establish a project level GRM, with multiple channels, to facilitate individuals and communities to voice/express general complaints, queries, and concerns including those not necessarily related to safeguards (OP.4.12 on involuntary resettlement). The country-specific RAPs will outline procedures aligned to the project level GRM, through which Project Affected Persons (PAPs), and communities will systematically raise grievances and concerns specifically related to land acquisition, resettlement, and compensation and how these will be effectively resolved and monitored. The RA and ANE will facilitate the formation of three committees at contractor level, community level and at district level (District Council) nationally, and the agreed membership composition will be broadly representative of diverse interest. The project will continue the dialogue and consultations with all the stakeholders on a regular basis and draw upon rigorous implementation of ESIA-ESMP and RAPs to ensure the appropriate action on prevention, mitigation and compensation, with an emphasis on PAPs, in accordance with the policies of Malawi and Mozambique and the World Bank's safeguard policies is taken. The established community and local-level feedback systems will act as an entry point, where the traditional and local leaders will play an important role in receiving and directing complaints for resolution and they will continue to be organized during project implementation to minimize conflicts, enhance cooperation, and improve implementation of the works contracts. In addition, the GRM will be designed to be able to take on SEA/SH grievances. A dedicated person will ensure that all complaints received are logged, written, and treated with confidentiality, transparency, and accountability. PAPs will be given an opportunity to present their grievances in local languages, with support from the project and to translate if necessary. In addition, if PAPs and communities disagree with the grievance resolution in the outlined stages, the GRM will provide an opportunity to escalate to subsequent levels such as district administrations, PIUs and finally the courts.

137. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

138. The overall risk rating for the project is substantial. The project acknowledges the uncertainty and scale of the exogenous macroeconomic shock(s) which may impact implementation as a result of the extraordinary macroeconomic circumstances resulting from the COVID-19 pandemic. The current situation may challenge the resilience of macroeconomic institutions and policies and in turn pose an increased risk to achievement of the PDO and results. The prolonged economic crisis may deeply affect project implementation if the current pandemic is not controlled and if the



impacts on the financial sector and macroeconomic situation remain severe. There is also a risk that appetite for project implementation may wane as more pressing matters take up the governments' focus, such as on fighting the pandemic. Notwithstanding, key risks and mitigation measures are discussed in the following paragraphs.

139. Fiduciary risk assessment. Procurement risks in Malawi and Mozambique include delays in procurement processing due to limited procurement capacity and staff workload, high turnover of procurement staff, mistakes in procedures due to inadequate understanding World Bank Procurement Regulations for IPF Borrowers by the consultants who are still learning these procedures, delays and/or unsuccessful completion of contracts due to inadequate contract management capacity, poor record keeping, limited capacity of the market and supply chain to meet the demand, due to the global nature of COVID-19 pandemic, and challenges of bids submission due to COVID-19 movement restrictions imposed by many countries worldwide. To address these weaknesses, the implementing agencies need to (i) improve procurement capacity by hiring qualified procurement specialists familiar with the Bank's procurement regulation to train existing specialists; (ii) provide contract management training to key staff involved in project implementation to enhance their capacity; (iii) put in place an effective and secure record management system; (iv) apply COVID-19 flexibilities in the bidding process in accordance with emergency operations norms agreed by the Bank to mitigate the impact of the COVID 19 pandemic; (v) retain qualified staff by offering a good work environment and incentives and closely monitor country restrictions; and (vi) promptly propose more efficient procurement approaches and methods based on flexibilities provided for in the Procurement Regulations. Financial Management risks include country risk, complexity of the project, weak accounting, and control environment (particularly within MoTPW in Malawi), characterized by weak accounting software, weak compliance to policies and procedures, and weak internal audit function. In Mozambique while the National Road Fund has experience in managing Bank-financed projects, a PIU will be established within the MTC to mitigate the above risks. For Malawi, the project will make use of government Integrated Financial Management System (IFMIS) and the MoTPW shall deploy a professional qualified project accountant to the project who shall be responsible for the day-to-day financial management activities of the project. Based on these mitigating measures the residual fiduciary risk is substantial.

140. Environmental and social risk assessment (E&S). The overall E&S risk is rated high due to weak institutional capacity of the implementing agencies and the potentially complex implementation arrangement for the various sub-components and the wide geographical scope of the project that cover several towns and communities. Given the nature of the proposed interventions the anticipated scale of potential adverse environmental or social impacts on human populations are expected to be site-specific, reversible and, mitigation measures will be readily used to address such impacts. The mitigation measures are discussed in detail above in para 125 and more generally in Safeguards section V.

141. Political and governance risk rating is moderate. Both Malawi and Mozambique have had elections in the past two years, in June 2020 and October 2019, respectively. The inherent risk is moderate in Malawi as political volatility gradually reduced following the aftermath of elections and the new government is keen to improve policies and regulations in logistics, trade, transport and private sector investment.¹³³ Mitigation measures will focus on ensuring the project is adequately sensitized, that there is transparency on project activities, and that broad-based private sector dialogue and community engagement continue. However, the inherent risk in Mozambique is substantial. Broadly, the project may face problems in implementation in provinces such as Cabo Delgado which have been subject to insurgency attacks in the recent past. To mitigate this risk, the project will be socialized across relevant ministries and incorporate consultations with authorities at various levels. The team will also work with FCV teams in the World Bank, and local

¹³³ The immediate response in Malawi has been favorable as government looks to attract private investments and leverage the rail sector (President HE Lazarus Chakwera State of Nation address to Parliament, September 4, 2020 and remarks by Vice President Chilima), and reduce the incidence of export bans (see the Control of Goods (Export Mandate) Regulations of July 2020).



organizations with experience working in the different contexts in Mozambique¹³⁴, especially for implementation in fragile areas. Implementation of activities under component 4 regarding the transport and logistics sector may be affected by the political economy dynamics in Mozambique. Previously, historical regional sensitivities between the corridor countries have previously slowed down bilateral progress. Moreover, although component 2 will provide support to the existing NDCTC which brings together Mozambique, Malawi, and Zambia, alongside both public and private sector stakeholders in the corridor, Zambia's current non-participation in the project may constrain productivity of regional consultations. This risk will be partially mitigated by WBG support at the national and regional level, including under the SADC framework. Notably, many project activities yield substantial national benefits regardless of progress in other countries. From a policy perspective, both governments' national plans are aligned with the objectives of the project and have committed to implementation.

142. The project mitigates risks in relation to transparency and accountability, particularly in Mozambique where in the 2018 there were confirmed cases of corruption involving ANE in the, now closed "Mozambique Roads and Bridges Management and Maintenance Program II (P083235)". To promote transparency and to strengthen governance, the Bank strongly recommended that the project implementing agency (ANE) become a member of the Construction Sector Transparency Initiative (CoST), a global initiative, improving transparency and accountability in public infrastructure. Mozambique's application to join CoST was approved and it became one of the few African nations to be accepted by the initiative. Under CoST, the project implementing agency has adopted tools, standards, training, and access to technical assistance that can be applied to drive transparency and stakeholder involvement in planning and implementing infrastructure projects and promoting more robust accountability mechanisms. CoST is playing a major risk mitigation role to address potential integrity risks at the organization level. Further, risk mitigation will also apply at the PIU staff levels. Specifically, contracts for PIU staff with perceived integrity concerns and/or those considered as non-performing will not be renewed upon expiry. Further, their contracts will be reviewed to ensure clear deliverables, measurable performance indicators and clear termination and exit clauses in the event of integrity concerns and/or non-performance or at the discretion of the employer where there are reasons to do so. Considering these mitigation measures, the residual risk for political and governance becomes moderate.

143. Macroeconomic risks are moderate. Malawi's trade environment is subject to risks related to the macroeconomic environment, which is characterized by periods of stability interrupted by occasional shocks and economic slowdowns.¹³⁵ Mozambique's strained macroeconomic stance with a tight fiscal context and prevailing high debt has been exacerbated by the COVID-19 crisis, putting pressure on the foreign exchange and metical reserves. In both countries, a deeper and more prolonged level of exposure to COVID-19 could worsen economic indicators, especially on unemployment levels and commodity prices, which will have adverse impacts on implementation of all project components e.g. for example in the agricultural value chain, trade, transport and logistics sectors. For example, a reduction in local savings could reduce complementary entrepreneurship activities in supporting component 3's value chains which the project will develop, as well as the purchasing power of transport services under component 4. Continued progress in structural reforms to promote diversification will help mitigate these risks with support from the WBG and development partners. To further mitigate the macroeconomic risk, the project will aim to align the government's strategic objectives to the ones of the project beneficiaries.¹³⁶ While inherent macroeconomic risks are moderate for Malawi and substantial for Mozambique, the residual risk after mitigation measures is considered moderate in both countries

¹³⁴ Harnessing the Demographic Divided Project, PAD 3254, January 2020.

¹³⁵ World Bank. 2020. *Malawi Economic Monitor*. World Bank. Report No. 151100.

¹³⁶ Crăciun Mihnea (2011) "Macroeconomic and Political Risk Management in Infrastructure Projects" Academy of Economic Studies Bucharest, 6 PiaŃa Romană, Bucharest, Romania http://upg-bulletin-se.ro/old_site/archive/2011-3/7.%20Craciun.pdf



144. The risk of sector strategies and policies is moderate. The inherent risk is substantial as multi-sector coordination is challenging and requires intensive collaboration across provincial and national agencies, the public and private sectors, and, in a regional project, between countries. Uneven capacity of many of these institutions, differing mandates, and often challenging political economies of individual sectors (that is trucking sector) will impact project implementation and may constrain achievement of the PDO. For Mozambique, this risk is also substantial because of dense political economy constraints in the transport and logistics sector affecting component 4, for example e.g. some concessions are awarded without tenders. Further adding difficulty is that this sector is comprised of a mix of state-owned firms with ownership in ports (railway Company - CFM) and other assets, concessions (for example. ports, tolls), and local and international firms of various sizes and capacity.¹³⁷ To mitigate these risks, multi-sector coordination committees at the borders, as well as at the national and regional level, are being strengthened and repurposed, notably through activities under component 3. Lack of progress in agricultural trade policy in Malawi is a risk. Bank staff are actively engaged in policy discussions toward successful implementation of the CoGA to mitigate some of this risk. At the individual sector level, national policies and strategies are already in place in some cases (NTMP and CBM in Malawi); while for Mozambique, the project will support development of its National Logistics Strategy. As such, the residual risk is moderate, given the breadth of mitigation measures already in place.

145. The risk related to the technical design of the project remains substantial although the team has leveraged varied Bank-wide expertise on its project components to develop a holistic approach in corridor development. The inherent risk is substantial as the project is multifaceted with several stakeholders, beneficiaries, and interest groups both regionally and domestically. The project spans diverse technical areas that include an array of trade related ICT systems, transport and border infrastructure, legal and regulatory policy, regional coordination, and financing for value chains. Each of these activities brings its own set of challenges. Component 3 on the financing for value chains requires establishing institutional committees to evaluate proposals. The ICT systems in Component 1 require substantive preparatory work before deployment and roll out. Further, in all project components, many of the deliberations and discussions between stakeholders and beneficiaries will also require extensive coordination with donors who have complementary interventions. To address these aspects in project design, the project has conducted extensive consultations with a wide range of stakeholders throughout preparation. Interventions also start from an existing base and relevant experience. Additionally, the setup and establishment of multi stakeholder groups is expected to contribute to mitigating this risk and enable collaborative consultation for activities during project implementation. Ongoing activities supported by other projects in related areas that have built up momentum for reform, especially alongside the COVID-19 crisis, have generally provided an impetus for trade reform that also helps mitigate the risk. Finally, PPAs are helping prepare the project for effectiveness and finance any technical gaps. Notwithstanding the significant mitigation measures that have been taken during project preparation, some aspects such as the design of the matching grant and guarantee programs in both countries under component 3 as well as corridor coordination under component 2 will only be developed further during implementation. As such, this risk remains with a substantial rating.

146. Institutional capacity for implementation and sustainability is substantial. The project is relatively large requiring multiple interventions. Implementation arrangements that enable the road agencies in both countries to implement the infrastructure interventions in various components, and PIUs in the Ministries of Transport to implement the procurement and financial management of other components will mitigate some of the traditional capacity issues faced in multisectoral projects. Technical supervision in each component –for example component 3– will be kept under the leadership of the relevant agencies (Ministry of Industry and Zambezi Valley Development Agency for component 3). Moreover, the lead transport ministry in each respective country may face difficulties in ensuring the effective cooperation of related government agencies. To ensure coordination and implementation of the reforms across countries, an institutional anchor to leverage reform momentum, support oversight, knowledge sharing, and spur peer

¹³⁷ See International Finance Corporation. 2020. *Mozambique Country Private Sector Diagnostic*. International Finance Corporation.



pressure is needed. The project will support the NDCTC in strengthening its capacity to mitigate the risk at the regional level. The technical capacity of staff to effectively implement remains a constraining factor but to mitigate this, project components include technical assistance and will ensure continuous training under the relevant agency. For example, staff in border agencies will be equipped with the knowledge necessary for utilizing the digital systems introduced under component 1. The national corridor committees will also be strengthened. These committees report to the NTFCs, which also help mitigate risks including those related to legal jurisdiction issues. Still, due to the needed inter- and intra-agency coordination between the two governments, this risk remains substantial.

147. Other risks that include COVID-19, fragility and conflict are substantial, especially considering the impact of COVID-19. Fragility and conflict risk is moderate, although it is substantial in Mozambique and low in Malawi. Mozambique's northern province of Cabo Delgado which borders Tanzania, has been plagued with insurgent attacks since October 2017, fueled by Islamic extremist groups. The attack on civilians has left over 400,000 people internally displaced. The attacks have affected the food security situation in Cabo Delgado, where Crisis levels (IPC-3) are reported compared to Minimal (IPC-1) food insecurity in the neighboring provinces, due to restricted access to crops and livelihoods for fear of violence. Although project activities are envisaged in Nampula Province, negative spillovers can be expected from neighboring Cabo Delgado, especially affecting Component 4 which tackles transport infrastructure development. The proposed project provides opportunities for economic growth and development which can improve the disaster spillovers from the neighboring province. Moreover, to enhance monitoring and evaluation in this FCV setting, the project will use GEMS by leveraging field-appropriate technology for digital data collection and analysis. Effects of the COVID-19 pandemic caused delays in project preparation. Owing to travel restrictions and a general slowdown in economic activity, these delays may continue well into project implementation. The inherent risk is estimated to be substantial given the project's transport infrastructure component. Travel restrictions could result in less utilization of rehabilitated transport infrastructure as envisaged prior to the onset of the pandemic. The team includes country-based team members to help with implementation support but even with consistent discussions and support to supervision, the effects of the pandemic are uncertain and thus the residual risk remains substantial.



VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Southern Africa

Southern Africa Trade and Connectivity Project

Project Development Objectives(s)

The project development objective is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Increase regional trade coordination					
Percentage of key corridor performance indicators with operational improvement made as measured by the corridor performance monitoring mechanism. (Percentage)		0.00	0.00	20.00	30.00
Reduce Trade Costs					
Decrease in logistics cost of containerized imports/exports \$ per ton at destination (Percentage)		0.00	0.00	16.00	18.00
Decrease in logistics cost of containerized imports \$ per ton at destination (Nacala to Blantyre, Road). (Percentage)		0.00	0.00	20.00	20.00
Decrease in logistics cost of containerized imports \$ per ton at destination (Nacala to Blantyre, Rail)		0.00	0.00	10.00	15.00



Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
(Percentage)					
Decrease in logistics cost of containerized imports \$ per ton at destination (Beira to Blantyre, Road) (Percentage)		0.00	0.00	20.00	20.00
Decrease in logistics cost of containerized exports in \$ per ton to port (Blantyre to Beira, road). (Percentage)		0.00	0.00	20.00	20.00
Decrease in logistics cost of containerized exports in \$ per ton to port (Blantyre to Nacala, rail). (Percentage)		0.00	0.00	10.00	15.00
Decrease in average time to clear a border crossing (Percentage)		0.00	0.00	20.00	20.00
Decrease in average time to clear Muloza-Milange border post (Percentage)		0.00	0.00	20.00	20.00
Decrease in average time to clear Zobue-Mwanza border post (Percentage)		0.00	0.00	20.00	20.00
Decrease in average time to clear Caloume-Dedza border post (Percentage)		0.00	0.00	20.00	20.00
Strengthen value chains for regional integration					
Increase in sales of value chain actors participating in the supported value chains (Percentage)		0.00	0.00	10.00	20.00
Number of women value chain actors		0.00	500.00	1,000.00	2,500.00



Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
supported by value chain development activities (Number)					
Value of private sector investments catalyzed (through matching grants) in Malawi and Mozambique (Amount(USD))		0.00	5,000,000.00	10,000,000.00	15,000,000.00
Strengthen transport infrastructure to improve market access					
Share of population with enhanced access to infrastructure (Percentage)		0.00	0.00	60.00	100.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Reduce Trade Costs					
Reduction in percentage of consignments subject to physical inspection in Malawi (Percentage)		70.00	40.00	40.00	40.00
Reduction in percentage of consignments subject to physical inspection in Mozambique (Percentage)		60.00	60.00	40.00	40.00
Reduction in the number of agencies physically located at Dedza and Muloza border posts in Malawi (Number)		13.00	6.00	6.00	6.00
Upgrade infrastructure at all border posts in Mozambique (Percentage)		0.00	15.00	50.00	100.00
Increase in small scale cross-border traders (SSCBT) beneficiaries (Percentage)		0.00	5.00	15.00	25.00



Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Increase in women small scale cross-border traders (SSCBT) beneficiaries (Percentage)		0.00	5.00	15.00	25.00
Strengthen Regional Coordination and Project Implementation					
Number of harmonized standards/mutual recognition agreements/ equivalence arrangements agreed between Malawi and Mozambique (Number)		0.00	2.00	4.00	6.00
Mozambique Logistics KPIs published (Yes/No)		No	Yes	Yes	Yes
Malawi Logistics KPIs published (Yes/No)		No	Yes	Yes	Yes
Spatial information tools developed to monitor civil works projects in areas vulnerable to flood and storms (Climate indicator) (Yes/No)		No	No	Yes	Yes
Grievances responded and/or resolved within the stipulated service standards (Percentage)		0.00	50.00	75.00	100.00
Grievances responded and/or resolved within the stipulated service standards in Mozambique (Percentage)		0.00	50.00	75.00	100.00
Grievances responded and/or resolved within the stipulated service standards in Malawi (Percentage)		0.00	50.00	75.00	100.00
Strengthen Value Chains for Regional Integration					
Number of value chain actors supported by value chain development activities. (Number)		0.00	1,000.00	3,000.00	5,000.00
Number of women value chain actors supported by value chain development activities (Number)		0.00	500.00	1,500.00	2,500.00



Indicator Name	PBC	Baseline	Intermediate Targets		End Target
			1	2	
Gender gap in the share of the value of production sold (Percentage)		17.00	17.00	17.00	12.00
Strengthen Transport Infrastructure to Improve Market Access					
Length of primary and/or secondary road on or connecting regional truck corridor rehabilitated or upgraded in Malawi (Kilometers)		0.00	0.00	25.00	45.00
Length of secondary or tertiary road connecting to regional truck corridor rehabilitated or upgraded in Mozambique (Kilometers)		0.00	100.00	200.00	351.00
Number of blackspot locations improved in Mozambique (Number)		0.00	0.00	2.00	3.00
Number of schools with IRAP Star Rating along the Nacala corridor (Number)		0.00	0.00	28.00	51.00
Number of schools with IRAP Star Rating along the Nacala corridor (Mozambique) (Number)		0.00	0.00	18.00	36.00
Number of schools with IRAP Star Rating along the Nacala corridor (Malawi) (Number)		0.00	0.00	10.00	15.00
Construction of axle load weigh station in Malawi (Number)		0.00	0.00	1.00	1.00
African Road Safety Observatory (ARSO) datasets collected and reported in Malawi and Mozambique (Yes/No)		No	No	Yes	Yes



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Percentage of key corridor performance indicators with operational improvement made as measured by the corridor performance monitoring mechanism.	A corridor performance monitoring system has been setup by the NDCTC and there is improvement in at least 30 percent of the indicators. The data is collected annually once established and published and shared with corridor stakeholders.	Reported Annually	Data will be collected by NDCTC from customs/border and other national authorities.	Individual indicator methodologies.	NDCTC
Decrease in logistics cost of containerized imports/exports \$ per ton at destination	Reduction in the percentage of logistics costs for the defined basket of imported products on the Nacala/Beira corridor to Blantyre road/rail route as a percentage compared to the invoiced imported cost including insurance and freight (CIF).	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from seaport to destination. Import product costs will be determined from invoice price (CIF)/ export invoice in the MRA/AT system for selected products.	NDCTC
Decrease in logistics cost of containerized imports \$ per ton at destination (Nacala to Blantyre, Road).	Reduction in the percentage of logistics costs for the defined basket of imported products on the Nacala to Blantyre road route as a percentage compared to the	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from seaport to destination. Import	NDCTC



	invoiced imported cost including insurance and freight (CIF).			product costs will be determined from invoice price (CIF) in the MRA/AT system for selected products.	
Decrease in logistics cost of containerized imports \$ per ton at destination (Nacala to Blantyre, Rail)	Reduction in the percentage of logistics costs for the defined basket of imported products on the Nacala to Blantyre rail route as a percentage compared to the invoiced imported cost including insurance and freight (CIF).	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from seaport to destination. Import product costs will be determined from invoice price (CIF) in the MRA/AT system for selected products.	NDCTC
Decrease in logistics cost of containerized imports \$ per ton at destination (Beira to Blantyre, Road)	Reduction in the percentage of logistics costs for the defined basket of imported products on the Beira to Blantyre road route as a percentage compared to the invoiced imported cost including insurance and freight (CIF).	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from seaport to destination. Import product costs will be determined from invoice price (CIF) in the MRA/AT system for selected products.	NDCTC



Decrease in logistics cost of containerized exports in \$ per ton to port (Blantyre to Beira, road).	Reduction in the percentage of logistics costs for the defined basket of exported products on the Blantyre to Beira road route as a percentage compared to the invoiced exported value.	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from origin to seaport. Product costs will be determined from export invoice in the MRA/AT system for selected products.	NDCTC
Decrease in logistics cost of containerized exports in \$ per ton to port (Blantyre to Nacala, rail).	Reduction in the percentage of logistics costs for the defined basket of exported products on the Blantyre to Nacala rail route as a percentage compared to the invoiced exported value.	Reported Annually.	Data will be collected by the NDCTC from MRA, AT and surveys.	Logistics costs, will include transport costs, fees and charges, and others as applicable from origin to seaport. Product costs will be determined from export invoice in the MRA/AT system for selected products.	NDCTC
Decrease in average time to clear a border crossing	Decrease is measured by number of hours required to complete all formalities on both sides of the border upon arrival at the first border including wait time and documentation time.	Reported Annually.	NDCTC through customs and border agencies.	Time Release Plus (TRS+) Study will be conducted to capture baseline in the first year of implementation.	NDCTC
Decrease in average time to clear Muloza-Milange border post	Decrease is measured by number of hours required to	Reported Annually.	NDCTC through customs	Time Release Plus (TRS+) Study will be	NDCTC



	complete all formalities on both sides of the border upon arrival at the first border including wait time and documentation time.		and border agencies.	conducted to capture baseline in the first year of implementation.	
Decrease in average time to clear Zobue-Mwanza border post	Decrease is measured by number of hours required to complete all formalities on both sides of the border upon arrival at the first border including wait time and documentation time.	Reported Annually.	NDCTC through customs and border agencies.	Time Release Plus (TRS+) Study will be conducted to capture baseline in the first year of implementation.	NDCTC
Decrease in average time to clear Caloume-Dedza border post	Decrease is measured by number of hours required to complete all formalities on both sides of the border upon arrival at the first border including wait time and documentation time.	Reported Annually.	NDCTC through customs and border agencies.	Time Release Plus (TRS+) Study will be conducted to capture baseline in the first year of implementation.	NDCTC
Increase in sales of value chain actors participating in the supported value chains	Average change in annual sales of value chain actors supported with matching grants and/or skills development programs. The value chain actors include sales of traders, small-scale farmers, emerging farmers, and SMEs supported by the project.	Reported Annually	Data will be sourced from private entities receiving/benefiting from public money.	Average change in annual sales of all type of value chain actors. Surveys with value chain actors supported under the project. Cross-check through third-party monitoring.	Component 3 implementing agencies
Number of women value chain actors supported by value chain development activities	Number of women value chain actors that benefit from the skills and capital in Component 3.	Reported Annually.	Implementation reports.	Implementation reports. Cross-check through third-party monitoring.	Technical teams in coordination with PIU.



Value of private sector investments catalyzed (through matching grants) in Malawi and Mozambique	Total amount of private investment that is matched by public investment. These will include the total investment leveraged from traders, small-scale farmers, emerging farmers, and SMEs supported by the project.	Reported Annually	Data will be sourced from private entities receiving/benefiting from public money.	Administrative data from implementation of the matching grants programs.	Component 3 implementing agencies.
Share of population with enhanced access to infrastructure	Share of population that are direct beneficiaries that experience improved access to infrastructure (roads and border posts) that have been built or rehabilitated through a WBG-financed project. Beneficiaries would be within project area of influence within 2km of roads and border posts (RAI).	Reported Annually.	Census data.	Number of beneficiaries is based on census data in both Malawi and Mozambique.	ANE/Roads Authority

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Reduction in percentage of consignments subject to physical inspection in Malawi	Percentage of cargo (containers/consignments/declaration) inspected (physical/documentary) by	Reported Annually.	MRA Automation System (ASYCUDAWorld)	Recording of inspections in automation system (ASYCUDAWorld)	Malawi Revenue Authority



	Customs in Malawi at three selected clearance points/borders of project impact.		orld)		
Reduction in percentage of consignments subject to physical inspection in Mozambique	Percentage of cargo (containers/consignments/declaration) inspected (physical/documentary) by Customs in Mozambique at three selected clearance points/borders of project impact.	Reported Annually.	Autoridade Tributária Automation System	Recording of inspections in automation system.	Autoridade Tributária (Revenue Authority in Mozambique)
Reduction in the number of agencies physically located at Dedza and Muloza border posts in Malawi	Currently 13 agencies operate at the border (Coordinated Border Management (CBM) review). Upon implementation of CBM and trade facilitation reforms it is expected to have this number reduced to 6 agencies.	Reported Annually. Once result has been achieved reporting will focus on its maintenance.	Corridor Working Group	Physical location of border agencies at the two borders of Dedza and Muloza.	Corridor Working Group
Upgrade infrastructure at all border posts in Mozambique	This indicator will track progress in building physical infrastructure at the respective border posts. (Milange, Zobue, Calomue, Cassactiza and Ponta do Ouro in Mozambique.)	Reported semi annually.	PIU	Construction supervision reports	Mozambique's Customs Authority (Autoridade Tributária de Moçambique) & ANE
Increase in small scale cross-border traders (SSCBT) beneficiaries	This indicator measures the number of small scale cross-border trader who are	Reported Annually	SENAMI, Corridor Working	IOM definition will be used to calculate the number of beneficiaries	SENAMI, Corridor Working Group



	issued border residency card. IOM defines small scale cross-border trader as persons that regularly cross the borders in the region to sell and buy goods.		Group	who are issued border residency cards.	
Increase in women small scale cross-border traders (SSCBT) beneficiaries	This indicator measures the number of women small scale cross-border traders who are issued border residency card. IOM defines small scale cross-border trader as persons that regularly cross the borders in the region to sell and buy goods.	Reported Annually	SENAMI, Corridor Working Group	IOM definition will be used to calculate the number of women beneficiaries who are issued border residency cards.	SENAMI, Corridor Working Group
Number of harmonized standards/mutual recognition agreements/equivalence arrangements agreed between Malawi and Mozambique	This indicator will measure the creation of MOUs/agreements across corridor countries that enables recognition of documents, procedures, practices, standards, data, systems and others.	Reported Annually	NDCTC	Harmonized standards/MRAs/Equivalence will be maintained by the NDCTC.	NDCTC
Mozambique Logistics KPIs published	A logistics KPI is a performance measurement that is used to track visualize and optimize all relevant logistics processes in an efficient way and includes supply chain and	Reported annually.	Corridor Working Group	The NDCTC will develop a joint methodology for KPIs and corridor monitoring mechanism.	Corridor Working Group, MTC



	transportation.				
Malawi Logistics KPIs published	A logistics KPI is a performance measurement that is used to track visualize and optimize all relevant logistics processes in an efficient way and includes supply chain and transportation.	Reported Annually	Corridor Working Group	The NDCTC will develop a joint methodology for KPIs and corridor monitoring mechanism.	Corridor Working Group, MTC
Spatial information tools developed to monitor civil works projects in areas vulnerable to flood and storms (Climate indicator)	Operationalizing spatial information tool that will visualize road network vulnerabilities.	Reported Annually	PIU through GEMS	The TPM, PIUs and local stakeholders will be trained in the use of the open-source tool KoBo Toolbox to collect real-time data in the field.	PIU established in RA and ANE in Malawi and Mozambique respectively
Grievances responded and/or resolved within the stipulated service standards	This indicator measures the transparency and accountability mechanisms established by the project so that the target beneficiaries grievances are attended to promptly. The project shall adopt incident reporting and response protocol.	Reported Annually	Report from the grievance redressal mechanism.	Methodology as stipulated in the operations manual.	ANE/Roads Authority. TPM
Grievances responded and/or resolved within the stipulated service standards in Mozambique	This indicator measures the transparency and accountability mechanisms established by the project so that the target beneficiaries grievances are attended to	Reported Annually	Report from the grievance redressal mechanism.	Methodology is stipulated in the operations manual.	ANE, TPM



	promptly. The project shall adopt incident reporting and response protocol.				
Grievances responded and/or resolved within the stipulated service standards in Malawi	This indicator measures the transparency and accountability mechanisms established by the project so that the target beneficiaries grievances are attended to promptly. The project shall adopt incident reporting and response protocol.	Reported Annually	Report from the grievance redressal mechanism.	Methodology as stipulated in the operations manual.	Roads Authority, TPM
Number of value chain actors supported by value chain development activities.	Number of value chain actors that access or benefit from the skills and capital interventions in Component 3.	Reported Annually	Implementation reports.	Implementation reports. Cross-check through third-party monitoring.	Technical teams in coordination with PIU.
Number of women value chain actors supported by value chain development activities	Number of women value chain actors that benefit from the skills and capital in Component 3.	Reported Annually	Implementation reports	Implementation reports. Cross-check through third-party monitoring.	Technical teams in coordination with PIU
Gender gap in the share of the value of production sold	This indicator measures the difference in the share of the value of production sold between male-headed households and female-headed households supported by the project.	Surveys for baseline, mid-term, and end of project.	Household-level surveys	Surveys. Baseline will be updated during implementation.	Technical agencies responsible for component 3
Length of primary and/or secondary road on or connecting regional truck corridor rehabilitated or upgraded in Malawi	Length of primary and/or secondary road improved through the project.	Reported Annually	Supervision reports	Verification of civil works completion.	Roads Authority



Length of secondary or tertiary road connecting to regional truck corridor rehabilitated or upgraded in Mozambique	Length of secondary or tertiary road improved through the project.	Reported Annually	Supervision reports	Verification of civil works completion.	ANE
Number of blackspot locations improved in Mozambique	Physical infrastructure upgrades to improve road safety and reduce accidents.	Reported Annually	Supervision reports	Verification of civil works completion.	ANE
Number of schools with IRAP Star Rating along the Nacala corridor	Number of school sites with road safety interventions implemented to improve Star Rating to minimum of three stars that better protects vulnerable road users.	Reported Annually	Supervision reports	Verification of civil works completion.	ANE/Roads Authority
Number of schools with IRAP Star Rating along the Nacala corridor (Mozambique)	Number of school sites with road safety interventions implemented to improve Star Rating to minimum of three stars that better protects vulnerable road users.	Reported Annually	Supervision reports	Verification of civil works completion.	ANE
Number of schools with IRAP Star Rating along the Nacala corridor (Malawi)	Number of school sites with road safety interventions implemented to improve Star Rating to minimum of three stars that better protects vulnerable road users.	Reported Annually	Supervision reports	Verification of civil works completion.	Roads Authority
Construction of axle load weigh station in Malawi	Installation of new axle load control station consistent	Reported Annually	Supervision reports	Verification of civil works completion.	Roads Authority



	with SADC standards.				
African Road Safety Observatory (ARSO) datasets collected and reported in Malawi and Mozambique	Collection and reporting of up to 25 indicators as endorsed by the ARSO member states.	Reported Annually	DRTSS (Mozambique), DRTSS (Malawi)	Police and Hospital Data	Agency responsible for road safety in both countries.



ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

A. Institutional and Implementation Arrangements

- 1. Malawi: The borrower is the Republic of Malawi**, represented by the Ministry of Finance, Economic Planning and Development. The MoTPW and the RA, will be responsible for overall implementation of the project.
- 2. Mozambique: The borrower is the Republic of Mozambique**, represented by the Ministry of Economy and Finance. The MTC and the Road Fund (Fundo de Estradas)/Roads Authority (ANE) (see Para 8) will be responsible for overall implementation of the project.
- 3. To strengthen regional coordination, the project will provide support to the existing NDCTC.¹³⁸ The NDCTC functions as the Corridor Management Institution (CMI) – it has a three-level structure and is operational (see Figure 8).** The trilateral committee was formed to capture the benefits of the extensive investments in port, rail, and road infrastructure that have been made in the Nacala Development Corridor since 2013. NDCTC brings together Mozambique, Malawi and Zambia, alongside both public and private sector stakeholders in the corridor, to collaborate in producing an efficient, predictable transport system with a reliable flow of logistics information that minimizes transport delays at the port, borders, and intermodal transfers. An institutional framework is needed to help the corridors function efficiently. This must effectively coordinate public and private sector actors across both countries and issues. Experience from the region suggests that such institutions need to be flexible to engage effectively with different groups of stakeholders and adapt to evolving needs.¹³⁹ SADC's 2012 "Regional Infrastructure Development Master Plan" and the 2016 "Industrialization Strategy and Roadmap" together provide an avenue to link the trade, transport and industrial development agendas in the region. A similar corridor coordination committee for the Beira Corridor has been proposed as part of a recent diagnostic.¹⁴⁰
- 4. The NDCTC committee consists of the Committee of Ministers and the Steering Committee which set the overall strategy for the organization.** The Committee of Ministers, on the advice of the Steering Committee, will establish sub-committees on key corridor issues (that is, customs and transit, immigration and security, legal affairs). These will provide technical advice and seek to harmonize national policies and regulations on the joint issues that impact the corridor. Members of the Joint Technical Committee meet several times a year to share the full work of the committee. A secretariat has been proposed for the committee and its composition is currently being discussed. The institutional agreement indicates they are responsible for analytical support for strategy formulation, project identification, data collection, project implementation monitoring, and all administrative functions. The secretariat will eventually be supported by the project.

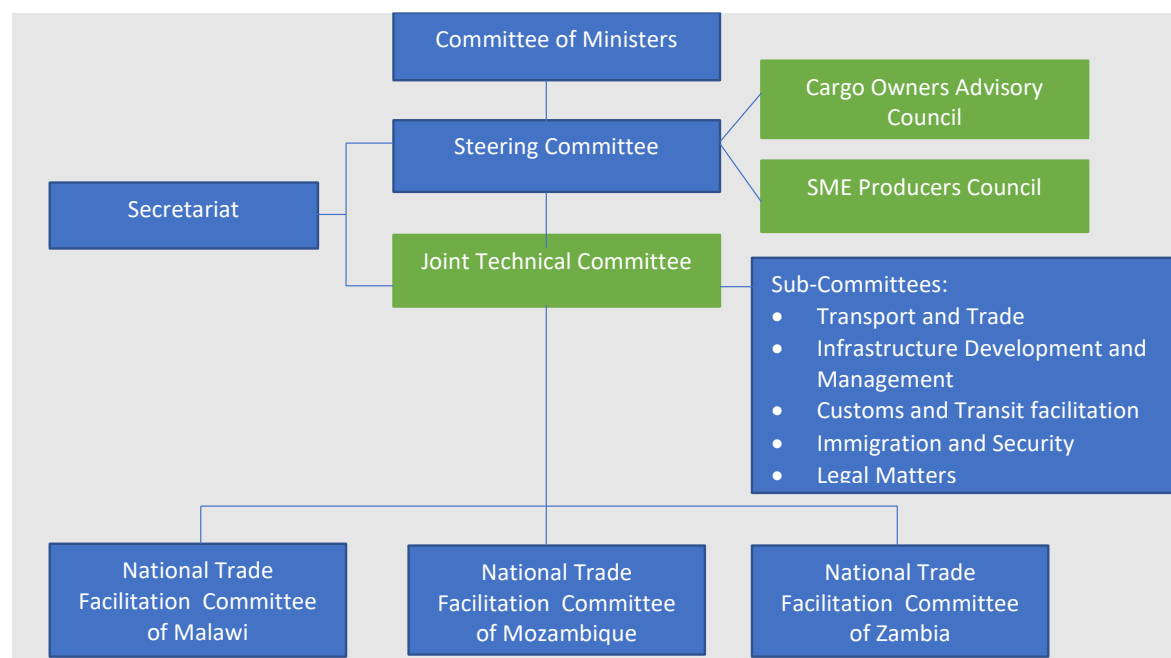
¹³⁸ The Nacala Development Corridor (NDC) was originally established in 2000 between Malawi and Mozambique who were joined by Zambia in 2003. The NDC was influenced by the SADC Protocol on Trade (1996) and the SADC Protocol on Transport, Communications and Meteorology (1998). In 2013-2017, after the rehabilitation and construction of new rail infrastructure, an amendment to the 2000 Corridor agreement saw the NDCTC being tasked with revitalizing the corridor. The committee held a series of meetings in Maputo, Lusaka, and Lilongwe over the past two years, reviving coordination after a 14-year hiatus beginning in 2003.

¹³⁹ For example, coordinating and managing infrastructure investments is quite different from improving corridor logistics, requiring the involvement of a different set of stakeholders and different processes to achieve a different set of objectives. See Sequeira, Sandra; Hartmann, Olivier; Kunaka, Charles. (2014). *Reviving Trade Routes: Evidence from the Maputo Corridor. Sub-Saharan Africa Transport Policy Program (SSATP) discussion paper*; no. 14. World Bank.)

¹⁴⁰ USAID. 2019. "Beira Corridor and Port Performance Assessment" Background paper, Nathan Associates.

Private sector councils that would provide input into the committee have also been proposed. The NDCTC provides an appropriate place for addressing any inter-governmental issues that need to be resolved (Figure 8). Under SATCP, under component 2, both Malawi and Mozambique have drafted an implementation plan that will be overseen by the NDCTC (see table 10).

Figure 8: Coordination in the Nacala Corridor ¹⁴¹



Source: NDC, WBG

5. The first item in the preamble of the current draft of the Nacala Development Corridor (NDC) agreement states the goal of respecting the obligations under existing international, regional, and multilateral/bilateral agreements, particularly the goals expressed in the SADC Protocols. The SADC Transport and Trade Protocols provide the legal basis for formation of a CMI that is, the NDCTC.¹⁴² On 27th August 2010, the Nacala Corridor countries signed the Tripartite Railway Transport Agreement, which committed the three corridor countries to common railway regulations and operating principles. In 2017, the 2000/2003 Agreement was amended to include the Tete extension to the Nacala railway and agreements allowing third party use of the railway by corridor countries. It also redefined the corridor area in each country and indicated that the corridor will be used for developing businesses in transport, commerce, agriculture, mining, and tourism. Article 1 of the current draft agreement specifically traces the legal evolution of the Nacala Development Corridor and the desire for a new agreement “governing its institutional and legal frameworks, as well as activities and operations of the Nacala Development Corridor.”

¹⁴¹ The boxes in green are proposed for amendment and being discussed by the NDCTC. The minutes of the NDCTC are issued by the Joint Technical Committee and the proposal is to formalize its role officially in the structure.

¹⁴² The NDC Agreement entered into force 30 days after the last Corridor State had notified the depository of compliance with internal legal procedures and forwarded it to the SADC Secretariat.



Table 10: Implementation Plan for Component 2

STRENGTHEN REGIONAL COORDINATION AND SUPPORT PROJECT IMPLEMENTATION	Year 1				Year 2				Year 3				Year 4				Year 5				Year 6			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operationalize the new NDCTC agreement																								
Finalize legal agreements to strengthen the NDCTC																								
Create and operate the interim secretariat and other positions																								
Develop and implement this Strategic Action Plan; update periodically		W+		W+		W+		W+		W+		W+		W+		W+		W+		W+		W+		W+
Develop and implement sustainability plan for NDCTC																								
Develop and utilize performance monitoring system for corridor planning and evaluation																								
Conceptualize and hold workshop to agree on corridor performance indicators for member countries																								
Collect data, analyze, design software, procure hardware and implement automated system																								
Publish and disseminate indicators																								
Develop and implement pandemic/climate-related SOPs																								
Draft corridor pandemic/climate emergency SOPs, incorporating SADC SOPs; train; disseminate action plans																								
Implement Corridor Trip Monitoring System (CTMS)																								
Design corridor CTMS, procure hardware and implement; adapt for enforcing Covid compliance on drivers																								
Implement One Stop Border Posts and other border improvements																								
Finalize facility model, ICT, legal agreement and procedures for OSBPs between Malawi/Mozambique		physical	adopt legal		adopt agencies	train &	M&E						M&E				M&E							
Finalize facility model, ICT, legal agreement and procedures for OSBP between Zambia/Mozambique		physical	adopt legal		adopt agencies	train &	M&E						M&E				M&E							
Remove non-tariff barriers and facilitate trade operations																								
Streamline and harmonize trade regulations, identify NTBs and design mitigation measures						harmonize	find NTBs	mitigate NTBs										find	mitigate NTBs					
Ministries of Agriculture Plant and Animal Health finalize tripartite agreements and strategic action plan																								
Capacity building: implement common standards, document/ testing requirements and mutual recognition																	M&E		M&E				M&E	
Bureaus of Standards develop strategic action plan for the bilateral agreement; liaise with Zambia																								
Capacity building: implement common standards, document/ testing requirements and mutual recognition																	M&E		M&E				M&E	
Support regional value chain development																								
Identify and assess opportunities for regional value chains on the corridor; assess constraints																								
Develop a joint policy and investment action plan for their development																								
Support investment action plan																								
Develop the simplified trade regime between Malawi and Mozambique																								
Adopt STR program and determine goods and value limits for the program																								
Implement International Trade Desk to train and assist local traders, especially women; conduct M&E																								
Implement improved transport legal framework and operations																								
Harmonize and improve road and rail operations in conformity to new NDCTC agreements																								
Harmonize key transport policies, laws, regulations and standards in conformity with Tripartite initiatives																								
Support improved logistics systems																								
Technical assistance on logistics: turnaround and border times, transit visibility, intermodal transfers, etc																								
Improve transit system																								
Improve all aspects of transit for the length of the corridor.																								
Streamline Immigration procedures and enforcement; enable cross-border tourism																								
Improve immigration processes at borders for traders, travellers and tourists, especially border communities.																								
Project Implementation																								



6. Article 5 of the Agreement states the following objectives. (a) Enhance the efficiency and cost competitiveness of NDC by facilitating movement of persons and goods; (b) Champion the development, improvement, maintenance, quality and reliability of the infrastructure, transport and services; (c) Coordinate, integrate and optimize corridor improvement and development projects by stakeholders of the public and private sectors, SADC, and transport and trade facilitation groups; (d) Establish a performance monitoring program; (e) Promote the corridor to increase its utilization; and (vi) Stimulate economic and social development in the corridor area. Article 6 provides that the obligations of the corridor states include equal treatment, that is, all laws and regulations are to be applied equally with transparency, harmonization, efficiency, and simplicity. Other obligations include consistency, mutual assistance, uniform technical standards, and provision of data.

7. At the national level, the National Technical Committees have been established. In Malawi, this is the CTDMC, while in Mozambique it is the CWG. Both technical committees were established under their respective National Trade Facilitation Committees, are responsible for all corridors of the country, and engaged on issues related to both the Beira and Nacala corridors.¹⁴³ Bilateral discussions on the Ponta do Ouro border post are ongoing between Mozambique and South Africa and are focused on institutional arrangements, as well as the model and financing of the border post on the Maputo corridor. These feed into the CWG agenda. The technical committee functions would also need to be supplemented by the need to coordinate the activities of numerous development partners involved in the corridors.

8. At the project level, project implementation units are established in the Ministries of Transport and the RAs of both countries¹⁴⁴. The RAs will be responsible for the implementation of infrastructure (roads, border posts, and inland examination centers). The Road Fund Administration (RFA) in Malawi and the MTC in Mozambique operate a Designated Account (DA) for project preparation activities (PPA). The National Road Fund (Fundo de Estradas), a quasi-government entity in Mozambique is the lead implementing entity for the implementation of infrastructure components under the project¹⁴⁵. The financing for the infrastructure components will be made available to National Road Fund (lead implementing agency) under a subsidiary agreement, and it will exercise fiduciary responsibility for financial management, auditing of project resources and coordinating with ANE (Mozambique's Road Authority), another quasi-government entity through a Cooperation Agreement. ANE will be the executing agency or implementor to undertake procurement and contract management related to construction of roads and border posts as in past World Bank Projects¹⁴⁶. In Malawi, the Road Fund Administration (RFA) and the Malawi Roads Authority (RA) are quasi-government entities where the RFA is responsible for the collection of road levies and administration of public funds for the improvement of public roads in Malawi and RA is responsible for ensuring that public roads are constructed, maintained, or rehabilitated. Under the project, the RFA will be responsible for financial management and the RA will be responsible for procurement and contract implementation for the infrastructure components under the project as in past World Bank projects¹⁴⁷. The project implementation unit (PIU) at the Ministries of Transport will be responsible for implementing the non-infrastructure

¹⁴³ The private sector led Maputo Corridor Logistics Initiative (MCLI) recently closed. Instead, Government Ministries decided to design a corridor management institution for Mozambique, South Africa and Eswatini that would be government led with private sector participation. A legal framework is now being drafted for a new Maputo Development Corridor Committee.

¹⁴⁴ Various options were discussed to determine the appropriate implementation arrangements. An option to establish PIUs in multiple agencies where expertise was required was discarded as it would have resulted in three or more PIUs in each country. The streamlined option of selecting an infrastructure PIU (at the roads authorities) and a non-infrastructure PIU at the Ministries of Transport (which leads the delegations to the NDC for both countries) was considered lower risk in terms of coordination challenges, administrative costs and the associated complexities of multiple PIUs. The selected approach was also based on recent and similar experience in the recently concluded Integrated Growth Poles Project (P127303).

¹⁴⁵ In Mozambique, the Project Agreement with the World Bank has been signed with the National Road Fund while in Malawi it has been signed with Malawi's Road Authority.

¹⁴⁶ As such ANE is referred to the implementing agency in the PAD. For example, of previous World Bank project see Integrated Feeder Road Development Project (P158231).

¹⁴⁷ For example, of previous World Bank Project see the Southern Africa Trade and Transport Facilitation Project (SATTFP) (P145566).



components of the project. In SADC countries, transport ministries have taken the lead in CMI's since 1998 as initially the focus was on infrastructure improvements.¹⁴⁸ The transport ministries in both countries are also the chairs of the CWGs and the focal point for the NDC. The PIUs will be responsible for project coordination and implementation, with full fiduciary responsibility for all activities of the project. The PIUs will include at least a project manager, a social and environmental specialist, a procurement specialist, an FM specialist, M&E specialist, and appropriate technical specialists, including a fund manager (for component 3) and necessary support staff. Each component will be supervised by a lead technical agency through a committee as needed to be setup by the Ministries of Transport and be detailed in the project operations manual.

9. Specifically, in Malawi, the project will be implemented by the MoTPW and the RA. The RA will be responsible for the implementation of the project infrastructure components (roads, border post and inland examination centers) and the PIU at the MoTPW will be responsible for implementing the non-infrastructure components. Both the RA and the MoTPW are members of the CTDMC, an interagency working group responsible for discussing, monitoring, and implementing all matters related to transport, logistics and corridor development for Malawi; the CTDMC will provide oversight on implementation of the project. The CTDMC has been established under the National Trade Facilitation Committee (NTFC) which is chaired by the Malawi Revenue Authority with the Ministry of Trade and Industry acting as its Secretariat¹⁴⁹. The NTFC was established in July 2015 under a cabinet resolution and is a 20-member body comprising public, private and civil society institutions related to trade facilitation. CTDMC members include key stakeholders who impact policy, procedures, and investments along the corridors. It also includes key ministries such as the Ministry of Agriculture, the Immigration Department, the Malawi Bureau of Standards, Malawi Police, the rail concessionaire (CEAR) and key private sector associations.

10. In Mozambique, the project will be implemented by the MTC and ANE. ANE will be responsible for the implementation of the project infrastructure components (roads and border posts) and the PIU at MTC will be responsible for implementing the non-infrastructure components of the project. (Figure 9) Both ANE and the MTC are members of the Corridor Working Group (CWG) which is an interagency working group that will provide oversight on project implementation. The CWG was established under the National Trade Facilitation Committee (NTFC), which is chaired by the Ministry of Trade, Industry and Commerce (MIC). The NTFC was established in December 2017 under a cabinet resolution and comprises public and private stakeholders related to trade facilitation. CWG members include key stakeholders who impact policy, procedures and investments along the corridors and includes Ministry of Economy and Finance); MTC; Ministry of Sea, Interior Waters and Fishery (MIMAIP); Ministry of Agriculture and Rural Development ; Ministry of Internal Affairs; Ministry of Health¹⁵⁰ and key private sector associations i.e. the Association of Private Sector (CTA) and the Mozambique Chamber of Commerce (CCM). The Cooperation partners are also represented in the NTFC. The Ponta do Ouro Border Post development will also be coordinated by the CWG and implemented by the project PIU; however, discussions will be conducted through the Maputo Development Corridor Tripartite Committee rather than the NDCTC.

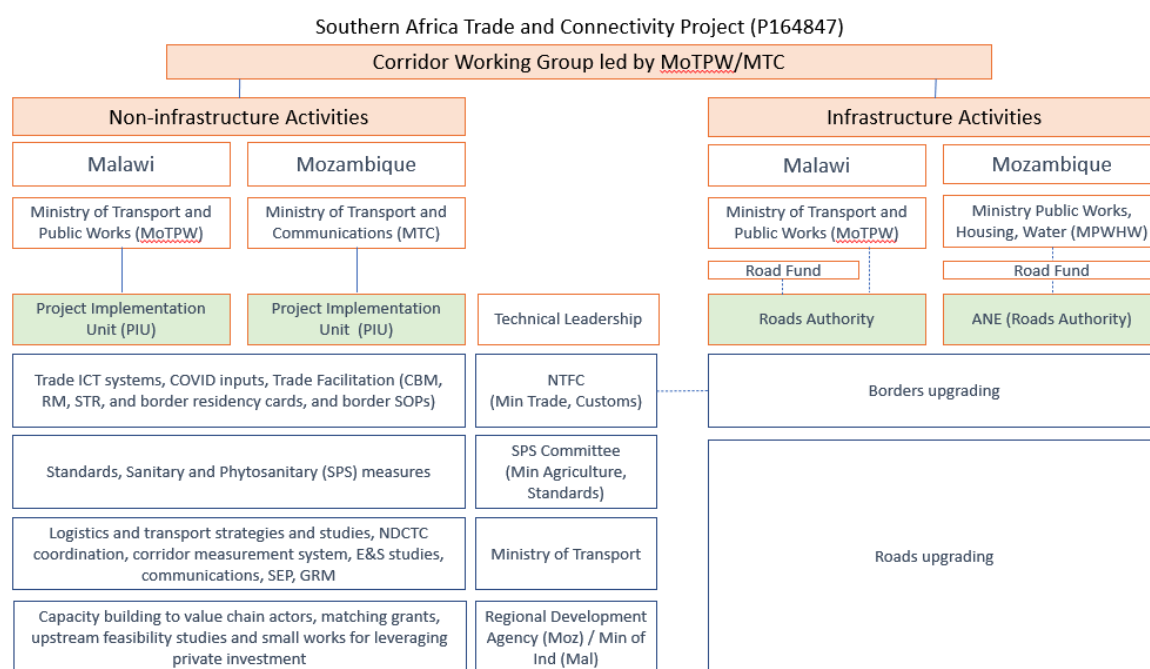
¹⁴⁸ The SADC Protocol on Transport, Communications and Meteorology (PTCM) commits member countries to "the establishment of cross-border, multi-modal corridor planning committees comprising public and private sector stakeholders" to ensure unimpeded access between coastal and land locked countries, freedom of transit and equal treatment in the use of transport and logistics infrastructure. (Articles 3.2 – 3.5) PTCM identifies the need to coordinate with a full range of sectors to enhance the efficiency of processing cargo and persons at frontiers in order to achieve well-performing corridors. Put into practice the name was changed to corridor management committee. Many of the principles implemented by the CMI are also based on the SADC Protocol on Trade.

¹⁴⁹ In Malawi discussions are ongoing about deputing some CTDMC members to the PIU to enhance technical capacity.

¹⁵⁰ Other public institutions are also members through their reporting relationships to the parent ministries. These are Institute of Normalisation and Quality (INNOQ), under MIC; Institute of Supervision of Fishery (INIP), under MIMAIP; and Agency to Promote Investment and Exports (APIEX), under MIC.



Figure 9: Implementation arrangements



11. Road authorities in both countries and the Ministry of Transport and Communication in Mozambique have experience in implementing World Bank financing. Further, the RFA in Malawi operates a DA for the preparation activities for this project, similarly in the case of the MTC in Mozambique.

12. The project operations manual will articulate coordination processes between the PIU, project officers, and technical focal points in the national technical committees, as well as the frequency of technical committee meetings. Regular meetings between the beneficiary institutions, PIU, and the Technical Committees will be necessary to ensure effective information-sharing among beneficiaries. These arrangements will also be complemented by periodic workshops and activities at the regional level to foster coordination and sharing of the lessons/experiences using the NDCTC. Given the capacity challenges in both countries, a series of measures will be adopted to mitigate and reduce risks that will include: (a) adequate financing for building capacity through trainings, hiring of expert consultants and use of joint technical committees; (b) possibly seconding personnel from trade and customs to the PIUs for stronger ownership; (c) ensuring technical supervision in each component, for example component 3, will be kept under the leadership of the relevant agencies (Ministry of Agriculture and Zambezi Valley Development Agency for component 3); (d) building redundancy for course correction and adaption to potential extenuating circumstances; (e) utilizing bank trust funds, particularly on trade facilitation, to provide additional technical assistance; and (f) utilizing private sector participation in the coordination arrangements to continuously provide user feedback to the project.

13. Well-staffed PIUs within the MoTPW in Malawi and MTC in Mozambique will implement the projects. These units are comprised of project coordinators, financial management specialists, procurement specialists, technical experts, and safeguards specialists, and will support the respective ministries in the daily management and implementation of the project. In both Malawi and Mozambique, infrastructure works (including rehabilitation of border posts) will be managed



by the RAs. At both roads authorities social and environmental specialists will also be recruited in addition to procurement specialist in Malawi at the RA to bolster existing capacities of the agencies to manage the projects.

14. The PIU will have regional presence in the project focus areas, including safeguards personnel. Relevant sectorial ministries, regional development agencies, and subnational governments will be key implementing counterparts. The PIU including at the RA will finalize safeguard instruments as well as the development, operation, and maintenance of a GRM that will allow potential beneficiaries, the wider public, and other stakeholders to raise grievances related to the implementation of the project as well as respond to those complaints. This will include avenues to report and refer beneficiaries in cases of GBV. The PIU will be responsible for ensuring steering committee functions and coordinating the various aspects of project implementation involving the main counterparts in each country.

15. Communications, citizen engagement, and stakeholder coordination activities during the project will be managed by the PIU. These will include (a) the development of a comprehensive communication strategy for each project target area as well as the preparation of all communication materials and, where appropriate, the organization of awareness raising events; (b) the coordination of stakeholder involvement in project activities; and (c) the implementation of stakeholder and citizen engagement plan and feedback mechanism to inform project implementation.

16. This PIU will also manage the collection of project data, gender analysis, and sector-based surveys to assess progress against project indicators, as needed. If possible, the project will also finance an impact evaluation which will be managed by the PIU to better measure impact of key initiatives. All activities and data collection will be gender disaggregated.

B. Financial Management and Disbursement

17. As part of project preparation, FM assessments were carried out by the World Bank to evaluate the adequacy of FM arrangements to support project implementation. The assessments focused on the MTC and National Road Fund (*Fundo de Estradas*) in Mozambique, the MoTPW and Road Fund Administration (RFA) in Malawi. The objective of the assessments was to determine whether the proposed FM arrangements: (a) are capable of correctly and completely recording all transactions and balances relating to the project; (b) would facilitate the preparation of regular, accurate, reliable, and timely financial statements; (c) would safeguard the project's assets; and (d) would be subject to acceptable auditing arrangements. The Assessment was carried out in accordance with the World Bank Directive and Policy for Investment Financing Project (IPF) issued on September 30, 2018, the Bank Guidance on FM in World Bank IPF Operations issued on February 28, 2017. The overall residual FM risk rating is considered Substantial, due to the following key risk factors: (a) for both Malawi and Mozambique new PIUs need to be established; (b) the countries' fiduciary risks; (c) design complexity as the project will be financing a wide range of activities such as IT infrastructure, civil work custom border posts, roads rehabilitation) and matching grants, and (d) capacity issues in both countries.

FM arrangements

18. Staffing in Mozambique. The new PIU/MTC and National Road Fund will be responsible for fiduciary aspects of the project. Road Fund Department of Administration and Finance has finance staff with acceptable skills and experiences to handle FM and Disbursement matters of the Bank-financed operations. In addition, the National Road Fund staff has experience in contract management as they have been involved in construction and rehabilitation of roads over the time. The new PIU/MTC will be staffed with a project FMS with acceptable skills and experience and the appointment should be completed with three months after project effective date. The current PCU within the MTC will support implementation of this proposed project activities under the responsibility of the MTC until the appointment of PIU FM staff is completed.



19. Planning and Budgeting in Malawi. The project shall prepare annual work plan and budget (AWPB) and submit to World Bank for approval. The agreed work program to be financed will be included in the AWPB based on the project components. Also, the project will apply the government budget calendar and the Medium-Term Expenditure Framework of the MoTPW in preparing the AWPB. The MoTPW is expected to link project cost elements to the new IFMIS Government Financial System (GFS) codes. The AWPB performance will be monitored by comparing the budget versus actual costs through the quarterly interim unaudited financial reports (IFRs). The project shall include in the IFRs explanations and mitigating measures for any significant variance between the budget and actual. The AWPB shall be reviewed Bank supervision missions and by the auditors during audits and identify the risks and recommend appropriate mitigating measures for the project to implementation.

20. Planning and budgeting in Mozambique. Budget preparation and monitoring budget execution will follow national procedures and those to be documented in the project operations manual (POM). The new PIU/MTC and National Road Fund will prepare annual budgets based on the annual work plans and the approved procurement plans. It is expected that both implementing agencies will prepare annual budgets that cover activities proposed to be carried out in each fiscal year. Each entity will be responsible for producing variance analysis reports comparing planned with actual expenditures on a quarterly basis. These quarterly variance analysis reports will be part of the IFRs that will be submitted to the World Bank on quarterly basis.

21. Accounting in Malawi. The Public Finance Act of 2003 and the Financial Regulations thereof and other circulars issued by MoF from time to time guides Government financial management procedures. The project shall use country systems including accounting and payment processes of the Government of Malawi (GoM) at the ministry. The assets acquired through the project funds shall be recorded in the accounting system including in the fixed assets register. The project will use the central new IFMIS for accounting purposes of the project and shall prepare annual financial statements for the project accounting. The new IFMIS will also be extended to the RFA to be used for project accounting and reporting. The ministry shall prepare a financial procedure manual satisfactory to the Bank. Adequate staffing arrangement is in place at the RFA, but capacity gaps exist at the MoTPW. The MoTPW shall deploy a professional qualified project accountant to the project who shall be responsible for the day-to-day financial management activities of the project. The ToR of the of the accountants must be acceptable to the World Bank. The project accountant shall be supervised by the director of finance at the MoTPW. The ministry shall deploy assistant accountant and two accounts assistants who shall support the project accountant on FM activities.

22. Accounting in Mozambique. Both implementing agencies will account for all project funds, expenditures, and resources using automated accounting software. The National Road Fund will make use the existing accounting software, which is adequate as it can produce reliable financial reports required to monitor and effectively manage the progress of the project. The accounting software will be customized to maintain separate records and ledger accounts for the proposed project and allow preparation of project specific financial reports. The PIU/MTC will purchase and install an accounting package capable of meeting the financial reports needs of the projects. The accounting package should be fully operational four months after the project effective date.

23. Internal controls in Malawi. An adequate internal control system is in place. The internal controls allow for the segregation of duties for the initiation, approval, and authorization of project expenditures. The internal controls system is adequate and can safeguard the project assets. The MoTPW will prepare and document the internal control system in the project operations manual (POM) and Financial Procedure Manual (FPM) in line with the public finance regulations of the GoM, and acceptable to the Bank. The central internal audit unit (CIAU) shall be responsible for the internal audit activities of project. The internal auditors shall develop risk based internal audit annual work program and submit to the



MoTPW for approval. The internal audit will be carried out on quarterly basis and biannual internal audit reports submitted to the Bank 45 days after the end of each semester. Also, the internal auditors shall submit the internal audit reports to the Audit Committee of the ministry.

24. Internal controls in Mozambique. The internal controls system and procedures of the project will be based on national procedures, defined in the *Manual de Administração Financeira* (MAF) and the POM. The finance and administrative procedures to be employed by the agency in the implementation of the project should be documented in the FM section of the POM. These procedures will include contract management, in particular civil works contracts. The current PCU/MTC will support the preparation of the POM and it is expected that a well-advanced draft will be available by end of March 2021. The new PIU/MTC will also prepare a grant manual for matching grants covering selection criteria, funds flow for the beneficiaries, maintenance of simplified accounting records and reporting, governance, and monitoring mechanism. The project may also be subject to the review of the General Inspectorate of Finance (*Inspecção Geral das Finanças* [IGF]) based at the Ministry of Economy and Finance. For this project, the Bank FM team will conduct regular supervision through desk review and field visits (that include expenditures and asset reviews) to ensure that the implementing agencies are maintaining adequate systems of internal controls and key procedures are complied with.

25. Financial Reporting in Malawi. Adequate financial reporting arrangements are in place for the RFA. RFA is currently managing FM arrangements for SATTFP. The ministry shall build on the lessons by the SATTFP. As stated above the ministry shall recruit a suitably qualified accountant who shall be responsible for the day-to-day FM activities to include financial reporting. The project accountant shall submit interim unaudited financial reports (IFRs) on quarterly basis 45 days after the end of each calendar quarter to the Bank. The components of the IFRs shall include the following:

- Statement of Sources and Uses of Funds by category
- Statement of Uses of Funds by Project Activity/Component.
- Designated Account (DA) Activity Statement.
- Bank Statements for both the Designated and Project Account.
- Summary Statement of DA Expenditures for Contracts subject to Prior Review; and
- Summary Statement of DA Expenditures not subject to Prior Review.

The IFRs reporting template has been agreed.

26. The annual financial statements ready for submission to the external auditors 3 months after the end of each fiscal year. The annual financial statements shall be prepared in accordance with the International Public-Sector Accounting Standard (IPSAS) - Cash Basis of Accounting as issued by International Public Sector Accounting Standards Board (IPSASB). The cash basis of accounting shall comprise at minimum the statement of cash receipts and payments recognizing all cash receipts, payments made, and cash balances by the project.

- a. A **statement of sources and uses of funds/cash receipts and payments**, which recognizes all cash receipts, cash payments and cash balances controlled by the project; and separately identifies payments by third parties by the project.
- b. The **accounting policies adopted and explanatory notes**. The explanatory notes should be presented in a systematic manner with items on the Statement of Cash Receipts and Payments being cross referenced to any related information in the notes. Examples of this information include a summary of fixed assets by category of assets, and a summary of IFR Withdrawal Schedule, listing individual withdrawal applications; and
- c. A **management assertion** that the World Bank funds have been expended in accordance with the intended purposes as specified in the relevant World Bank legal agreement.



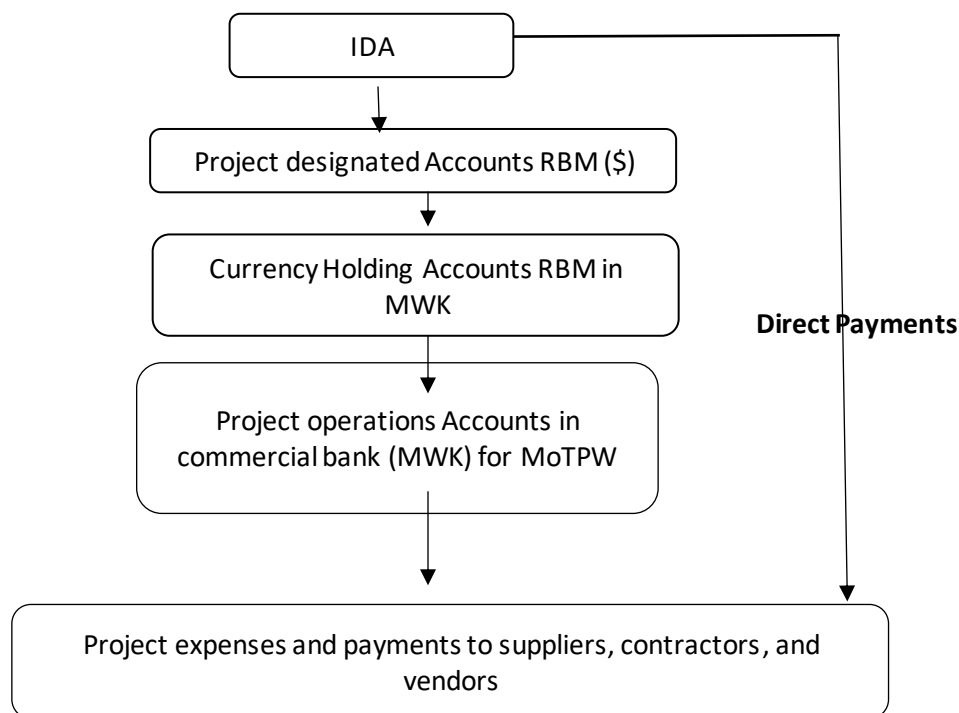
27. Financial reporting in Mozambique. Each implementing agency will prepare separate quarterly IFRs for the project in form and content satisfactory to the World Bank, which will be submitted to the World Bank within 45 days after the end of the quarter to which they relate. These reports will cover all activities of the project including the matching grants. At the end of each fiscal year, the agencies will also produce separate annual project financial statements (PFS) in accordance with financial reporting under cash basis of accounting. In addition, the PFS's components will be outlined in the terms of reference for audit of this proposed project.

Disbursement and Funds Flow Arrangement

28. Malawi. Funds Flow. The project will have two designated accounts: one to be managed by RFA and the other by the MoTPW. The project designated bank accounts (DAs) shall be opened at the Reserve Bank of Malawi (RBM) in USD into which the proceeds of the loan will flow from the International Development Association (IDA) to the project. The DAs will have corresponding Kwacha accounts also opened at the RBM. The funds will flow from the DA to the Kwacha holding account using ruling exchange rate on day of transfer. The project will also open operations bank accounts in Malawi Kwacha (MWK) at a commercial bank in Malawi, acceptable to the IDA. The operations accounts shall be applied for the payment of the day-to-day transactions of the project and the commercial bank will claim amounts paid against the holding account at the RBM. The operations bank accounts will not hold positive balances as no funds will be transferred to the account other than claims of cheques processed by the commercial bank. A detailed procedure for receiving and release of funds from the bank accounts for project activities shall be included in the financial procedure manual and the POM.

29. Disbursement Methods. Disbursement methods shall include advance, reimbursement, direct payment, and special commitments. For the advance method, the project will apply the interim unaudited financial reports (IFRs) based method of disbursement and access the loans from IDA to the DA in RBM. The project shall submit six-month cash forecast against which IDA shall disburse the funds to the project. The initial cash forecast will be prepared based on an agreed AWPB approved by the IDA. Subsequent withdrawals from the proceeds of the loan shall be based on a six-month cash forecast net of closing cash and balances for the previous quarter. The six-month cash forecast must be in line with the agreed AWPB. Reimbursement method shall be used to reimburse the government for any eligible expenditure they may pre-finance using GoM own resources. Direct payment and special commitment methods disbursement may also be used by the project. The project may submit direct payment withdrawal application and request IDA to make payments directly to third parties for eligible goods and services delivered to the project by third parties. The project shall maintain adequate records of all support documents for all financial transactions and payments. The project also will have the retroactive financing facility available If (a) the activities related to the development objective, (b) the payments are for items procured in accordance with the applicable World Bank procurement rules, and (c) the payments are made by the Borrower not more than twelve months before the expected date of the signing of the legal agreement. The detailed disbursement arrangements will be included in Disbursements and Financial Information Letter agreed during negotiations. The funds flow will be based on the GoM's budget release arrangements (Figure 10). The projects bank accounts as below will be managed by RFA.

Figure 10: Funds flow diagram Malawi



30. Mozambique. Funds Flow. Two DAs in US dollars will be opened at the Bank of Mozambique (Central Bank) to receive funds from IDA. Payments of eligible project expenditures will be made from the DAs to contractors, suppliers, and consultants. All payments to local suppliers and consultants will be made strictly in local currency in compliance with Mozambique exchange control rules and regulations. The Figure 11 below shows funds flow mechanism for the project activities.

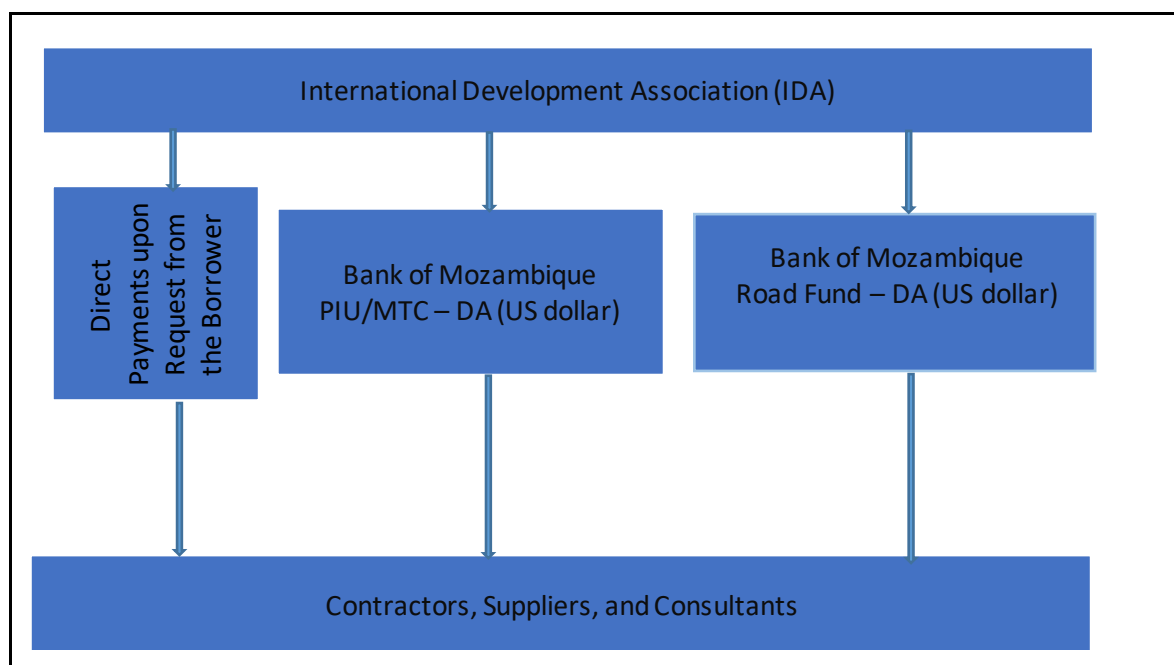
31. Disbursement arrangements. Disbursements of IDA funds will be done on a transaction basis. An initial advance to be indicated in the Disbursement and Financial Information Letter will be made into each Designated Accounts upon the effectiveness of the Financing Agreement.

32. The option of disbursing the IDA funds through direct payment, reimbursement, and special commitment will also available. To facilitate the payments of contractors, suppliers, and consultants a lower minimum threshold for the use of direct payment and reimbursement methods of disbursement will be applied for this operation.

33. Matching grants. An adequate capacity for the implementation of matching grants will be established. The FM team to be recruited will required to have skills and competencies for the implementation of the matching and these requirements will be included in the terms of reference of the project FMS and accountant. In addition, a grant manual for the matching grants will be prepared and adopted within three months after project effective date. This manual should document among other procedures, the selection criteria, funds flow to the beneficiaries, maintain simplified accounting records and financial reporting, governance, and monitoring mechanism. The beneficiaries of the matching grants should maintain a simplified financial management system and records in accordance with consistently applied accounting

standards acceptable to the World Bank. In addition, at the World Bank or the Recipient's request, have the resulting financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association.

Figure 11: Funds flow diagram Mozambique



Auditing

34. Malawi. The Auditor General (AG) of Malawi is the external auditor for the World Bank funded project in Malawi. The project shall also be audited by the AG. Article 184(1) of the Constitution of the Republic of Malawi 2003 and Public Audit Act 2003 (Amended 2018) mandate the Auditor General (AG) the exclusive powers to audit all public funds. The AG shall express an audit opinion on the project financial statements in accordance with International Standards of Supreme Audit Institutions guidelines. Also, the audit will be done based on terms of reference (ToR) acceptable to IDA. The AG will issue a management letter outlining the audit findings and recommendations. The audited financial statements and the management letter shall be submitted to IDA 6 months after the end of each financial year (i.e. December 31). The audited financial statements as submitted to IDA shall be made public on the World Bank website in accordance with the 'World Bank Policy on Access to Information.'

35. Mozambique. Auditing. The Administrative Tribunal (the country's supreme audit institution) is mandated to audit all government funds, including donors-financed projects. As such, the project financial statements for MTC components will be audited by the Tribunal in accordance with International Standards of Supreme Audit Institutions issued by INTOSAI. For the National Road Fund components will be audited by audit private firms already auditing their entity financial statements, in accordance with International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Standards Board within IFAC. The terms of reference for audit will explicitly requires the auditors to conduct physical verification of civil works and material assets to be purchased by project proceeds. Separate audit reports together with separate Management Letters will be submitted to the Bank within six months after the financial year-end.



Supervision Plan

36. Malawi. FM supervision mission will be conducted in line with the assessed risk of the project at least twice a year. The objective of the FM supervision is to review the continued adequacy of FM arrangements and provide recommendations for improvements and the mitigation measures for identified risks. The World Bank FM team will provide remote support to the project through internet solutions and phone calls during this time of COVID-19 pandemic. Remote supervision missions will be conducted and if need will request electronical records of the project transactions for review.

37. Mozambique. Based on the current overall FM risk of this operation, the project will be supervised twice a year. In addition to desk-based reviews, the FM will perform field visit to ensure that Project's FM arrangements operate as intended. The Bank FM team will provide remote support to the project through internet solutions and phone calls during this time of COVID-19 pandemic.

FM action Plan.

38. Malawi and Mozambique. To mitigate FM risks, the following measures should be taken.

Table 11: FM risk action plan

No.	Action	Responsibility	Completion date
1	Develop the project operations manual including FM procedures	All four implementing agencies	By effectiveness
2	Appointment of a qualified and experienced project FMS	MoTPW and MTC	Within three months after effectiveness.
3	Preparation and adoption of the grant manual	New PIUs at MTC and MoTPW	Within three months after effectiveness
4	Purchase and installation of computerized accounting software for the project	New PIUs at MTC and MoTPW	Within four months after effectiveness
5	Customize the accounting software to maintain separate records and ledge accounts for the proposed project.	RA. (Malawi) and National Road Fund (Mozambique)	Within two months after the project effectiveness
6	Preparation of audit TOR	All four implementing agencies	Within one month after effectiveness

E. Procurement

39. Procurement procedures. Procurement activities under the proposed project will be carried out in accordance with 'The World Bank's Procurement Regulations for IPF Borrowers' (Procurement Regulations), dated July 2016 and revised in November 2017, August 2018, November 2020 and as revised from time to time; and the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated July 1, 2016; and the provisions stipulated in the Financing Agreement.



40. Procurement Implementation Arrangements for the project:

Malawi

41. Procurement implementation, contract management and the related decision-making authority under the proposed project shall be carried out by the MoTPW and the RA. The MoTPW will also assume a coordination role. The PIU to be established under the MoTPW will be responsible for implementing the non-infrastructure components of the project and the RA will be responsible for implementing the infrastructure components of the project.

Mozambique

42. The project will be implemented by the MTC and the RA through National Road Administration (Administração Nacional de Estradas, ANE). The MTC will assume a coordination role. ANE will be responsible for the implementation of the infrastructure component (roads and border posts) and the MTC will be responsible for implementing the non-infrastructure components of the project.

Table 12: Procurement activities identified by component and by country.

	Component 1	Component 2	Component 3	Component 4
Malawi	Upgrade of customs system; second phase for the single window; disaster recovery system; COVID-19 immediate response; Muloza border post; coordinated border management; scanners; inland examination center; and technical assistance to the MoTPW and PPPC.	Regional coordination: Institutional support and selected projects; PIU's key positions including project coordinator, procurement specialist, FM specialist, safeguards, and technical positions.	Project team including project manager, technical expert, safeguards, FM specialist, and communications specialist; launch of call for proposals; first set of capacity building programs.	Most road safety activities.
Mozambique	TA to MTC; strategic capacity at the Ministry of Agriculture, Fisheries and INNOQ; coordinated border management; COVID-19 immediate response.	Regional coordination: Institutional support and selected projects; PIU's key positions including project coordinator, procurement specialist, FM specialist, safeguards, and technical positions.	Project team including project manager, technical expert, safeguards, FM specialist, and communications specialist; launch of call for proposals; first set of capacity building programs.	The preliminary design of all identified roads is complete ¹⁵¹ ; road safety implementation plan.

National procurement procedures.

Malawi

43. National open competitive procurement procedures may be used while approaching the national market. National open competitive procurement will observe the requirements stipulated in the Procurement Regulations on National Procurement Procedures. Other national procurement arrangements (other than national open competitive procurement), which may be applied by the borrower (such as limited/restricted competitive bidding, request for

¹⁵¹ ANE is currently recruiting consultants to prepare bidding packages which are expected to be reading for procurement in May 2021.



quotations/shopping, and direct selection), shall be consistent with the World Bank's Core Procurement Principles and ensure that the World Bank's Anti-Corruption Guidelines and Sanctions Framework and contractual remedies set out in its Legal Agreement apply.

Mozambique

44. The Mozambique Procurement Regulation, the Decree 5/2016 of March 8, has been assessed as required under the World Bank's Procurement Framework. The assessment indicated that the Country's Regulations are generally consistent with international best practice for the following reasons: (a) there is adequate advertising in national media; (b) the procurement is generally open to eligible firms from any country; (c) contracts documents have an appropriate allocation of responsibilities, risks, and liabilities; (d) there is publication of contract award information in local newspapers of wide circulation; (e) the national regulations do not preclude the World Bank from its rights to review procurement documentation and activities under the financing; (f) there is an acceptable complaints mechanism; and (g) maintenance of records of the procurement process. However, the request for bids/request for proposals document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, the World Bank's Anti-Corruption Guidelines, including without limitation the World Bank's right to sanction and the World Bank's inspection and audit rights, and that the procurement documents include provisions, as agreed with the World Bank, intended to adequately mitigate against environmental, social (including SEA and GBV), and health and safety risks and impacts.

45. Procurement templates. The World Bank's Standard Procurement Documents (SPDs) shall be used for procurement of goods, works, and non-consulting services under International Competitive Procurement. National bidding documents may be used under National Procurement Procedures subject to the exceptions stipulated in the textual part of the Procurement Plan. Similarly, selection of consultant firms shall use the World Bank's SPDs, in line with procedures described in the Procurement Regulations.

46. Fiduciary oversight by the World Bank. The APS for Malawi will respond to the Malawi project related issues while the APS for Mozambique will respond to Mozambique ones. The Bank shall prior review contracts as provided for in the procurement plan. Contracts below the prior-review thresholds shall be subject to post review according to procedures outlined in World Bank Procurement Regulations on an annual basis by the World Bank team or by consultants hired by the World Bank. The rate of post review is initially set at 20 percent. This rate may be adjusted periodically based on the performance of the Procuring Entity. Also, the World Bank Procurement Specialists will regularly participate in implementation support missions to assist in monitoring procurement procedures and plans.

47. Frequency of procurement supervision. In addition to the prior review supervision to be carried out from World Bank offices, the capacity assessment of the implementing agencies recommends one supervision mission every 12 months to visit the field to carry out post review of procurement actions.

48. Procurement Strategy for Development (PPSD). The Borrowers separately prepared PPSDs, one for Mozambique and one for Malawi. The PPSD sets out market approaches and selection methods to be followed during project implementation of the project. The PPSD identifies optimum procurement strategies on how fit-for-purpose procurement of activities will support project operations for the achievement of project development objectives and deliver Value for Money (VfM). Based on the PPSDs findings, the Procurement Plans (PPs) for the first 18 months were prepared, setting the selection methods to be used by the Borrower in the procurement of goods, works, non-consulting services, and consulting services under the project. The Procurement Plans will be updated at least every 12 months, or as required, to



reflect the actual project implementation needs. Each update shall require World Bank approval and will be publicly disclosed in accordance with the World Bank disclosure policy.

49. The PPSD is living document that shall be regularly updated during project implementation to provide necessary justifications for procurement arrangements, procurement plans, and their updates. Summaries of PPSDs described below:

50. *Contract Strategy:* Goods, services and civil works are packaged in economical packages to attract local and foreign bidders who are qualified and can offer good prices and complete contracts within stipulated timeframe resulting in value for money. Packaging for procurement is decided in such a way that encourages adequate participation and is based on two principal forms of procurement packaging. (a) the grouping (or bulking) of procurement requirements within a procurement category for the purpose of acquiring them under a single contract, and (b) the division of one requirement into multiple lots, where bidders can submit bids for one, several or all lots (as would be stipulated in the procurement documents), and where a contract could be awarded for each lot.

51. The following have been taken into account when considering procurement packaging: (a) The likelihood of local suppliers being able to fulfill the requirements, and if the packaging would limit their participation, (b) If the group of requirements are needed (or can be received) simultaneously or are there different delivery dates between requirements. Unless the selected supplier can deliver at different intervals, receiving all the goods at one time could result in a potential logistical problem; therefore, under these circumstances it may be preferable not to package the various requirements, (c) The availability of several suppliers that can provide a combination of procurement categories as may be required in the case of supply, installation, commissioning and training, and (d) The Implementing Agency capacity to coordinate several suppliers. If the Implementing Agency's capacity is limited, this may create a preference for packaging to reduce the number of suppliers that the PIU would have to coordinate.

For Malawi Recommended Procurement Arrangements for the Project are as follows:

52. *Procurement Approaches for the required goods, works and services under the proposed projects.* Based on the project requirements, technical solutions and supply base, procurement strategy for the proposed Project is as follows:

53. *Works.* Most envisaged works are not complex and there several local contractors that can adequately execute the contracts if found to be sufficiently responsive. As such, National market approach, request for bids, single stage bidding will be used. However, for civil works for Road rehabilitation and maintenance, International market approach, request for bids, single stage bidding will be used.

54. *Goods.* Most of Goods have been packaged into National market approach, request for bids, single stage bidding. However, ICT equipment for (expansion of National Single Window, border immigration system, coordinated border management and international accreditation and skills); mobile border scanners, PPE and related safety equipment International market approach, request for bids, single stage bidding will be used. Other items such as office equipment and furniture for the PIU, motor vehicles, have been packaged into Limited market approach, Request for Quotations.

55. *Non-consulting Services.* Most non-consulting services have been packaged into National market approach, request for bids, single stage bidding. However, procurement of software systems, International market approach, request for bids, single stage bidding will be used. Other small requirements such as system for appointment, booking, and management and nonphysical entry points and Printing of Road Safety handbooks and Brochures have been packaged



into Limited market approach, Request for Quotations. Activities which are continuity in nature (for example, procurement of ASYCUDA World Modules for the MRA) will be procured following Direct market approach.

56. Consulting Services. Key PIU and NDCTC staff, and other individual consultants will be hired through open and limited Individual Consultant Selection. For less complex consulting assignments Open national market approach will be used. However, for specialized consulting assignments and engineering and construction supervision (such as Design, management and implementation of streamlined trade procedures; Consulting services to support accreditation of services for veterinary, phytosanitary, and other diagnostic services related to standards including ISO; Consulting services to carryout feasibility studies and capacity assessment for Railway and Marine Regulators; Technical Assistance to the Transport Ministry to Implement National Transport Master Plan; Consulting services to carryout feasibility studies for border markets for the – PPPC; Consulting Services feasibility studies for bus terminals for Lilongwe and Blantyre for PPPC; Consulting services for the development of a performance monitoring concept and action plan; Consulting services for the preparation of technical design and specifications for the performance monitoring tool; Consulting Services for the review, streamlining and harmonizing of transport regulations and operations; Consulting services to develop a Joint infrastructure development plan; Consulting services for implementation of GEMS; Consulting services for the preparation of safeguards instruments; Consulting services to carryout feasibility studies; Consulting services to support the development of a program for small-scale cross-border traders focused on increasing regional integration, building skills and household dynamics; Consulting services to provide Technical Assistance to small-scale emerging farmers, and lead firms; Consulting services to conduct beneficiary survey; Consulting services for detailed Engineering design and construction supervision of Road Rehabilitation and Maintenance works), Open International market approach and Quality and Cost Based Selection (QCBS) will be used.

57. Additional Considerations. Since there may be reduced competition due to COVID-19, Bid Securing Declaration may be used instead of the bid security, the time for submission of bids/proposal can be extended in competitive national and international procedures, if bidders request an extension and, Direct Selection will also be used under all procurement categories as appropriate, based on technical expertise and previous performance, and financial capacity.

For Mozambique:

58. Procurement Approaches for the required goods, works and consulting services under the proposed projects: Based on the project requirements, technical solutions and supply base, procurement strategy for the proposed Project is as follows:

59. Works. Even though the domestic market analysis indicates that there are sufficient number of potential contractors with the capacity for most of the civil works with the required specifications, for four packages estimated to cost USD100 million it is worth opening to international market approach considering the amount and also to look for new technologies in the world. Considering the nature of works it is proposed the use of Request for Bid (RFB) method for solicitation of Bids. The procurement of works will include not limited to Rehabilitation and Maintenance of Trade Connectors in Nampula and Corrane Districts (50.6 km) - Package 1, Rehabilitation and Maintenance of Trade Connectors in Rapale and Mecuburi Districts (55.0 km) - Package 2, Rehabilitation and Maintenance of Trade Connectors in Ribaué and Namialo Districts (93.1 km) - Package 3, Rehabilitation and Maintenance of Trade Connectors in Cuamba and Mecnheles District (86.0 km) – Package 4, Rehabilitation and Maintenance of Trade Connectors in Cuamba and Metarica Districts (67.0 km) - Package 5, Works Construction of Border Post in Milange in Zambezia Province, Works Construction of Border Posts in Zobue in Tete Province, Works Construction of Border Posts in Calomue in Tete Province, Works Construction of Border Post in Cassacatiza in Tete Province, Works Construction of Border Post in Ponta de Ouro in Maputo



Province, Procurement of small works for Improving Road Safety, Rehabilitation of Laboratories for upgrading of strategic and accreditation capacities.

60. Goods. Considering the nature of goods, it is proposed to use the RFB method for solicitation of Bids with open national and international market approach. For procuring limited quantities of readily available off-the-shelf goods or with standard specifications the RFQ method will be used, which is a competitive method that is based on comparing price quotations from firms. The procurement of goods will include ICT for the support to the expansion and rehabilitation of border posts, Border Posts equipment, ICT equipment for the Management of Imports and Exports (SPS), Equipment for the Management of Imports and Exports (SPS), ICT for Implementing Coordinated Border Management, Equipment for supporting business continuity for front line border agencies during and immediately after the COVID crisis, Laboratory equipment for upgrading of strategic and accreditation capacities, ICT for Implementing Risk Management and Authorized operators, ICT equipment for Implementing the Border Residency Card, Office equipment for Implementing the Border Residency Card, Office equipment for the Railways Regulator, Office equipment for the Ports Regulator, Office equipment for the Technical Assistance to Transport Ministry ICT equipment to support to the institutional mechanism in the Nacala Corridor (NDCTC), ICT equipment to support specific regional activities (Non-tariff barriers; harmonization, mutual recognition and others identified through the tripartite process), ICT equipment to the Tripartite Transport Register and Information Platform (TRIPS), ICT equipment to the Project Implementation Unit (PIU), Office furniture for the Project Implementation Unit (PIU), Vehicles for the Project Implementation Unit (PIU), Software supply and installation of the software for the Management of Imports and Exports (SPS), Software for Risk management and AEO, Software supply and installation of the software for implementing Coordinated Border Management, Software for the Border Residency Card, Supply and installation of the equipment for Implementing the Border Residency Card.

61. Consulting Services. Consultants Services will be selected through Quality and Cost Based Selection (QCBS), Quality Based Selection (QBS), Less-Cost Selection (LCS), Consultants Qualification (CQS), Individual Consultant (IC) and Direct Selection (DS). QCBS will be used for more complex assignments. Consultants will be selected with open national and international market approach depending of the nature and value of the assignment. The consulting services will include not limited to the Design and Supervision for the Rehabilitation and Maintenance of Trade Connectors in Nampula and Meconta Districts (50.6 km) - Package 1, Design and Supervision for the Rehabilitation and Maintenance of Trade Connectors in Rapale and Mecuburi District (55.0 km) - Package 2, Design and Supervision for the Rehabilitation and Maintenance of Trade Connectors in Ribaue, Meconta and Muecate Districts (93.1 km) - Package 3, Design and Supervision for the Rehabilitation and Maintenance of Trade Connectors in Cuamba and Mecanheles Districts (86.0 km) - Package 4, Design and Supervision for the Rehabilitation and Maintenance of Trade Connectors in Cuamba and Metarica Districts (67.0 km) - Package 5, Design and Supervision for the Works Construction of Border Posts in Calomue, Zobue and Milange in Tete and Zambezia Provinces, Design and Supervision for the Works Construction of Border Post in Cassacatiza in Tete Province, Design and Supervision for the Works Construction of Border Post in Ponta de D'Ouro in Maputo Province, Consulting services for upgrading of strategic and accreditation capacities, Consulting services for improving transparency, Recruitment of a Secretariat Coordinator for the National Trade Facilitation Committee Secretariat, Recruitment of a Senior Consultant for Tripartite Technical Committee Secretariat support, Consulting services to develop and monitor corridor performance, Consulting services to support specific regional activities (Non-tariff barriers; harmonization, mutual recognition and others identified through the tripartite process), Consulting services to the Tripartite Transport Register and Information Platform (TRIPS), Consulting services to the demand-driven solutions to support value-chains development, Consulting services to the Technical Assistance to value chain players, Consulting services to implement third party monitoring, Recruitment of the Project Manager of PIU, Recruitment of the Corridor Coordinators of the PIU, Recruitment of the Recruitment of Trade Logistics Specialist of the PIU, Recruitment of the Financial Specialist of the PIU, Recruitment of the Procurement Specialist of the PIU, Recruitment of the Environmental and Social Safeguards Specialist of the PIU, Recruitment of the Monitoring and Evaluation Specialist of the PIU, Recruitment of the Communications Officer



of the PIU, Recruitment of the IT specialist of the PIU, Recruitment of the Legal Adviser of the PIU, Consulting service to review and conclude the Port Law and draft the Port Master Plan, Consulting service to review and update the Integrated Transport and Development Strategy, Consulting service to draft the Civil Aviation Master Plan, Consulting service to establish and implementation of the Railway Regulator and Consulting services to draft the National Logistics Strategy.

The procurement capacity assessment for the projects:

Malawi

62. The capacity of RA and MoTPW was reviewed during preparation of the project and noted that even though requiring some improvements, were found to be acceptable for managing the procurement activities for the project. The newly created PIU of MoTPW in Malawi is not familiar in implementing projects financed by the Bank, therefore, apart from hiring qualified procurement specialist, will benefit from the RA PIU assistance in the commencement of implementation of the project. Both PIUs are well equipped with office space and all the means to perform the work satisfactorily. Action plans to improve the capacity of the PIUs were put in place and will be continuously monitored, during the project implementation, to ensure that the unities are performing are at acceptable level.

Mozambique

63. The capacity of ANE and MTC in Mozambique was reviewed during preparation of the project and noted that even though requiring some improvements, were found to be acceptable for managing the procurement activities for the project. The ANE and MTC project implementation unities are currently implementing projects financed by the Bank, therefore are familiar with the World Bank procurement procedures including the knowledge of the World Bank's New Procurement Framework (NPF). Both PIUs are well equipped with office space and all the means to perform the work satisfactorily. Action plans to improve the capacity of the PIUs were put in place and will be continuously monitored, during the project implementation, to ensure that the unities are performing are at a acceptable level.

64. The Procurement risk assessment and mitigation action plan for ANE and MTC in Mozambique and RA and MoTPW in Malawi are in the tables below:

Malawi:

Table 13: Procurement risk assessment and mitigation action plan Malawi

No.	Risk	Risk Type	Mitigation Measure	Time Frame	Responsible Agency
1.	Delays in procurement processing due to limited capacity, staffing and workload.	Substantial	MoTPW will hire a procurement specialist with qualifications and experience satisfactory to the World Bank	Within six months of project effectiveness.	MoTPW



No.	Risk	Risk Type	Mitigation Measure	Time Frame	Responsible Agency
2	Lack of adherence to procedures due to inadequate understanding of the World Bank Procurement Regulations for IPF Borrowers.	Substantial	MoTPW and RA staff involved in project implementation will receive training on the World Bank Procurement Regulations for IPF Borrowers. The World Bank will also provide constant support to staff to ensure adherence to the Procurement Regulations.	During project implementation.	World Bank, MoTPW and RA.
3	Delays and/or unsuccessful completion of contracts due to inadequate contract management capacity.	Substantial	Key staff who will be involved in project implementation will undergo contract management training to enhance their capacity.	Within 6 months of project effectiveness.	MoTPW and RA.
4	Loss of and/or unauthorized access to procurement records due to poor record management.	Moderate	MoTPW and RA will put in place an effective and secure record management system.	During project implementation.	MoTPW and RA.
5	Limited capacity of the market and supply chain to meet the demand, due to the global nature of COVID-19 pandemic.	High	MoTPW and RA will apply COVID-19 flexibilities in the bidding process in accordance with emergency operations norms, including direct contracting is proposed.	Throughout project implementation.	MoTPW and RA.
6	Challenges of bids submission due to COVID-19 movement restrictions imposed by many countries worldwide.	High	MoTPW and RA project implementation teams will closely monitor country restrictions, and promptly propose more efficient procurement approaches and methods based on flexibilities provided for in the Procurement Regulations.	Throughout project implementation.	MoTPW and RA.

Mozambique:

Table 14: Procurement risk assessment and mitigation action plan Mozambique

No.	Risk	Risk Type	Mitigation Measure	Time Frame	Responsible Agency
1.	High turnover of procurement staff at ANE.	High	Ensure that qualified staff are retained to ensure long term sustainability of the institution.	During project implementation	ANE



No.	Risk	Risk Type	Mitigation Measure	Time Frame	Responsible Agency
2	Poor use of the STEP. Many activities flagged as delayed or pending implementation.	Substantial	Ensure that STEP is properly handled, uploading the required documentation once the stages of the processes are completed.	During project implementation	ANE and MTC
3	Contract amendments, unsuccessful completion of contracts due to inadequate contract management capacity	Substantial	Key staff who will be involved in project implementation will undergo contract management training to enhance their capacity;	Within 6 months of project effectiveness	ANE and MTC
4	Poor record management	Moderate	ANE and MTC will put in place an effective and secure record management system	During project implementation	ANE and MTC
5	Limited capacity of the market and supply chain to meet the demand, due to the global nature of COVID-19 pandemic.	High	ANE and MTC will apply COVID-19 flexibilities in the bidding process in accordance with emergency operations norms agreed by the Bank to mitigate the impact of the COVID 19 pandemic.	Throughout project implementation	ANE and MTC
6	Challenges of bids submission due to COVID-19 movement restrictions imposed by many countries worldwide.	Substantial	ANE and MTC project implementation teams will closely monitor country restrictions, and promptly propose more efficient procurement approaches and methods based on flexibilities provided for in the Procurement Regulations and flexibilities agreed by the Bank to mitigate the impact of the COVID 19 pandemic.	Throughout project implementation	ANE and MTC

65. The assessment mentioned above rated the overall procurement risk as Substantial, given the procurement scope and associated risks identified. The assessment identified several risks that could adversely impact project implementation if not mitigated.

66. Filing and record-keeping. The procurement manual (part of the POM) will set out the detailed processes for maintaining and providing readily available access to project procurement records, in compliance with the financing agreement. The Borrowers will assign one person responsible for maintaining the records. The logbook of the contracts with a unique numbering system shall be maintained.

67. Commitment control system. The signed contracts shall be reflected in the commitment control system of the Borrower's accounting system or books of accounts as commitments whose payments should be updated with reference made to the payment voucher. This approach will ensure a complete record system whereby the contracts and related payments can be corroborated.

68. Approach to market. Based on the size of the contracts under this project, open international bidding will be followed; however, generally, the thresholds shown in Table 15 will be used for open national/ international and Request for Quotation bidding under this project.



Table 15: Thresholds for procurement approaches and methods (US\$, millions)

Category	Works			Goods, Information Technology, and Non-Consulting Services			Shortlist of National Consultants	
Market Approach and Methods	Open International \geq	Open National $<$	Request for Quotation \leq	Open International \geq	Open National $<$	Request for Quotation \leq	Consulting Services \leq	Engineering and Construction Supervision \leq
Malawi	7	7	0.2	1	1	0.1	0.2	0.3
Mozambique	15	15	0.2	3	3	0.1	0.3	0.3

69. Procurement plan. The Borrowers prepared Procurement Plans for the first 18 months, based on the findings and recommendations of the PPSD. The Procurement Plan is subject to public disclosure and will be updated on an annual basis or as needed. The updates or modifications of the Procurement Plan shall be subject to the World Bank's prior review and 'no objection'. The World Bank shall arrange for the publication of the Procurement Plan and any updates on the World Bank's external website directly from STEP.

70. Review by the World Bank of procurement decisions. Table 16 below indicates the contract thresholds that require prior review by the World Bank. All activities estimated to cost below these amounts shall be treated as post review and will be reviewed by the World Bank during the Implementation Support Missions under a Post Procurement Review exercise. Direct Contracting/Single Source will be subject to prior review only above the amounts given in the table. The World Bank may, from time to time, review the amounts based on the performance of the implementing agencies.

Table 16: Thresholds for procurement prior review (US\$)

Procurement Type	Prior Review (US\$)
Works	10,000,000
Goods and non-consulting services	2,000,000
Consultants (Firms)	1,000,000
Individual consultants	300,000

71. Monitoring by STEP. STEP will be used to prepare, clear, and update procurement plans and conduct all procurement transactions for the project. Through the mandatory use of STEP by the MTC, the World Bank will be able to consolidate procurement/contract data for monitoring and tracking of all procurement transactions. Using STEP, comprehensive information of all prior and post review contracts for goods, works, technical services, and consultants' services awarded under the whole project will be available automatically and systematically on a real-time basis whenever required, including, but not limited to: (a) the reference number as indicated in the Procurement Plan and a brief description of the contract; (b) the estimated cost; (c) the procurement method; (d) timelines of the bidding process, (e) the number of participated bidders; (f) names of rejected bidders and reasons for rejection; (g) the date of contract award; (h) the name of the awarded supplier, contractor, or consultant; (i) the final contract value; and (j) the contractual implementation period.



72. Publication of procurement information. The project will follow the World Bank's policies on publication of procurement information that are outlined in the World Bank's Procurement Regulations.

73. Training, workshops, study tours, and conferences. Training activities would comprise workshops and training, based on individual needs, as well as group requirements, on-the-job training, and hiring consultants for developing training materials and conducting training. All training and workshop activities (other than consulting services) would be carried out based on approved Annual Work Plans/Training Plans that would identify the general framework of training activities for the year, including (a) the type of training or workshop; (b) the personnel to be trained; (c) the institutions which would conduct the training and reason for selection of this particular institution; (d) the justification for the training, focusing on how it would lead to effective performance and implementation of the project; (e) the duration of the proposed training; and (f) the cost estimate of the training. Report by the trainee(s), including completion certificate/diploma upon completion of training, shall be provided to the Project Coordinator, and will be kept as parts of the records, and will be shared with the World Bank if required.

74. Training plan. A detailed plan of the training/workshop describing the nature of the training/workshop, number of trainees/participants, duration, staff months, timing and estimated cost will be submitted to IDA for review and approval before initiating the process. The selection methods will derive from the activity requirement, schedule, and circumstance. After the training, the beneficiaries will be requested to submit a brief report indicating what skill has been acquired and how these skills will contribute to enhance their performance and to attain the project objective.

75. Operational costs. Operational costs financed by the Project would be incremental expenses, including office supplies, operation and maintenance of vehicles, maintenance of equipment, communication, rental expenses, utilities, consumables, transport, and accommodation, per diem, supervision, and salaries of locally contracted support staff. These items will be procured using the borrower's national procurement and administrative procedures acceptable to the World Bank, including selection of project implementation support personnel.

76. Procurement manual. Procurement arrangements, roles and responsibilities, methods, and requirements for carrying out procurement under the proposed project shall be elaborated in detail in the Procurement Manual, which will be a section of the POM. The POM shall be prepared by the Borrowers and agreed with the World Bank before project effectiveness.



ANNEX 2: Economic and Financing Analysis

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

A. Scope and cost of the project

1. **The overall objective of the SATCP is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.** To achieve this, the following activities are included in the project design (a) investments in core trade facilitation systems and in ICT systems as well as improved regulatory capacity of key agencies in both countries; (b) strengthening regional coordination through support to corridor institutions, performance monitoring and the removal of non-tariff barriers, (c) provision of concessional financing to support risk-sharing facilities in value chains for regional integration; (d) rehabilitation of anchor/connector roads to improve access of producers and firms to regional and global markets. The economic analysis assesses whether the benefits from these activities outweigh their costs.

2. **The total cost of the project, including the project management and implementation sub-component 2.2, is US\$380 million to be implemented over a 6-year period.** The project costs are to be financed entirely through both countries' national and regional International Development Association (IDA) allocation.

B. Measurable project impacts

3. **These activities address different aspects along the continuum of trade costs encountered by firms, including behind-the-border, at-the-border, and beyond-the-border costs.** Benefits that will outweigh project costs will accrue through more trade and investment activities, economic diversification, and net employment gains in the countries. A corridor operation offers an opportunity to integrate considerations around value chain development and/or industrialization and increased trade into corridor development plans. Work under this project would ultimately contribute to improvements in trade facilitation and logistics, operational capacity and efficiency, the business environment, and the competitiveness of key products (most notably agricultural goods).

4. **Corridor operations have many expected project impacts that create challenges for the estimation of a single economic rate of return.** This is because impacts vary temporally (short- vs. medium- and long-term), spatially (directly along corridor vs. the wider Malawian and Mozambican territory), by attribution (full vs. partial), by direct vs. indirect impacts, and by ease of quantification. The economic analysis typically does not aim to provide an exhaustive inventory of benefits. Its objective is to test beyond reasonable doubt whether the project as a whole, along with its individual components (where they can be appraised separately), have a positive net present value based on their budgeted cost and expected *primary quantifiable and directly attributable impacts*. As such, its focus is on expected direct, quantifiable, and fully attributable project benefits as defined by some of the project intermediate outcomes.

5. **The focus is therefore on the appraisal of quantifiable and directly attributable project impacts, including the following:**

- Reduction in trade costs due to improvements in trade facilitation and regional coordination, including in investments in automation, border agency cooperation, procedures (including single window implementation and removal of pre-shipment inspection) and greater involvement of the trade community in both countries.



- Increased revenue and jobs created by micro, small and medium enterprises, and smallholder farmers due to increased concessional financing to support risk-sharing facilities in value chains.
- Road user cost savings (vehicle operating costs and time costs) due to investments in upgrading road connectivity to the Nacala Corridor.
- Reduction in vehicle emissions, especially carbon dioxide emissions.

6. The costs and benefits of each component were estimated separately, except for components 1 and 2 on trade facilitation and regional coordination. This is because the benefits from investments in trade facilitation, border infrastructure and ICT are dependent on and inextricable from the institutional structures that enable regional coordination and cooperation. The separate estimate of the component impacts should provide a lower bound estimate of the overall benefits, as total project benefits should exceed those of individual components their interdependencies and spillovers. The selection of precise activities under each component were assessed based on considerations of impact, client demand, as well as their feasibility for successful implementation given the constraints and risks likely to be faced in these two countries. The cost-benefit analysis was carried out over twenty years and at the World Bank-recommended discount rates of 6 percent, with sensitivity analyses conducted for each component.

7. Corridors can generate a chain of multiple impacts beyond reductions in generalized transport costs, potentially affecting broader socioeconomic outcomes. For estimating the wider economic benefits (WEBs) and general equilibrium effects of the project, we are using a global CGE model and a microsimulation framework to determine the impacts that trade costs and reductions in non-tariff measures (NTMs) have on welfare, exports, private consumption, GDP at aggregate level, and trade and employment at sectoral level.

Table 17: Project economic activities assessed in economic analysis

Activity	Expected Impact
Component 1: Reduce trade costs and Component 2: Strengthen regional coordination & project implementation	
<ul style="list-style-type: none"> - Development of interconnected trade ICT systems - Support for the expansion and rehabilitation of border posts - Improving Border Management - Developing regulatory capacity along the Corridor: - Support to corridor committees - Develop and monitor corridor performance - Removal of targeted NTMs 	<ul style="list-style-type: none"> - Reductions in costs to import and export created by documentary and border compliance
Component 3: Strengthen value chains for regional integration	
<ul style="list-style-type: none"> - Matching grants and other access to finance instruments to firms in corridor catchment areas and agricultural producers - Technical assistance to value chain actors. 	<ul style="list-style-type: none"> - Increases in revenue, jobs and productivity through investment and removal of binding constraints.
Component 4: Strengthen transport infrastructure to improve market access	
<ul style="list-style-type: none"> - Rehabilitate road network linked to Nacala Corridor. 	<ul style="list-style-type: none"> - Road user cost savings and reductions in emissions.
Wider Economic Benefits	
<ul style="list-style-type: none"> - Reduction in trade costs - Reduction in non-tariff barriers 	<ul style="list-style-type: none"> - Welfare - Exports and imports - Private consumption - GDP



C. Economic analysis of measurable project impacts

(i) Component 1: Reduce trade costs and Component 2: Strengthen Regional Coordination and project implementation

8. The wide-ranging improvements in trade facilitation systems and the institutional framework for regional coordination is expected to reduce import and export costs. Activities combine investments in ICT equipment and infrastructure with regulatory reforms (policies and procedures) as well as mechanisms to support institutions for regional coordination. As shown in numerous studies, this in turn can lead to increased trade and more integrated economies.¹⁵²

9. The economic analysis examines the benefits of reducing import and export costs by documentary and border compliance resultant from these investments. The approach taken for components 1 and 2 is based on the available data and resources. Customs data is only available for Malawi and therefore macro-level analysis is conducted using aggregated trade data, estimates of each country's trade costs and parameters from the economic literature, as well as some assumptions on estimated cost savings.¹⁵³

10. The economic analysis for Components 1 and 2 is based on these key assumptions and parameters.

- a. The import and export values of each country are taken from World Integrated Trade Solution Comtrade database and averaged for 2016-18. These are then grouped into four product categories based on the extent the products will benefit from the trade facilitation interventions: (i) agricultural, fishery and food products (HS 1-24), which are subjected to the most customs procedures and inspections from plant and veterinary agencies; (ii) chemicals and pharmaceutical products (HS 28-38), which are subjected to health and safety inspections; (iii) raw materials and inputs such as mineral, wood and metal products, (HS 25-27, 39-49, and 68-83), which are not subjected to many inspections; and (iv) consumer and industrial products (HS 50-67 and 84-97), which are subjected to some testing and technical requirements (such as labelling).
- b. The growth rate is based on the projected rate of annual growth for exports and imports from 2013-2044 in the *TransNet Long-Term Planning Framework*¹⁵⁴. This also disaggregates into expected imports and exports for mining, manufacturing, and agriculture, broadly linking to the sectoral disaggregation above.
- c. Using OECD analysis as a reference point,¹⁵⁵ savings from trade facilitation reforms are estimated as 6.58 percent of trade costs for countries in Sub-Saharan Africa. This is the sum of impacts of trade facilitation indicators for automation, border agency cooperation, procedures (including single window implementation and removal of pre-shipment inspection) and the greater involvement of the trade community¹⁵⁶. The selected

¹⁵² For example, Moïse and Sorescu (2013) find that trade facilitation measures can reduce overall trade costs by 10 percent, with the most significant measures being information availability, the simplification and harmonization of documents, the automation of processes, risk management and the streamlining of border procedures. Evdokia Moïse & Silvia Sorescu, 2013. *Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade*. OECD Trade Policy Papers 144, OECD Publishing.) Fernandes et al. (2015) examine the impact of reducing customs inspection rates in Albania through risk-based approaches and find that this produced a 7 percent decrease in the days products spent in customs and a 7 percent increase in the value of imports and number of importing firms per product-country pair and the number of countries per firm-product pair. (Fernandes, Ana, Russell Hillberry, and Alejandra Mendoza Alcántara. 2015. "Trade Effects of Customs Reform: Evidence from Albania." Policy Research Working Paper 7210, World Bank.)

¹⁵³ This draws significantly on the approach taken for the analysis of the Western Balkans Trade and Transport Facilitation Project (P162043).

¹⁵⁴ Transnet. 2017. "Chapter 6: Africa Transport Demand and Infrastructure Planning." In *Transnet Long Term Planning Framework*.

¹⁵⁵ See Evdokia Moïse & Silvia Sorescu, 2013. *Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade*. OECD Trade Policy Papers 144, OECD Publishing.

¹⁵⁶ These measures correspond to trade facilitation indicators B (involvement of the trade community), G (formalities and automation), H (formalities and procedures) and J (external border agency cooperation).



parameter is 50 percent of this total in recognition of the fact that some of the costs caused by sub-optimal trade facilitation systems are beyond the scope of the project. While there is some variation in activities planned for each of the countries, these are similar enough – especially in their envisioned end-state – to justify use of the same parameter for both.

- d. The cost savings will be different for each product category as they are subjected to different levels of scrutiny: agricultural, fishery and food products will receive 100 percent of the assumed trade cost savings as improvements will be most dramatic for these; chemicals and pharmaceutical products will receive 60 percent of the cost savings; consumer and industrial products will receive 30 percent of the cost savings; and raw materials and inputs will receive 10 percent of the cost savings.
- e. Cost savings will also differ depending on where products enter. For products arriving at Nacala, where most of the project activities are carried out, it is assumed that 75 percent of these cost savings can be harnessed. For those entering from Beira, it is assumed that 50 percent can be harnessed. For goods entering Malawi and Mozambique from all other ports, a 25 percent reduction is presumed, as many of the project's trade facilitation reforms aim to have an impact at the national level. While the project is partly expecting that greater corridor competition will lead to a decline in costs, which may lead to a change in market share, for the purposes of this analysis market shares for 2017 are assumed to persist throughout.
- f. The cost savings are also different for export and import flows. Imports are subjected to the full gamut of customs processes and procedures, so they will receive the full cost savings, while exports are subjected to less inspections, so the cost savings are assumed to be 50 percent¹⁵⁷.
- g. The number of trade transactions are taken from Customs transaction data for Malawi in 2016 and scaled relative to total trade values for Mozambique.¹⁵⁸ Trade transactions through the system are assumed to reach a peak of 80 percent of all transactions. It is assumed that 20 percent of transactions will not benefit from these interventions, as they may be too small, take place in remote locations or do not require the intervention of multiple agencies.
- h. According to the 2020 Doing Business Report, and made up of border and documentary compliance, the costs related to trade are assumed to be US\$762 and US\$459 for Mozambique's imports and exports, respectively, and US\$305 and US\$585 for Malawi's imports and exports. As per the Doing Business methodology, this is assumed to be per US\$50,000 of cargo.¹⁵⁹
- i. As reforms are already prepared and can begin in the first year of the project (2021) costs are assumed to start with 20 percent in year 1 and increase 20 percentage points each year, reaching 100 percent by year 5 (2025). Benefits are assumed to likewise increase 20 percentage points each year but will not begin until year 3 (2023), increasing to 100 percent by year 8 and then depreciate at 10 percent per annum in the absence of further investments for operating costs (which have not been included).
- j. The costs of the Components 1 and 2 are US\$71 million in Malawi and US\$85 million in Mozambique. This includes US\$9 million per country under component 2.2 for project implementation.

¹⁵⁷ This is also supported by Hillberry and Zhang (2018) who find only limited impacts of improvements in trade facilitation indicators for exports. However, these authors question whether the findings in Moisé and Sorescu (2013) are attributable to trade facilitation reforms in the absence of broader institutional reforms. Hillberry, Russell & Zhang, Xiaohui. 2017. *Policy and performance in customs: Evaluating the trade facilitation agreement*. Review of International Economics. 26. 10.1111/roie.12338.

¹⁵⁸ In other words, as the values of total imports and exports from Mozambique are, respectively, 4.1 and 5.8 times that of Malawi's, it is assumed that transactions would be the same number.

¹⁵⁹ *Doing Business Indicators* (database), World Bank. (accessed September 3, 2020).



11. Using these assumptions and parameters, the economic analysis of Components 1 and 2 was carried out. The benefits in terms of trade cost reductions and the investment is measured over a 20-year period at a discount rate of 6 percent. The Net Present Value (NPV) and the Economic Internal Rate of Return (EIRR) is estimated and presented in Table 18. Sensitivity analyses using a 10-year timeframe and a 12 percent discount rate yields a lower but comparable EIRR.

Table 18: Summary of NPV and EIRR for Components 1 and 2

	Base analysis (20-year, 6 percent DR)		Sensitivity analysis 1 (10-year, 12 percent DR)	
Country	NPV (US\$ million)	EIRR (%)	NPV (US\$ million)	EIRR (%)
Mozambique	794.4	65.3	264.3	55.2
Malawi	214.4	29.9	32.3	19.3

(ii) Component 3: Strengthen value chains for regional integration

12. This component aims to improve productivity and market opportunities for the private sector, smallholders, and cross-border traders along specific value chains through a regional integration approach. These are intended to leverage on the better connectivity and access to markets under the other components to support ongoing efforts by the governments of Malawi and Mozambique to address market failures impacting investments.

13. The component will include the following activities:

- (a) matching grants to aggregate market players and smallholders/firms with a regional integration and export orientation approach.
- (b) competition for grants for innovative ideas/seed capital support in value chains with regional integration.
- (c) Support public upstream investment including through feasibility studies, bidding documents, and small works that can generate conditions for private-sector investment through a regional integration lens
- (d) Capacity building to small-scale cross-border traders in organization, as well as management of inventories.
- (e) Capacity building to small-scale producers, emerging farmers, and firms
- (f) Technical assistance to improve access to financing, including through value chains

14. The component builds on lessons from the IDCF in the combination of equipment, knowledge, and infrastructure. The proposals are submitted by commercial companies in partnership with producers' organizations. The proposals combine investments in mechanization, operations organization, skills development, technical assistance, and infrastructure (especially irrigation, and warehousing). The objective is to develop long-lasting partnerships between lead firms and producers in key value chains including sugar, cotton, poultry, soya, maize, cashew, pulses, fruits, and vegetables.

15. The ICDF has proven an effective instrument over the life of the Integrated Growth Poles Project (IGPP).¹⁶⁰ Through over US\$20 million investment, it has supported financing for public and quasi-public goods and services and leveraged private sector investments in both the Zambezi Valley and along the Nacala Corridor. Investments have been made in producers of sugar, horticulture, maize, soya, and cotton, among others.

¹⁶⁰ Government of Mozambique. 2020. Innovation and Demonstration Catalytic Fund (IDCF) Implementation Report.



16. The economic analysis for component 3 builds on the cash-flow model used in the economic analysis for the IGPP in Mozambique and the Agriculture Commercialization Project in Malawi. The benefits captured in these models include improvements in productivity, competitiveness, market development and value addition for farmers and value chain actors. This is measured in terms of increased income due to changes in cropping patterns, yields, and costs as well as improved access to knowledge of better farming practices, improved seed, fertilizer, technology (including irrigation), markets, and finance. For the IGPP, the assumptions are updated with information from the Implementation Completion Review. Some of the main assumptions are:

- a. Funds would be split between districts near the Nacala Corridor and the Beira Corridor based on demand.
- b. The technical data on revenues, costs, annual growth rates, and average wage are taken from data gathered during the implementation of the projects and through discussions with agricultural practitioners operating in sugar cane, poultry, and soya beans and estimates on microenterprises based on the Enterprise Survey data. In many cases, these numbers were adjusted to arrive at more conservative estimates.
- c. The beneficiaries include smallholders; MSMEs; and cross-border traders.
- d. The main impacts of the component are expected in the form of improvements in value added for beneficiaries due to the growth in revenues and/or reduction in costs.

17. In the case of Malawi, the project will invest US\$17 million to expand the matching grant program under the Agricultural Commercialization project (P158434). The financial incentive is used for mechanization, operations organization, skills development, and technical assistance. Additional support focuses on infrastructure connecting communities with regional markets. It will also cover all costs of technical assistance to implement the programs.

18. The benefits in terms of trade cost reductions and returns on investment in value chains is measured over a 20-year period at a discount rate of 6 percent. The net present value (NPV) and the economic internal rate of return (EIRR) are estimated and presented in Table 19. Sensitivity analyses using a 10-year timeframe and a 12 percent discount rate yield a lower but comparable EIRR.

Table 19: Summary of NPV and EIRR for component 3

Country	Base analysis (20-year, 6 percent DR)		Sensitivity analysis 1 (10-year, 12 percent DR)	
	NPV (US\$ million)	EIRR (%)	NPV (US\$ million)	EIRR (%)
Mozambique	45.7	23.8	6.3	10.6
Malawi	27.2	42.6	5.7	30.1



(iii) Component 4: Strengthen transport infrastructure to improve market access

19. Component 4 rehabilitates key road networks in areas of increased economic activity along the Nacala corridor in both Malawi and Mozambique. The component will finance rehabilitation and maintenance works on key corridor roads and anchors to economic centers in selected districts/provinces in both Malawi and Mozambique including design studies and supervision activities. As in Component 3, the economic analysis is being carried out separately for each country also given the different approach taken in each.¹⁶¹

Mozambique

20. Mozambique has a wide variety of economic potentials, for example, in the agriculture, light manufacturing and service industries. However, transport infrastructure, particularly rural connectivity is among the most important constraints to the economy. Mozambique owns about 30,000 km of official roads, of which 40 percent remain in poor condition. Given the limited coverage and the poor quality of the network, rural accessibility is estimated at 20.4 percent, leaving about 15 million people disconnected (Figure 11).¹⁶² Many rural farmers and local businesses are not well connected to domestic markets, let alone to regional and global markets.

21. In recent years, the northern and central zones have been particularly lagging in in terms of economic growth and diversification. There is a growing literature on increasing inequality in Mozambique.¹⁶³ Clearly, poverty is more pervasive where rural accessibility is limited (Figure 13). One of the possible reasons is the misallocation of public investment, which is hampering people's access to markets and inclusive and sustainable growth, especially in road spending, which is biased towards areas.¹⁶⁴ Against this background, the project aims to boost the economic development along the Nacala Corridor by reducing trade and transaction costs and improving road connectivity in the region. To this end, this component is specifically focused on improving feeder road connectivity to the Nacala Corridor, particularly in two provinces: Nampula and Niassa.

22. There is a significant financial need to meet the existing gap in rural accessibility. To achieve universal access in rural areas, it is estimated that the country would need about US\$1.4 billion to rehabilitate the existing road network and another US\$10.2 billion to reconstruct currently unclassified feeder roads. In Nampula and Niassa alone, an estimated US\$3.3 billion is needed. In addition, Mozambique is highly vulnerable to extreme climate events, which require additional resources to ensure infrastructure is sufficiently resilient. The government has already been struggling with limited fiscal space. The poorly maintained road network could add more vulnerability to the country. In 2019, for instance, a total of 3,600 km of roads were severely damaged by Cyclones Idai and Kenneth, causing significant disruptions in the transport system and the entire economy.

23. The National Road Administration (ANE) has already developed a road planning tool to prioritize its road investments. This is basically a multicriteria analysis (MCA) framework based on seven criteria: (a) network criticality, (b) traffic volume, (c) poverty, (d) proximity to potential agricultural clusters, (e) current agricultural production, (f) fishery production and (g) flood risk. Given the country's vulnerability to extreme climate events, the criticality of a road link is

¹⁶¹ This component also finances investments in road safety. Data collection for this is still ongoing.

¹⁶² World Bank Group. 2016. *Measuring Rural Access: Using New Technologies*. World Bank.

¹⁶³ E.g., Gradin, Carlos, and Finn Tarp. 2019. *Investigating growing inequality in Mozambique*. South African Journal of Economics, Vol. 87(2), pp. 110-138.

¹⁶⁴ World Bank. 2019. *Mozambique Economic Update: Mind the rural investment gaps*. World Bank.



important to consider. Some roads are more critical than others which may have other alternative routes. The criticality is measured by additional road user costs that would be required when the link is disrupted.¹⁶⁵

Figure 12: Rural Access Index

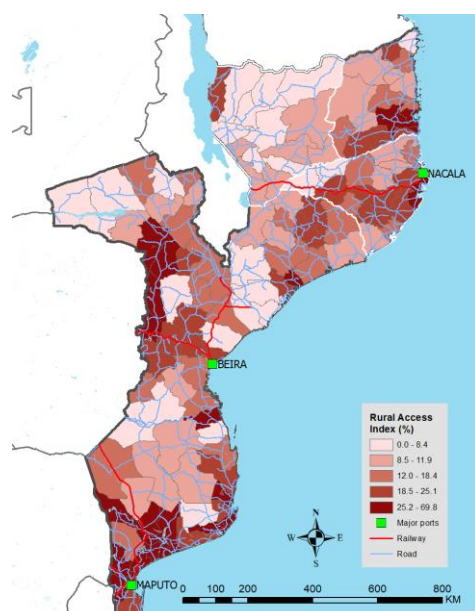
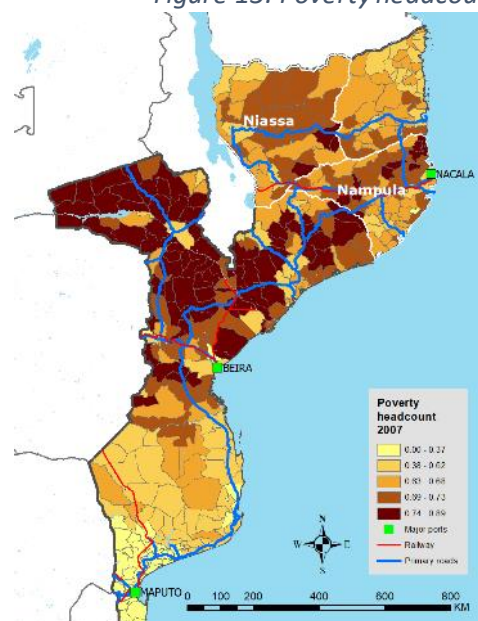


Figure 13: Poverty headcount



24. The multicriteria analysis generally aims at balancing various socioeconomic benefits from road investments but may not necessarily guarantee economic efficiency. To assess the economic viability of the investments, a simplified cost-benefit analysis is carried out based on the conventional consumer surplus approach, in which road rehabilitation and maintenance costs are compared with expected savings of road user costs (RUC), such as vehicle operating costs and time costs. The underlying assumptions and parameters are largely generated from Mozambique database but also rely on regional model data in Africa if country-specific data are not available. For simplicity purposes, the following assumptions are made:

- **Project life.** The reconstruction works are assumed to be implemented in the first 2 years, with a project life of following 20 years.
- **Investment costs.** The investment costs are derived from the recent similar projects. The applicable specifications are assumed based on the current and future traffic. The cost is assumed to be allocated equally to the first 2 years.
- **Maintenance costs.** Different maintenance activities are assumed depending on type of road. While primary roads are generally paved, secondary, and tertiary roads are normally unpaved. The unit costs are based on recent experience in Mozambique.
- **Traffic.** Based on the traffic data derived from the ANE traffic counting system, the latest annual average daily traffic (AADT) figures are used for the individual road segments (see Table 20). Based on the other projects

¹⁶⁵ Rosenberg, Julie, et al. 2017. "Improving the resilience of Peru's road network to climate events". Policy Research Working Paper 8013. World Bank.



implemented in the area, the traffic growth rates used for the years period of analysis are presented in Table 21 below. In addition, the induced traffic of 2 percent is also assumed in the economic analysis, given the strong demand increase for mobility that has been observed around the project areas in recent years.

Table 20: Average daily traffic on the selected roads in 2018

ID	Road section	Sedan	Pickup	Mini bus	Bus	2 axle truck	3-4 axle truck	> 4 axle truck	Tractor	Total
1	R686/ R687	221	102	81	163	117	44	4	3	735
2.1	R696- T8006	82	112	75	72	76	34	10	3	464
2.2	R696- T8163	73	91	66	46	64	14	6	3	363
3	R692/ R1170	56	65	42	33	28	24	11	2	261
4	R1156	67	77	34	44	52	18	8	3	303
5.1	R720- T1013	124	94	29	72	75	24	16	10	444
5.2	R720- T1012	112	83	17	61	63	12	8	4	360
6	N360	152	127	49	112	99	42	24	19	624

Table 21: Traffic growth rates used for analysis

Vehicles	Traffic growth rate(%)			
	2021-2025	2026-2030	2031-2035	2036-2040
Sedan	14.0	8.0	5.0	3.0
Pickup	14.0	8.0	5.0	3.0
Minibus	14.0	8.0	5.0	3.0
2 Axle truck	12.0	6.0	3.0	2.0
3-4 Axle truck	12.0	6.0	3.0	2.0
>4 Axle truck	12.0	6.0	3.0	2.0
Tractor	12.0	6.0	3.0	2.0

Road user benefits. The project is expected to contribute to reducing road user costs (RUC), which varies considerably across types of vehicles and depending on road conditions. Due to the project, RUC are generally expected to decline by 20-30 percent (Table 22).



Table 22: Road user costs (US\$/vehicle-km)

	Small car	Light goods vehicle	Mini bus	Medium bus	Light truck	Med truck	Heavy truck	Light goods vehicle
Current condition: Fair	0.158	0.372	0.326	0.901	0.372	0.550	0.867	0.372
: Poor	0.204	0.471	0.424	1.186	0.471	0.69	1.094	0.471
After project:								
DBST	0.101	0.219	0.195	0.471	0.219	0.331	0.521	0.219
Gravel	0.103	0.230	0.200	0.496	0.230	0.348	0.552	0.230

- **Emission reduction.** In theory, road improvement can generally help to increase vehicle speed and enhance fuel efficiency, thus reducing carbon emissions. For instance, an HDM for RUC model for Africa shows that **CO₂ emission could be reduced by about 10 to 20 percent, depending on the type of vehicle (Table 23).** Gross emissions without the project over 20 years would be 1,517.1 tons and with the project they are 1,467.1 tons, resulting a net change in emissions of 49.5 tons. The net present value of this reduction is \$3,784.80 at a shadow price of carbon (SPC) of US\$60.¹⁶⁶ Although it also depends on vehicle speed and road conditions in a complex manner, the current analysis assumes that this normal emission reduction is linearly applied to the above traffic forecasts.
- Emission coefficients used in the analysis consider the impact of the project on speeds, through HDM4.

Table 23: Normal carbon dioxide emissions (g/km) by vehicle type

	Small car	Light goods vehicle	Mini bus	Medium bus	Light truck	Med truck	Heavy truck	Light goods vehicle
Without project (poor condition)	283.5	284.5	296.7	402.2	356.2	602.1	1439.5	356.2
DBST	221.4	235.6	310.5	432.7	358.9	599.1	1279.8	358.9
Change (%)	-21.9	-17.2	4.7	7.6	0.8	-0.5	-11.1	0.8
Gravel	218.6	232.5	307.4	427.8	353.7	584.9	1248.9	353.7
Change (%)	-22.9	-18.3	3.6	6.4	-0.7	-2.9	-13.2	-0.7

¹⁶⁶ The SPC was calculated based on World Bank (2017) "Guidance note on shadow price of carbon in economic analysis." This guidance note recommends that projects' economic analysis use a low and high estimate of the carbon price starting at US\$40 and 80, respectively, in 2020 and increasing to US\$50 and 100 by 2030. An SPC of \$40 results in a net present value of US\$3,562.90 for this reduction and the SPC of US\$80 results in a net present value of US\$4,006.60. Given that the High-Level Commission report does not prescribe any specific carbon price values beyond 2030, the low and high values on carbon prices are extrapolated from 2030 to 2050 using the same growth rate of 2.25 percent per year that is implicit between the 2020 and 2030, leading to values of US\$78 and US\$156 by 2050.



25. The financial costs for the proposed interventions are presented in Table 24. The economic analysis should use economic costs of road construction, which can in theory be calculated by excluding all taxes, duties and subsidies, and applying shadow prices to reflect the real resource costs to the economy. Taxes, duties, and subsidies are merely transfer payments within the domestic economy. Therefore, they have no effect on economic opportunity or resource costs. Shadow prices take into account any distortions in the domestic economy, which may be caused by imperfection in the resource, particularly labor, demand and supply markets.

Table 24: Summary of selected roads

ID	Region/ Area	Road section	Length (km)	Class	Pavement	Current road condition	Proposed intervention	Investment cost (US\$ mil)
1	Nampula/ Nampula	R686/ R687	50.6	Tertiary	Unpaved	Fair	Upgrade to DBST	27.1
2.1	Nampula/ Nampula	R696-T8006	24.0	Tertiary	Unpaved	Fair	Upgrade to DBST	10.6
2.2		R696-T8163	31.0	Tertiary	Unpaved	Fair	Upgrade to LVSR	7.8
3	Nampula/ Iapala	R692/ R1170	38.1	Tertiary/ Vicinal	Unpaved	Poor	Upgrade to gravel	2.8
4	Nampula/ Imala	R1156	55.0	Vicinal	Unpaved	Poor	Upgrade to gravel	4.1
5.1	Niassa/ Cuamba	R720-T1013	22.0	Tertiary	Unpaved	Poor	Upgrade to DBST	9.7
5.2		R720-T1012	64.0	Tertiary	Unpaved	Poor	Upgrade to DBST	16.0
6	Niassa/ Cuamba	N360	67.0	Secondary	Unpaved	Poor	Upgrade to DBST	29.5
			351.7					107.6

Figure 14: Location of selected priority roads



26. Using a rule of thumb, the economic costs for the present study are assumed to be 80 percent of financial costs. Road maintenance costs are calculated by the RED model, which includes required routine maintenance costs (ongoing, recurrent maintenance expenditures on an annual basis).



27. Based on the estimated costs, traffic and other parameters, the Net Present Value (NPV) and economic internal rate of return (EIRR) were calculated using RED with a standard evaluation period of 20 years and a discount rate of 6 percent. Sensitivity analysis at 10 years and a 12 percent discount rate is also carried out. The NPV and EIRR results are presented in table Table 25 below. The EIRR for the expected interventions on the roads varies between 14 percent and 39 percent well above the conventional threshold. The expected intervention in each road is considered viable and, the project is also considered viable as a whole with a total NPV of US\$133 million and an average EIRR of 23.5 percent. The project also remains viable at the higher discount rate and the shorter project life.

Table 25: NPV and EIRR results from RED model

Road Section	Proposed type of Pavement	AADT	Project life: 20 years		Project life: 10 years	
			EIRR (%)	NPV (US\$ mil)	EIRR (%)	NPV (US\$ mil)
				Discount rate		Discount rate
				6%		12%
Rapale - Mecuburi (R696-T8006)	DBST	464	15.3%	7.8	5.3%	-1.9
Rapale - Mecuburi (R696-T8163)	LVSr	363	19.6%	9.1	11.1%	-0.2
Connection to Iapala (R1170)	Gravel	261	35.4%	8.8	30.9%	1.9
Namialo - Imala (R1156-T8893)	Gravel	303	39.4%	15.0	35.6%	3.5
Nampula - Corane (R686/687)	DBST	735	24.6%	34.2	17.5%	3.3
Cuamba - Metarica (R360)	DBST	624	20.7%	34.5	12.6%	0.4
Cuamba - Insaca (R720-T1012)	LVSr	360	18.8%	17.4	10.2%	-0.8
Cuamba - Insaca (R720-T1013)	DBST	444	14.3%	6.2	3.9%	-2.0

28. As discussed above, emission reduction is considered as one of the economic benefits from the project. It is estimated that carbon dioxide emissions will be reduced by about 43.8 tons over the 20-year life of the project. Gross emissions are estimated to be 1,517 tons without the project and 1,473 tons with the project (Table 26). Other types of pollutants are also expected to be reduced, but mostly by relatively small amounts. As far as CO₂ emissions are concerned, the social value of emission reduction is estimated at about US\$3,351 when the Bank's recommended social value of carbon, i.e., US\$60-91 per ton, is applied: Average prices (that is, US\$60 in 2020, US\$75 in 2030) and an annual growth rate of 2.25 percent afterward are assumed.¹⁶⁷

Table 26: Estimated emission reduction

	Over 20 years	Per annum
Gross without project (tons)	1,517.1	75.9
Gross with project (tons)	1,473.3	73.7
Net change (tons)	-43.8	-2.2
Value of reduction (US\$)	3,351.1	167.6

Malawi

29. In Malawi there is likewise a need to upgrade parts of the corridor network and connections to key economic centers. Prioritization will be conducted with the help of a tool developed over the project preparation period supported

¹⁶⁷ World Bank. 2017. "Guidance note on shadow price of carbon in economic analysis." World Bank.



through the PPA. The tool will be part of a larger road asset management system being developed in Malawi. Once roads have been identified, analysis will be carried out following the approach used for Mozambique above.

30. Criteria used to for the MCA include:

- a. physical condition of a road segment within the network,
- b. proximity to areas of high agricultural production and/or potential,
- c. proximity to areas with high markets and/or trade potential,
- d. the district poverty rate, and
- e. vulnerability to climate change related risks such as floods.

31. This is intended to provide a systematic process to inform the investment under this Project and provide a tool to the government for future infrastructure investments. This can ensure the sustainability of the road network, by optimizing the country's limited resources. The development of such a system/tool in Malawi in consultation with the RA and MTPI will assist in identification of priority investment projects. RA is primarily responsible for the construction, rehabilitation, and maintenance of main, secondary, and tertiary roads; other types of roads are delegated to local governments (i.e., district and city councils). However, due to lack of resources and capacity constraints in district and city councils, the RA directly coordinates infrastructure investments under their purview.

32. The RA conducted a visual road survey for the complete road network in 2016. It was scheduled to be updated this year but has faced delays due to COVID-19. Traffic data from 2018 will be used in developing the tool. At the time of appraisal of this project, due diligence will be done for all data points, and feasibility study, economic analysis completed along with ensuring that all necessary systems required to proceed with the development of the tool and those that are consistent with the NPV and ERR are in place.

33. Considering that this project necessitates connecting the Nacala corridor by bridging economic centers and facilitating corridor movement, the prioritization for this project will focus on road network in the central districts of Malawi. The MCA analysis will complement the HDM4 that prioritizes investment decisions based on traffic conditions, road conditions, and fuel saving, providing an assessment for highest investment return. This systematic process of road prioritization will be coordinated with the Southern Africa Trade and Transport Facilitation (SATTF) Program - Phase 2 (SATTFP SOP2) (P145566) and Inclusive Access for Rural Transformation project (P169727) that aim to increase economic and social connectivity in selected districts in Malawi.

D. Wider Economic Benefits

34. Corridors can generate a chain of multiple impacts beyond reductions in generalized transport costs, potentially affecting broader socioeconomic outcomes.¹⁶⁸ In this regard, it builds on the socio-economic analysis carried out in relation to a potential IFC investment along the Nacala Corridor. CGE models are useful for evaluating packages the involve multiple policy changes, which would be difficult to evaluate using cost benefit analysis or trade gravity model. They are also helpful for addressing the objective of stimulating trade; CGE can capture both direct and indirect effects of policy changes on inter-sectoral, inter-regional, and inter-temporal effects induced by policy changes. The three components in this model are a set of economic agents, such as firms, households, and government, whose behavior is to be analyzed. Behavioral rules for these agents reflect their assumed motivation, such as profit maximization for firms and utility

¹⁶⁸ There are a growing number of approaches to capture these wider economic benefits (WEBs) and general equilibrium effects.



maximization for consumers, and a set of signals observed by these agents on which they make their economic decisions, such as market prices or government rationing quotas.

35. For this analysis of WEBs, the CGE model is calibrated to the most recent database produced by the Global Trade Analysis Project (GTAP).¹⁶⁹ The GTAP database is supplemented by additional data that quantifies other barriers to trade and extends the analysis to cover NTBs in services and trade facilitation measures. It also extends the analysis to investigate the impact that the African Continental Free Trade Area (AfCFTA) will have on poverty, unskilled workers, and women.

36. Several scenarios were analyzed. This involved simulation scenarios through 2030 and 2035 of the impacts of trade costs and NTM reductions (individually and jointly) on welfare, exports private consumption, GDP at aggregate level and trade and employment at sectoral level. Scenarios were based on 5 and 2.5 percent reductions in trade costs and 10 and 5 percent reductions in NTMs.

37. The simulation impacts are striking, even at the moderate level. Welfare impacts by 2035 are expected to be 1.4 percent for Malawi and 3.3 percent for Mozambique, with GDP increasing 0.4 percent for Malawi and 0.8 percent for Mozambique. The simulated improvements in trade costs and trade facilitation are expected to increase trade substantially with exports increasing 0.8 percent for Malawi and 2.0 percent for Mozambique. Taking a more optimistic scenario, the welfare impacts through to 2035 are 2.8 percent for Malawi and 6.7 percent for Mozambique, while GDP is expected to increase 0.8 percent for Malawi and 1.6 percent for Mozambique. Under this scenario exports increase by 1.6 percent for Malawi and 4.1 percent for Mozambique. Table 27 provides an overview of results for both countries in both the optimistic and moderate scenarios.

Table 27: Macroeconomic project impacts in Malawi and Mozambique through 2030 and 2035

		Business-as-usual scenario (million USD)		Optimistic scenario		Moderate scenario	
				5 percent trade cost reduction and 10 percent reduction in NTMs		2.5 percent trade cost reduction and 5 percent reduction in NTMs	
		2030	2035	2030	2035	2030	2035
Malawi	Welfare	11,548	15,810	1.8%	2.8%	0.9%	1.4%
	Real exports	4,853	6,994	0.8%	1.6%	0.4%	0.8%
	Real imports	5,319	7,287	4.2%	6.4%	2.1%	3.1%
	Real Private Consumption	11,557	15,844	1.9%	2.8%	0.9%	1.4%
	GDP	19,819	27,839	0.5%	0.8%	0.2%	0.4%
Mozambique	Welfare	43,881	57,341	4.2%	6.7%	2.1%	3.3%
	Real exports	27,211	40,346	2.9%	4.1%	1.4%	2.0%
	Real imports	28,546	37,778	7.1%	10.8%	3.5%	5.3%
	Real Private Consumption	43,977	57,592	4.3%	6.7%	2.1%	3.3%

¹⁶⁹ For estimating the WEBs of the project, we are using a global CGE model and a microsimulation framework. See Maliszewska and Ruta. 2020. *The African Continental Free Trade Area*. World Bank.



	GDP	80,217	112,700	1.0%	1.6%	0.5%	0.8%
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E. Economic appraisal

38. The project includes four components, with US\$380 million to be disbursed over a period of 6 years (January 2021 to December 2026). Table 28 summarizes the results of overall project economic efficiency indicators of net present value discounted at 6 percent over 20 years and the project economic rate of return.

Table 28: Summary of NPV and EIRR for all project components at a 6 percent discount rate

	Malawi	Mozambique
Benefits (US\$ million)	US\$ 241.6	US\$ 973.1
Costs (US\$ million)	(US\$ 88)	(US\$ 204.4)
Net benefits (US\$ million)	US\$ 153.6	US\$ 765.7
EIRR	36.8%	

Note: Analysis for Malawi currently covers Components 1-3 only and analysis for Mozambique does not include sub-component 4.2.

39. As the economic analysis above shows, the project's internal rate of return is **36.8 percent**. The sensitivity analysis at the component level shows the project remains viable under several different parameters, demonstrating the robustness of its rationale. This is further supported by the results of the CGE analysis.



ANNEX 3: Gender-based Violence (GBV)

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

1. The objective of this annex is to detail the project's approach to mitigating the risk of SEA and Sexual Harassment (SH) in the workplace and in responding promptly and adequately to project-related cases.

2. The project's approach to mitigate SEA and SH in the workplace and to respond promptly and adequately to project related cases is based on current knowledge of this complex issue. The project has assessed the GBV risks, including SEA during project implementation. The proposed approach is based on the assessment as well as global experiences and lessons from past projects, including the Mozambique Integrated Feeder Roads Development project, which has been recognized for its robust approach for GBV mitigation and response and several projects in Malawi incorporating mitigation measures. The approach will consider the recommendations of the Good Practice Note Addressing SEA and SH in Investment Project Financing involving Major Civil Works and will continue to evolve as the team learns from experiences while implementing the project, as well as from emerging global best practices.

3. The project will pursue a coordinated approach to SEA and SH risk mitigation for both Malawi and Mozambique. Given that under component 4, civil works will be carried out in both Malawi and Mozambique, the project will work coordinately in both projects to ensure that the same standards are applied. Moreover, while no major works are planned under component 1, border infrastructure can bring SEA and SH risks, not only during construction but also during implementation. Evidence shows that around 70 to 80 percent of informal cross-border traders in the southern Africa region are women, who are vulnerable to harassment and other forms of GBV from corrupt agents.¹⁷⁰ Collaboration between the Government of Mozambique and Government of Malawi at the border on SEA/SH mitigation will be essential to ensure proper mitigation and response.

Risk assessment

4. Based on the GBV risk assessment tool, the project ranks high and substantial for SEA and SH in the workplace for Mozambique and for Malawi, respectively. The project conducted a GBV risk assessment to analyze both SEA and SH risks for both Malawi and Mozambique. The assessment analyzed context and project related risks for project areas in both countries. In Mozambique, there is an institutional framework to prevent and respond to GBV (such as laws on domestic and sexual violence) and the prevalence of intimate partner violence and sexual violence are lower than the regional average. However, other indicators are worrisome, such as high levels of child marriage, trafficking, and presence of peace keeping missions (derived from internal conflict and affected natural disasters). Moreover, the assessment showcased that the project could increase the marginal GBV risks for SEA and SH for beneficiary communities. The province of Nampula, for example, where roads will be rehabilitated by the project counts with the highest levels of poverty in the country. Moreover, a significant amount of labor influx will occur, both international and from Maputo. The absorption capacity is low as the works will mainly take place in rural areas and several construction camps will be installed. The analysis also showcased significant challenges in terms of supervision as the project areas are not of easy access and this situation gets more complicated during rainy season. In Malawi, the prevalence of intimate partner violence, sexual violence, and child marriage are above average for the region. Moreover, the legal framework is weak with no existing laws on marital rape or sexual harassment. There is also a significant prevalence of gender norms justifying

¹⁷⁰ Blumberg, Rae L, Malaba, Joyce, and Meyers, Lis. 2016. *Women Cross-Border Traders in Southern Africa: Contributions, Constraints, and Opportunities in Malawi and Botswana*. USAID Southern Africa.



violence and help seeking behaviors *vis a vis* cases of violence seems to be below regional average. As per the project related risks, major infrastructure works will be carried out in Malawi and a significant amount of labor influx with low absorption capacity is expected. As in Mozambique, poverty in the project area is in the bottom quartile and the project is challenging to supervise.

5. Gender norms perpetuating inequalities and other contributing drivers increase women's and girls' vulnerability to the labor influx expected under the project. As established by the IFC's Handbook to Address Project-induced Migration¹⁷¹ and the WB Guidance Note on Managing the Risks of Adverse Impacts on Communities from Temporary Project Induced Labour Influx¹⁷², evidence shows that in-migration is associated with negative environmental, social, and economic impacts that often lead to deterioration in the social context in which the project's host communities reside and the project is operating. Because they are far from home and need to socialize, influx populations may hasten the introduction and/or increased expression of vices such as prostitution, gambling, alcoholism, and drug use. This can have significant negative social impacts and consequences. The handbook also identifies risks related to a rise in the "four Ms:" men, money, movement (influx), and mixing (that is, the interaction between high and low disease prevalence groups).

Mitigation Measures

6. The project will undertake several activities to mitigate the SEA and SH risks emanating from project activities. They include (a) contractual obligations to reduce the SEA risks due to labor influx; (b) strengthening the GRM to effectively handle SEA complaints, through collaboration with NGOs with expertise to address cases of SEA; (c) adopting an enhanced multi-sectoral coordination and monitoring mechanism; and (d) capacity building of the implementing agency and community awareness raising activities to implement these SEA mitigation measures effectively. These measures will apply to civil works related to road rehabilitation and border infrastructure for both Malawi and Mozambique intervened areas.

7. The project will learn from and build on the experience of the IFRDP mitigation and response strategy to SEA and SH and from the recommendations of analytical work on GBV conducted in Malawi and previous road projects (Songwe-Karonga and Thabwa-Chiseko).¹⁷³ The IFRDP has been recognized for having a strong mitigation and response strategy for SEA and SH, including in overlapping project areas with the Nacala corridor, such as Nampula. ANE has hired an NGO (Jhpiego) to support the PIU to design and implement the strategy. Among other activities, the NGO will map and assess the quality of service providers and enhance the response capacity of the health sector using the GBV Quality Assurance Standards-Based Management and Recognition approach. Based on the mapping of services, Jhpiego will reinforce the coordination with the local stakeholders to prepare a mitigation action plan, taking into account existing care-seeking behaviors. Jhpiego will also build the capacity of ANE to monitor SEA and SH mitigation interventions and will support the awarded contractors in the development and implementation of their Codes of Conduct (CoC) and GBV Action Plan. Moreover, it will develop a training toolkit for the GRM to develop skills to handle GBV cases confidentially and through a survivor centered approach. Jhpiego will also support the creation of a monitoring system to ensure that all the mitigation measures are in place and working accordingly. All the measures will be aligned with the Multisectoral Mechanism on Integrated Response for Women Victims of Violence to ensure that the strategy is built from existing frameworks and structures. A similar approach will be followed in Malawi, where NGOs have been hired in the past as

¹⁷¹ A Handbook to Address Project-Induced In-Migration 2009. IFC. Report No. 62631.

¹⁷² Managing the Risks of Adverse Impacts on Communities from Temporary Project Induced Labor Impacts 2016

¹⁷³ In 2019, an analytical piece on GBV was conducted for the road sector in Malawi. The documents provide a good approximation of risk factors derived from labor influx for the road sector in Malawi and provides specific recommendations for the Roads Authority. World Bank. 2019. *Hopes, Costs and Uneven Burden: The Impacts of Labor Influx from Road Projects on Women and Girls in Rural Malawi*. Washington, DC.: World Bank.



service providers to support care for survivors and project supervision in road and irrigation projects. IFRDP learning, together with the experience of several projects in Malawi mitigating and responding to SEA and SH risks, will lead the way forward for an integrated and coordinated strategy in the Nacala corridor.

Defining Contractual obligations

8. The project will introduce contractual obligations into the roadwork contracts to reduce the SEA risks. Specific measures will include, (i) briefing prospective contractors on the Environmental, Social, and Occupational Health and Safety Standards, and SEA-related requirements during pre-bid meetings; (ii) incorporating requirements to minimize use of expatriate workers into bid documents as possible; (iii) requiring that contractors and consulting firms submit “Codes of Conduct” with their bids; (iv) requiring contractors to establish anti-sexual harassment policies, adopt Action Plans for implementing environmental, social, and occupational health and safety standards, and mitigation measure on SEA; and (v) requiring firms pay the NGO to provide worker training on SEA, HIV/AIDS mitigation, and Code of Conduct obligations.

Strengthening the GRM

9. The proposed project will enhance the existing GRM to gather and refer to SEA-related grievances. For Mozambique road projects, complaints can only currently be made by filling in forms that are available at administrative posts, with local community leaders, representative of implementing agency, contractor, supervisor, and the resettlement committee. Typically, local leaders attempt to resolve the complaints amicably at the local level through the informal village grievance resolution system within two weeks. If the local leader is unable to resolve the issue, they refer the complaint to the district resettlement committee. The existing GRM will be enhanced with inputs from the mapping exercise and technical support of an NGO to identify partners for services for survivors of violence. The link between service providers and informal sources (community-based organizations and the NGO) potentially will be enhanced through the project liaison committees. The project approach is for survivors of SEA to have different entry points to the referral pathway besides the GRM, while maintaining close collaboration. To enhance the coordination between the different entry points and ensure confidentiality of the survivor, the project will adopt a Response Protocol (to be detailed in the Project Operations Manual).

10. From previous experiences in Malawi and Mozambique, the project has identified local NGOs to enhance the GRM by adequately and promptly addressing any potential grievance from survivors of SEA. If the GRM receives a case on SEA related to the project, it will be recorded, and the survivor will be referred to identified service providers. Service providers will also be trained about the availability of the GRM, so that they can refer survivors of SEA in the project area. The contracted NGO will keep the information confidential to protect privacy of survivors. The project shall strengthen the GRM as one of the entry points for complaints, including SEA, by adopting ICT that, with the consent of the survivor and while still protecting their confidentiality, immediately report the existence of the complaint to the Government and to the World Bank. In cases where the perpetrator(s) is/are linked to project activities, the contractor will take appropriate actions as per the Code of Conduct signed by the accused person. However, this will not preclude prosecuting the perpetrator(s) as per Mozambique’s and Malawi’s existing laws.

Capacity building, community dialogue and awareness raising

11. Component 2 will provide support for improved management of project implementation and supervision and provide with technical assistance to support social and environmental safeguards, including SEA and SH mitigation and response, and citizen engagement. The project, in partnership with the corresponding local NGOs in Malawi and Mozambique will launch activities and learning modules to enhance the PIU’s ability to address SEA and properly design



a project-level GRM with the capacity to design SEA sensitive protocols to guide the project to institute strong mechanisms for reporting, including a feedback system for timely response to complaints. The protocols should include provision to protect confidentiality. The project will also support the Governments' efforts to enhance its response to SEA and GBV by mapping ongoing initiatives through multi-sectoral coordination.

12. Moreover, community dialogue and awareness raising will be carried out in the communities to make sure people potentially affected by the project identify the different entry points to the referral pathway if they are victims of SEA (including specifications about the role of the GRM). This community dialogue and awareness raising will be carried out by the partner NGOs taking into account previous successful experiences to outreach communities and introduce SEA topics in closed environments, such as the GBV initiative where the topic has been introduced within past ongoing initiatives on HIV and where the communities are already involved. Activities were designed to build capacity of nongovernmental and civil society organizations to include GBV in HIV prevention. This initiative has already identified clinical and community partners.

Monitoring and Multi-sectoral Coordination

13. The monitoring consultants will monitor the fulfilment of SEA related obligations by the contractors throughout the contract term. The consultants will be hired before the start of construction contracts. The consultants will monitor the SEA related compliance. The monitoring consultants will also have a relevant role monitoring the provisions to mitigate and respond to SEA by reporting compliance with the Codes of Conduct, trainings to contractors, and awareness raising to the community carried out by the NGO. Both the monitoring consultants and the contractors will be required to have environmental and social safeguards expertise as per terms of bidding documents.

14. With the survivor's agreement, the partner NGOs will support reporting to the GRM, implementing and executing agencies any SEA case that is identified as coming from the project (e.g. contractors, workers, and consultants). The NGOs will also monitor to ensure that provisions to mitigate and respond to SEA are in place and functioning. This includes monitoring that a Response Protocol is in place and properly applied for registering complaints, survivor referrals, and resolution of complaints; that the different entry points for survivors of SEA are coordinated; and that survivors' confidentiality is maintained at every stage. They will also monitor development of the Codes of Conduct and their signing by the contractors, workers, and consultants. In case the survivor informs (or chooses to have the NGO inform) that the perpetrator is project-related, upon their request, the NGO will support the survivor to place the report to the GRM, which will inform the PIU and the World Bank.

15. The project will develop a web-based grievance registration system as one of the entry points for SEA complaints. The complaints registered in this system will be managed by a dedicated trained administrator to receive reports on SEA with strict confidentiality and, if the survivor approves, liaise with the NGO to receive proper care. The GRMs will take into account the recommendations of the Technical Note on Grievance Mechanisms for SEA and sexual harassment in World Bank financed projects.

16. The project will learn from the experience of the Gender Coordination Group and from the Multisectoral Mechanism on Integrated Response for Women Victims of Violence in Mozambique, as well as from the National GBV Technical Working Group and Health Policy Project in Malawi. For the design and implementation of activities related to SEA, the project will learn and actively coordinate with development partners with ongoing experience on the matter in Mozambique, such as the USAID, and SIDA. The project has also learned from the experience of community strategies to raise awareness on GBV, including SEA, which could also be used to inform about the project reporting mechanisms. Under this initiative, an interagency effort was put into place where, for instance, the health and interior ministries have used



mass media campaigns and broader GBV and HIV awareness-raising activities.¹⁷⁴ The government of Malawi, through the Ministry of Gender, Children, Disability and Social Welfare (MoGCDSW), also counts with a coordinated approach to GBV, complemented by the complementary experience of development partners as USAID.

17. The implementing agency in Mozambique has appointed a gender focal point for coordinating activities linked to SEA mitigation. This person will lead mitigation of SEA risks from the implementation agency side. The focal point will also be in constant communication with the project liaison committees.

¹⁷⁴ Gennari, Harris-Sap, Simmons & Messner. 2016. *Lessons from the Gender-Based Violence Initiative in Mozambique*. USAID: Strengthening High Impact Interventions for an AIDS-free Generation (AIDSFree) Project.



Table 29: SEA/SH Mitigation and Response Action Matrix

No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
1	Preparation	Sensitize Mozambique's Ministry of Transport and Communication (MTC), ANE, and the Malawi's Ministry of Transport and Public Works (MTPW)	Project Preparation Phase	World Bank Task Team		<ul style="list-style-type: none"> Sensitization for Ministry of Transport and Public Works (MTPW) was done and issues of GBV risk were discussed. Sensitization for Ministry of Transport and Communications (MTC), ANE was done and issues of GBV/SEA/SH risk were discussed.
2	Preparation	Assessing GBV risks and risk rated substantial in both countries (Malawi and Mozambique)	Project Preparation Phase	MTC and MTPW during the preparation of the ESIA/ESMP (Malawi) and ESMF/ESIA/ESMP and RPF/RAP/ARAP for Mozambique		<ul style="list-style-type: none"> GBV risks of the project were assessed using GBV assessment tool (for infrastructures) and existing information and datasets from National Statistical Offices and relevant agencies (eg. Ministry of Gender, Children, Health, and Community Services). Ongoing review during implementation support missions.
3	Preparation	Mapping out GBV prevention and response actors in the project's area of influence	Project Preparation Phase	MTC/ANE and MTPW		<ul style="list-style-type: none"> The World Bank Task Team has identified key stakeholders already working in Malawi and Mozambique on the prevention and service provision of survivor of GBV. In Mozambique, under the ongoing IFRDP (P158231) the international NGO JhPiego was hired and is on site undertaking the mapping of service providers and referrer pathway for Nampula province, including some of the areas of the SATCP (former Nacala corridor)
4	Preparation	Reflect GBV risks in all safeguard documents (ESMF, ESIA, ESMP and ESHS), RPF, RAP and ARAPs.	Project Preparation Phase	MTC and MTPW for ESIA and ESMP, RPF and ARAPs. Contractor for C-ESMP		<ul style="list-style-type: none"> GBV risks are reflected in all safeguard's documents. The ESMF outlines ongoing risk management to GBV/SEA/SH. The ESMF has been submitted to the bank for the final review. The RPF/ARAPs outlines ongoing risk management to GBV/SEA/SH. The RPF and ARAPs has been submitted to the Bank for the final review.



No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
5	Preparation	Develop the approach to the GBV action plan (including an Accountability and Response Framework) in the ESMP. The ESMP shall reflect how the contractors will implement this plan.	Project Preparation Phase	MTC/ANE and MTPW		<ul style="list-style-type: none"> The world bank task team will provide technical support to implementation of action plan and ensure ongoing review of the action plan.
6	Preparation	Review the PIU capacity to prevent and respond to GBV as part of safeguards preparation	Project Preparation Phase	World Bank Task Team	Completed	<ul style="list-style-type: none"> PIU capacity to prevent and respond to GBV was reviewed during project preparation. ANE staff counts with a social specialist with training on GBV. An additional social specialist will be hired at the PIU MTC will hire a Social Safeguards Specialist with training on GBV. Roads Authority which is under MTPW has Social Safeguards Specialist. A social specialist will be hired under both the MoTPW PIU and the RA.
7	Preparation	As part of the project's stakeholder consultations, those affected by the project should be properly informed about GBV risks and project activities to get their feedback on the project design and safeguard issues, Incorporate GBV prevention and response in preparation of GRM.	Project Preparation Phase	MTC/MTPW		<ul style="list-style-type: none"> The Contractor is required to develop and implement the project's Codes of Conduct (COC), GBV Action Plan, Grievance Redress Mechanism (GRM) and implement accordingly throughout the project implementation period. Development of GBV prevention and response plan as part of C-ESMP (Annex 3). Community engagement and consultation to include GBV/SEA sensitization



No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
8	Preparation / Implementation	Stakeholder mobilization/information plan should address GBV issues	Preparation and implementation	MTC/MTPW		<ul style="list-style-type: none"> The project will develop a communication plan that will include GBV issues. The communication will target among others religious leaders, traditional leaders, youth, and women. These activities will be an integral part of the mandate of the NGO to be recruited. The World Bank Task Team will support the PIUs in reviewing the communication plan to make sure it includes GBV issues. Monitoring of implementation of communication plan. Ongoing consultations, particularly when the C-ESMP is updated. The Stakeholder Engagement and consultation process for ongoing preparation of ESMF/ESIA/RPF/ARAP for Mozambique includes GBV awareness discussions.
9	Preparation / Implementation	Establish an effective complaints management system	Before the mobilization of the contractor	MTC/MTPW, with the World Bank Task Team support		<ul style="list-style-type: none"> A GRM sensitive to GBV issues, with different entry points to place complaints will be developed for both Malawi and Mozambique. The GRM will make sure it refers survivors to proper services and that it counts with a Response and Accountability Protocol. Ongoing monitoring and reporting on GRM to verify it is working as intended. The GBV service provider will ensure the GRM has a comprehensive mechanism to prevent and respond to GBV and SEA cases. The GBV service provider will also be responsible for development of Referral Pathway to ensure GBV and SEA cases take a survivor centered approach in a systematic manner. The Bank will provide all necessary technical support.



No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
10	Preparation	Ensure IA has a GBV specialist to support project implementation.		MTC/MTPW		<ul style="list-style-type: none"> MTC in Mozambique is in the process of hiring a social safeguards specialist with training on GBV. A social safeguards expert trained on GBV has been recruited by ANE, and already supporting the ongoing IFRDP but will be supported by an additional social specialist Roads Authority in Malawi has a Social Safeguards Specialist. An additional social specialist will be recruited both at MoTPW and the RA. Consulting Engineer will recruit Social Safeguards Specialist and the CC will recruit Social Safeguards Officer.
11	Preparation / Implementation	For supervision, have a social/ environmental specialist with the supervision consultant's team with GBV-specific skills to supervise GBV-related issues (for example, supervise the signing of CoCs, verify working GRM for GBV in place, refer cases where needed) and work with the NGO as entry point into service provision to raise awareness of the GRM.	During the evaluation of the bids for the supervision consultant	MTC/MTPW	Planned	<ul style="list-style-type: none"> ToR of the supervision consultant includes a social/environmental specialist as part of the key personnel. Ongoing reporting.
12	Preparation	Funding must be available to recruit GBV service providers to facilitate access to timely, safe, and confidential services for survivors (money for transportation, documentation fees, and lodging as needed).	Pre-appraisal mission	MTC/MTPW	Completed	<ul style="list-style-type: none"> Funding of GBV service providers is planned under Component 2.
13	Implementation	Oversight through an independent third-party monitor organization/independent agent verification	Before commencement of civil works	MTC/MTPW	Planned	<ul style="list-style-type: none"> NGOs specialized on GBV are expected to be recruited both in Malawi and Mozambique. Terms of Reference (TORs) for GBV service provider for Malawi and Mozambique developed. Ongoing reporting.
14	Procurement	Clearly define the GBV requirements and expectations in the bid documents.	Bidding stage of contracts	MTC/MTPW		<ul style="list-style-type: none"> The project uses the latest versions of the World Bank's standard bidding documents that define companies' expectations and obligations regarding GBV
15	Procurement	Based on the project's needs, the World Bank's Standard Procurement Documents, and the IA's policies and goals, define the requirements to be included in the bidding documents for a CoC, which addresses GBV.	Bidding stage of contracts	MTC/MTPW		<ul style="list-style-type: none"> The project will use the latest versions of the World Bank's standard bidding documents that define companies' expectations and obligations regarding GBV.



No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
16	Procurement	For national competitive bidding procurement, consider integrating the ICB Standard Procurement Documents requirements for addressing GBV risks.	Award of contracts	MTC/MTPW	Planned	<ul style="list-style-type: none"> The project will use the latest versions of the World Bank's standard bidding documents that define companies' expectations and obligations regarding GBV. Review by the World Bank Task Team.
17	Procurement	Clearly explain and define the requirement of the bidders CoC to bidders before submission of the bids.	Award of contracts	MTC/MTPW with the support of the World Bank Task Team		<ul style="list-style-type: none"> Three crucial elements are needed in the CoC: (a) clear language on the values of the organization in relation to professional conduct on the site, (b) prohibition of sex with a minor, (c) dismissal and prosecution if a worker violates the CoC. A model of a good conduct CoC will be attached to the ESMF and may be part of the bidding documents.
18	Procurement	The bidding documents should clearly set out how adequate GBV costs will be paid for in the contract.	Procurement	MTC/MTPW with the support of the World Bank Task Team		<ul style="list-style-type: none"> There will be line items in the bill of quantities for GBV activities (that is, training of workers on CoC). Lump sum for activities that cannot be quantified. Review by the World Bank Task Team.
19	Award of Contracts	Clearly explain to recruited contractors the requirements of the CoC.	Procurement	MTC/MTPW with the support of the World Bank Task Team		<ul style="list-style-type: none"> An information meeting on GBV will be organized with the companies recruited after the notification and before the service order. Review by the World Bank Task Team.
20	Award of contracts	Evaluate the contractor's GBV response proposal in the C-ESMP and confirm before finalizing the contract the contractor's ability to meet the project's GBV requirements.	Award of contracts	MTC/MTPW with the support of the World Bank Task Team		<ul style="list-style-type: none"> The contractor's ability to meet the project's GBV requirement will be the selection requirement before signing the contract. Review by the World Bank Task Team.
21	Implementation	Review the C-ESMP to verify that appropriate mitigation actions are included.	Implementation	MAHTP/PCU with the support of the World Bank Task Team	Planned	<ul style="list-style-type: none"> The Task Team will review the C-ESMP before its commencement of civil works. Review by the PIU. Follow up implementation through inspections, audits, site visits, reports etc
22	Implementation	Review that the GRM receives and processes complaints to ensure that the protocols are being followed on time, referring complaints to an established mechanism to review and address GBV complaints.	Implementation	MTC/MTPW with the support of the World Bank Task Team (and the hired NGOs)	Planned	<ul style="list-style-type: none"> The NGO is expected to be operationalized and continuously verify that GBV GRM is working. Ongoing reporting. Monitoring of complaints and their resolution.



No.	Phase	Action to Address GBV Risks	Timing for Action	Who Is Responsible for Action	Status at Appraisal	Actions Taken during Preparation/Appraisal and Ongoing Risk Management during Implementation Stage
23	Implementation	CoCs signed and understood <ul style="list-style-type: none"> Ensure the requirements in CoCs are clearly understood by those signing. Have CoCs signed by all those with a physical presence at the project site. Train project-related staff on the behavior obligations under CoCs. Disseminate CoCs (including visuals) with employees and surrounding communities. 	Initiated before contractor mobilization and continued during implementation	MTC/MTPW with the support of the World Bank Task Team	Planned	<ul style="list-style-type: none"> Review of GBV risks during project supervision (for example., midterm review) to assess any changes in risk. Supervision consultant reporting that CoCs are signed and that workers have been trained and understand their obligations.¹⁷⁵ Monitoring of GRM for GBV complaints. Discussion at public consultations.
24	Implementation	Have project workers and local community undergo training on SEA and sexual harassment.	Implementation	MTC/MTPW Contractor, Consultant	Planned	<ul style="list-style-type: none"> Ongoing reporting
25	Implementation	Undertake regular monitoring and evaluation of progress on GBV activities, including reassessment of risks as appropriate.	Implementation	MTC/MTP, Contractor, Consultant NGO	Planned	<ul style="list-style-type: none"> Ongoing reporting Monitoring of GRM
26	Implementation	Implement appropriate project-level activities to reduce GBV risks before commencing civil works: <ul style="list-style-type: none"> Have separate, safe, and easily accessible facilities for women and men working on the site. Visibly display signs around project site that signal to workers and community that the project site is an area where GBV is prohibited. As appropriate, public spaces around the project grounds should be well lit. 	Before commencing works	MTC/MTPW Contractor, Consultant NGO, World Bank Task Team	Planned	<ul style="list-style-type: none"> The Task Team will ensure that these measures are included in the C-ESMP. Ongoing reporting. Reviews during implementation support missions.

¹⁷⁵ Civil works supervision consultant's monthly reports should confirm all persons with physical presence at the project site have signed a CoC and have been trained.



ANNEX 4: Climate Change

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

A) Project Climate Vulnerability Context

I. Mozambique

1. **Mozambique faces an array of natural hazards, the most prominent being riverine, coastal, and urban flooding, extreme heat, wildfire, droughts, and cyclones.**¹⁷⁶ This vulnerability is heightened by the country's 2,470 km of coastline and socioeconomic fragility. More than 60 percent of the population lives in low-lying coastal areas, where intense storms from the Indian Ocean and sea level rise put infrastructure, coastal agriculture, key ecosystems, and fisheries at risk. Although migration to urban areas is rising, two thirds of the population still resides in rural areas with limited access to electricity, improved drinking water and sanitation. Forty-five percent of the population lives below the poverty line and 70 percent depends on climate-sensitive agricultural production for their food and livelihoods. Increased frequency and severity of intense storms, droughts and floods are likely to exacerbate these development challenges. For example, El Niño conditions in 2015–2016 caused the worst drought in 35 years, reducing food availability by 15 percent. Food insecurity caused by the drought worsened in 2017, 2018 and 2019 with Cyclones Dineo, Kenneth and Aida which damaged crops and destroyed infrastructure.

2. **Historical climate trends show** average temperatures have increased 1.5–2°C (1961–2010). Southern Mozambique has experienced more persistent droughts, while coastal regions have experienced more episodic floods (since 1960). Zambezia and coastal parts of Nampula have received lower average precipitation and Zambezia and Sofala have experienced more consecutive dry days (2000–2014 compared to 1981–1999); despite this, most of the country received marginally higher average precipitation. Sea levels have risen 3 cm (1961–2001).

3. **Future climate projections** show average temperature in Mozambique increase of 1°C in the next 20 years; more marked temperature increases in the interior, southern and coastal areas. There will be an increase in the number of days exceeding 35°C and decrease in the number of nights below 25°C. Cyclones and rainfall intensity are expected to increase, delayed start and earlier end of the rainy season in the north will continue, increase in droughts for central and southern regions; more floods during rainy seasons, and additional sea level rise of 13–56 cm by 2090.

4. **Climate Impacts to key sectors are discussed below:**

- **Transport** is impacted by natural disasters and extreme weather events like cyclones, flooding, extreme heat, resulting in traffic disruptions, road and bridge asset damage, deterioration and in some cases destruction. Mobility for people and goods is reduced as an effect of road closures, long travel times and high costs of transport to markets and common services such as schools and health centers. Rural communities can be isolated for long stretches of time from markets and basic social services seriously impacting the livelihood of communities. The negative consequences also include an increase in maintenance and rehabilitation costs to restore the road and bridge conditions.
- **Agriculture** is the mainstay of Mozambique's economy, contributing 28 percent of gross domestic product (GDP) and employing over 81 percent of the work force. Much of the country's agricultural production is done by small-scale subsistence farmers and 95 percent of food production is rain-fed. Variable rainfall

¹⁷⁶ Think Hazard, Consulted on 24 February 2021. URL: <https://thinkhazard.org/en/report/170-mozambique>



risk is expected to lead to decrease in crop yields, particularly for drought-sensitive crops like maize and soy.

- **Coastal resources:** Rising sea levels causing loss of and damage to ecosystems such as coral reefs, mangroves, and seagrass; loss of biodiversity. Warming and acidification of ocean causing loss of revenue from tourism and fisheries, accelerated coastal erosion, threatening habitats, houses, and infrastructure; forced migration away from coast and increased risk of cyclones leading to increased probability of severe storm surge events and damage to infrastructure.

II. Malawi

5. Malawi is particularly prone to adverse climate hazards that include riverine and urban floods, extreme heat, wildfires, and medium risk from landslides and cyclones.¹⁷⁷ Majority of the country lies at an elevation above 800 meters and experiences a cool tropical continental climate, characterized by two distinct seasons: a rainy season from November to April and a dry season from May to October. Average daily temperatures vary with seasons and elevation, with the coldest temperatures (12–15°C) in July in the highlands and the hottest (25–26°C) in October in the Lower Shire Valley. Annual rainfall ranges from 500 mm in low-lying areas such as the Shire Valley to above 3,000 mm in the northern highlands. Overall rainfall exhibits high interannual variability and is highly influenced by the El Niño Southern Oscillation.

6. Historical Climate observations since 1960 indicate: Temperature increases of approximately 0.9°C, with the most rapid increase in summer months (Dec–Feb), between 1960 and 2006. Increase in the number of days (+30 days) and nights (+41 days) considered “hot.” Highly variable year-to-year rainfall totals with no statistically significant trends. Increased length of dry spells during the rainy season. Increased intensity, frequency and magnitude of floods and droughts.

7. Projected future Climate changes include: Higher average temperatures of 1–3°C by 2050, with largest increases in early summer months. Increase in the number of days and nights considered “hot” by 2060. Later onset/earlier cessation of rainy season and increase in average monthly rainfall from Dec–Jan and a decrease from Feb–April. Increases in the proportion of rainfall during extreme events of up to 19 percent annually by 2090.

8. Impact of climate vulnerability to key sectors is discussed below:

- **Agriculture:** Malawi’s agriculture sector is vulnerable to climate change due to its high reliance (95 percent) on rainfed crops. Production is already constrained by limited landholdings (average of 1.2 hectares per household), declining soil fertility and limited use and uptake of improved inputs and sustainable land practices. Rising temperatures, increased intensity and frequency of heavy rainfall events, increased drought conditions and dry spell length are projected to cause decreased yield of rainfed crops (including maize, groundnuts, pigeon peas, and cowpeas), increased risk of aflatoxin contamination in groundnuts thus limiting export opportunities, further degradation of soil quality and productivity, shift in the timing of planting and growing seasons, destruction of agricultural infrastructure and crop losses due to flooding, food shortages, leading to increases in grain prices and imports. Climate change is also affecting the distribution and spread of pests regionally. Increased man-made spread of pests from inadequate regulatory controls is likely to further exacerbate pest impacts on crops. Fall armyworm, for example is spreading throughout the continent. It arrived in Mozambique in 2017 and by 2018 had affected more than 40, 000 hectares.

¹⁷⁷ Think Hazard, Consulted on 24 February 2021. URL: <https://thinkhazard.org/en/report/152-malawi>



- **Transport infrastructure:** Malawi's transport infrastructure is susceptible to the negative impacts of extreme weather events, including those associated with climate change, which is increasing their frequency and severity. Transport infrastructure typically has a long operational life that can span decades but the impacts of extreme weather events, such as flooding and extreme heat, can significantly reduce infrastructure resilience, can cause traffic disruptions and isolate communities for periods of time. The negative consequences also include an increase in maintenance and rehabilitation costs to restore the road and bridge condition. Reliable, efficient, and safe transport infrastructure underpins sustainable economic and social development and so it is essential that the adaptive capacity of transport infrastructure is increased and that steps are taken to manage greenhouse gas (GHG) emissions from Malawi's transport sector. The NTMP contains required investments and associated planning for climate change adaptation and mitigation activities. One of the key challenges that the MoTPW is facing to respond to the risks and opportunities associated with climate change is the lack of its own related capacity and limited co-ordination with relevant Government agencies. (Malawi NTMP 2017)
- **Trade:** Being a landlocked country, Malawi relies significantly on trade through surrounding countries to export to regional and international markets and to import food, medical and other critical supplies. Malawi's economic and social resiliency is dependent on the climate change and natural disaster impacts on its surrounding countries and these countries associated vulnerabilities, particularly in their corridor and transport infrastructure.

B) Intent to address climate vulnerability in the project and enhance resilience of logistics, trade and transport sectors and the communities served

9. According to its National Climate Change strategy, the Government of Mozambique's national priority is to increase resilience in communities and the national economy, including the reduction of climate risks. It also committed to promote a low carbon development and the green economy through integration of adaptation and mitigation in sectorial and local planning in its National Determined Contribution (NDC).

10. The Government of Malawi released its first national climate change policy in 2013 with the goal to promote adaptation and mitigation for sustainable livelihoods. The framework addressed adaptation, mitigation, capacity building, research and technology transfer and financing. The country's Nationally Determined Contribution (NDC) states that a new policy is undergoing approval process by cabinet.

11. The project is also aligned with the World Bank Group's Next Generation Africa Climate Business Plan¹⁷⁸, which highlights the importance and urgency of countries to conduct development that addresses climate impacts and manages climate risks. In line with Malawi and Mozambique's NDC commitments and national climate policies, this project supports climate mitigation and adaptation objectives. This project aims to enhance the climate resilience of trade activities and transport sectors in Malawi and Mozambique, as well as contribute to reduction of greenhouse gas emissions through introduction of energy efficiency, renewable energy measures and improved transit conditions. The project is particularly salient for landlocked Malawi as it provides redundancy (and strengthens resilience) in its corridor networks to connect to markets in case of adverse climate events.

¹⁷⁸ World Bank. 2020. The Next Generation Africa Climate Business Plan: Ramping Up Development-Centered Climate Action. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/34098> License: CC BY 3.0 IGO.



C) Project activities that enhance resilience and reduce greenhouse gas emissions

All project components contribute to enhance resilience of the trade and transport sectors of Malawi and Mozambique, and some of the components also integrate activities that reduce greenhouse gas emissions.

Table 30: Specific project activities to address climate change vulnerability and reduce GHG emissions

Component 1: Reduce trade costs

Sub-component	Description of Climate linked activities
1. Enabling Digital Trade: Development of Trade ICT Systems	<p>To support regional data sharing and IT integration into the systems of the relevant trade institutions and ministries, the following climate resilience and mitigation measures will be considered.</p> <ul style="list-style-type: none"> - Use of hydro, solar energy or any other renewable energy - Energy efficiency improvement in lighting, appliances, and equipment (e.g. Computers), including energy-management systems - The project will also include infrastructure for data recovery and backup to prevent data loss in the event of climate disaster.
2. Improving borders and their management	<ul style="list-style-type: none"> - Rehabilitation of 5 border posts using energy efficient materials and installation of local renewable energy power sources - Construction of the 2 inland examination centers will include architectural or building specifications that enable reduction of energy consumption - Safety and certification laboratory for agriculture trade is constructed with climate resiliency and energy efficiency design standards.
3. Strengthening trade and connectivity institutional capacity	<p>The project will support the institutional capacities of the ministries of transport of Malawi and Mozambique to mainstream climate change in their operations in the following:</p> <ul style="list-style-type: none"> - Ensuring all strategies and policies developed (national and sector) in both countries with the assistance of the project are climate smart (mitigation and adaption). This would include a review the policy documents through a climate lens by conducting a climate vulnerability assessment to ensure adaptation is incorporated into the road map and the identification of opportunities to reduce GHG emissions through improvements in energy efficiency and use of renewable energy.¹⁷⁹ - In Malawi, the component will support the preparation of the transport master plan and feasibility studies that take into consideration climate mitigation and adaptation measures. - Spatial information tools to be developed to monitor civil works projects in areas vulnerable to floods and storms. - Emergency preparedness plan, training and awareness raising will also be considered, as needed.

Component 2: Strengthen Regional Coordination and Project Implementation

Sub-component	Description of Climate linked activities
2. Develop and monitor corridor performance	<ul style="list-style-type: none"> - Developing a climate related monitoring indicator. Under the corridor performance subcomponent, the project will also include the installation of early warning systems along the corridor for advance detection of climate hazards like cyclones which would affect the performance of the corridor.

¹⁷⁹ As an example, the preparation of a logistics strategy and the climate smart modernization activities will include the identification of opportunities to (a) reduce GHG emissions through improvement in freight transport efficiency, adoptions of energy efficiency in operations, the utilization of renewable energy in buildings, among others; and (b) the incorporation of climate resiliency considerations in transport operations such as emergency evacuation procedures, and in asset management practices (e.g.: shorten maintenance periods to accommodate changes in precipitation and temperature, update design standards, among others.).



Component 3: Strengthen value chains for regional integration

Sub-component	Description of Climate linked activities
1. Provide risk-sharing opportunities to support value chains	- This project will enhance the financial incentive used for mechanization, operations organization, skills development, and technical assistance, including in coffee, tea, and poultry value chains to ensure they are resilient to climate shocks. Additional climate resilient support will focus on infrastructure connecting communities with regional markets. Infrastructure activities supported under this subcomponent include: (a) developing/rehabilitating small-scale irrigation and warehousing infrastructure; (b) constructing/rehabilitating feeder roads; (c) improving access to electricity from renewable energy sources; and (d) providing access to clean water for value addition. To further ensure the sustainability of this infrastructure, the project includes helping develop community maintenance clubs; and establish maintenance strategies for the infrastructure.
2. Expand technical assistance (TA) to value chain players	- This component will provide technical support to farmers on smart agriculture and productivity enhancement. In addition to water management and drought resistant techniques, farmers will be introduced to investment in climate resilience and energy efficient agricultural infrastructure such storage facilities for commodities susceptible to climate hazards.

Component 4: Strengthen transport infrastructure to improve market access

Sub-component	Description of Climate linked activities
1. Improve transport connectivity for market access	<p>Roads have been selected for rehabilitation based on climate vulnerability and flood risk criteria, together with criticality of the road in the transport network in terms of poverty rate of adjacent districts, proximity to potential agriculture, economic activity, and the distance to aggregation centers. The prioritization process ensured that the road corridors and sections selected for investment will contribute to enhancing the resilience of the transport network, ensuring appropriate levels of redundancy, and the resilience of the communities served, facilitating access to goods and services year-round with managed disruptions in the occurrence of natural disaster. The accompanying document to the PAD available on request¹⁸⁰ provides detailed description of the tool developed by the World Bank in partnership with the roads agency (ANE) to prioritize investments under Component 4.</p> <p>Furthermore, the project will include the following climate smart techniques in road construction and rehabilitation:</p> <ul style="list-style-type: none"> - Pavement design: Climate change impacts due to extreme temperatures shall include deformation of the surface, cracking, accelerated aging of binder, rutting of asphalt and bleeding/flushing of seals. The counter measure shall entail the use of appropriate layer coefficients, drainage coefficients, weather-resistant pavement surfacing materials and asphalt mix designs and revised pavement thicknesses which take into consideration the future temperatures and the use of advanced heat resistant materials. - Revised Road Design Standards and Specifications: these will be incorporated using climate resilient design strategies and climate change factors will be added to road design standards, especially focusing on areas with major risks of flooding that might cause erosion and damage to the road. The most important factors are the road levels, the cross drainage of the road and erosion protection of the road. The road elevations shall be at least 0.5 m above the flood levels as designed. - Hydrology: Balancing ponds may have a very limited effect in protecting the road but can be of use for villages to store water, to be used for irrigation during dry season. This will be one of the measures to protect vulnerable livelihoods from adverse effects of climate change such as prolonged droughts. - Bridges, culverts, and drainage structures: the thermal expansion of bridges will be countered using expansion joints and accounting for the temperature increment at the design phase. Empirical recommendations from assessed extreme peak flows; design return periods at critical points (sag points, urban areas, cut roads etc.) will also be considered. The use of resilient design may call for additional cross and side drainage, adjustment in the vertical alignment of road and higher hydraulic clearances for the bridge and culverts. - Tree and grass planting for roadway reserve protection and slope stabilization: To protect the road and its drainage system from erosion- retaining walls, gabions, rip-rap, grass sodding and groynes.

¹⁸⁰ The Accompanying Document to the PAD will be available upon request after public disclosure of the PAD.



Sub-component	Description of Climate linked activities
2. Improve transport services and road safety	<ul style="list-style-type: none">- Malawi and Mozambique are dependent on Agriculture. Improved services will increase resilience of farmers to transport their produce to markets during rainy season thus avoiding loss of valuable lifeline produce.- The project will benefit the local population who are vulnerable to the impacts of climate change through employment as casual laborers increasing their resilience and protecting livelihoods to buy food during droughts and access medical care during disease induced periods. Further, environmental sustainability regarding emissions and fuel consumption is part of the safe vehicles' activity.



ANNEX 5: Maximizing Finance for Development (MFD)

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

1. The objective of this annex is to i) provide an overview of the World Bank's Maximizing Finance for Development (MFD) approach, ii) its implications for the SATCP, iii) how it has informed the project design, and iv) examples of World Bank Group (WBG) instruments that can be leveraged for financing. It also provides evidence using results from a SATCP-specific investor survey on how project interventions could catalyze private sector investment.

What is the MFD approach?

2. **The World Bank's MFD principles call for enhancing private sector involvement and prioritizing commercial sources of financing in development projects.** In scaling up private-finance mobilization, the aim is to support countries' development goals in ways that complement and reinforce public resources. This approach pursues private-sector solutions where they can help to achieve development goals, reserving scarce public and concessional finance for where they are needed most.

What are the implications for the SATCP?

3. **The WBG adopted the MFD approach to help client countries pursue sustainable private sector solutions in infrastructure development and other areas.** When adequate private solutions are not readily available, WBG teams are encouraged to identify the factors constraining private sector involvement and investigate whether there are WBG instruments that could be deployed to resolve the constraints. Ultimately, the pursuit of public sector financing (whether funding or provision) must be based on clear evidence that the public sector has the requisite level of institutional capacity, and that the social benefits of public intervention would outweigh its costs.¹⁸¹

How does the project design support MFD principles?

4. **The SATCP development objective is to support Malawi and Mozambique in increasing regional trade coordination, reducing trade costs and time, developing regional value chains, and improving access to infrastructure.** The identification of solutions to the key risks, market failures, and obstacles that prevent the private sector from taking on a greater participatory role in regional trade, particularly in agricultural products is central to the project aims. In doing so, the project follows the principles of the new "IFC 3.0" strategy and will optimize synergies and continuously collaborate with other areas of the World Bank Group. As highlighted in the "IFC Strategy and Business Outlook Update FY19 – FY21: Implementing IFC 3.0", the key joint WBG priority over the coming years will be to mainstream the MFD approach into operational work, including expanding its scope beyond infrastructure to the Small and Medium Enterprise (SME), finance, human development and other sectors.

5. **Specifically, the project has been designed to use public resources to mobilize additional private investment in the corridors in transport and logistics, agriculture, manufacturing, and services.** Resources have been split as follows:

¹⁸¹ World Bank. 2019. "Assessing the Welfare and Distributional Impacts of Maximizing Finance for Development Infrastructure Interventions" Technical Guidance Note for World Bank Group Staff. October 22, 2019. Infrastructure Finance, P PPs and Guarantees - Poverty and Equity Global Practice. World Bank.



- i. Part of the project's resources will help the government concentrate scarce public funds on addressing market failures in regional coordination, supporting modernized policies and regulations in trade, logistics and transport sectors; and strengthening institutions for key trade-related agencies and ministries, as well as public-private partnership (PPP) capacity.
- ii. The resources will also be used to build transport infrastructure that connects production centers to rail and road routes.
- iii. Finally, resources will use public funding to catalyze private investment by improving access to finance for firms that seek to increase value added along the corridor using one or more instruments. The objective is for the governments of Malawi and Mozambique to crowd in private investments following a reduction in trade and transport costs.

What WBG teams and instruments could the project leverage to complement its interventions and mobilize private sector resources to create new markets?

i. *Country Private Sector Diagnostics (Malawi and Mozambique).*

The SATCP project activities will be designed in consultation with the Country Private Sector Diagnostic, a joint WB-IFC team to identify how best to support private sector dialogue with financing and advisory support to overcome the constraints that currently make investment unattractive and improve competition amongst corridors and modes of transport. The SATCP activities are designed to improve connectivity for value chains to main corridors and markets and improve access to capital for agri-businesses which creates favorable conditions for collaboration with prospective stakeholders. The teams will work to update transport policy and strategy, including clear prioritization and criteria for choice of investment. The team will also work to improve concession regulation; adopt performance monitoring, including specific KPIs; and appoint independent regulators in various transport sub-sectors to ensure compliance. Harmonization of standards within the region, and a review of regulations on axle loads, will also improve competition in the sector.

ii. *Upstream engagements (part of the IFC 3.0 strategy)*

The project will create opportunities where IFC may use the "Creating Markets Upstream" approach to identify upstream transport/logistic services. Component 3 of the SATCP will also seek to expand these risk sharing funds to proposals in complementary areas, especially on logistics development. This may include *inter alia* the support to cold logistics chains (including in the Beira Corridor through linkages to airfreight), support in upgrading silos under warehousing management contracts (leveraging on public infrastructure that is underused), expanding financial services for improving logistics, and support to develop aggregation points including dry ports connected to transport and port infrastructures. These services contribute to the development of sophisticated value chains and offer commercially viable opportunities for the private sector. Additionally, component 3 of the SATCP aims to expand existing risk-sharing facilities in Malawi and Mozambique. As such, the "Transaction Upstream" approach will be used to identify partners, assess risk appetite (de-risking needs) and design/refine projects and business plans.

iii. *IFC/MIGA concessional finance instruments. For example, Private Sector Window*

The SATCP project activities are being designed to attract private sector investment and these new investments



stand to benefit from the following facilities under the Private Sector Window (PSW). The PSW could also increase private sector participation in the corridor using concessional finance to address market failures.

- *Blended Finance Facility*

Mozambique is an eligible country under the IDA Private Sector Window Facility (US\$2.5 Billion blended finance funding) so investors attracted to the corridor following project execution could have access to loans, subordinated debt or equity to private sponsors engaging in high-impact pioneering investments. Investments oriented to provide sophisticated logistics services (i.e. cold chain) would create new markets along the corridor and can potentially benefit from the facility.

- *MIGA Guarantee Facility*

Given the high risk of poor governance issues, new investors could access this facility for political risk insurance on infrastructure, agribusiness and manufacturing investments exposed to breach of contract, currency convertibility and transfer risks, war and civil disturbance, and expropriation. The possibility to hedge against these risks could be a valuable tool to attract global logistics and transport players to the corridor countries.

How could the SATCP project interventions catalyze private sector investment?

6. To better identify the factors constraining private sector involvement and to complement the literature review, the SATCP team commissioned an investor survey.^{182,183} The survey aimed to assess barriers to investment and medium-term investment potential along extensive and intensive margins with a focus on the Nacala Corridor catchment area. This includes provinces in Northern Mozambique (Nampula, Zambesia, Niassa and Tete), Zambia (Eastern Province), and all of Malawi. The objective was to provide an indicative overview of investment potential and core constraints to investments. The investor survey was carried out in 2019 using self-reported data from 360 key decision makers in foreign-owned companies operating in the countries in the project catchment area.^{184,185,186} As such, data was collected prior to any impact from COVID-19. It also provides information on the Foreign Direct Investment (FDI) stock data, outlook on future expansion or reductions of these investments, investor confidence, and perception of the project interventions and reforms. The results of the survey are presented in the accompanying summary report to this document available upon request.

7. The SATCP commissioned two reports to understand the political economy and competition issues in Malawi and Mozambique. The team collaborated with other donor agencies, TMEA and DFID who were investigating similar questions to inform their engagement in the region.^{187,188} The research in Mozambique revealed that the regulatory and

¹⁸² Kantar Public. 2019. "International Investor Survey in Southern Africa", Background Paper, South Africa.

¹⁸³ Literature review included country diagnostics such as CPSDs - the ongoing work on the Malawi and Mozambique CPSDs provide building blocks to a) design interventions to support governments creating an enabling environment that attracts the private sector and b) identify and structure sustainable projects with private counterparts. Moreover, the transportation/logistics sectors' assessment conducted under the CPSDs focus on competition and political economy constraints (that is corruption, vested interests) which have been largely neglected in previous corridor analyses and represent a major risk for the implementation of the MFD approach.

¹⁸⁴ They are defined as senior executives of foreign owned businesses. Senior executives refer to owners, directors, senior managers, and C-level staff (for example chief executive officer (CEO)).

¹⁸⁵ All foreign owned enterprises are eligible, regardless of their size, with the exception of those who are not for profit, these were excluded from the frame prior to sampling.

¹⁸⁶ The target population for this study is foreign owned enterprises in Malawi, Mozambique, and Zambia.

¹⁸⁷ Byiers, Karkare, and Miyandazi. 2020. "A political economy analysis of the Nacala and Beira corridors". European Centre for Development Policy (ECDPM). Maastricht, Netherlands.

¹⁸⁸ Kelsall and Mwalyambwire, Tuntufye. 2020. "The Political Economy of Transport and Trade in Malawi". Overseas Development Institute (ODI) London, UK.



policy framework for the transport sector was poor and lacking in a defined criterion for prioritizing investments. Like Mozambique, Malawi's high logistics costs were found to be due to structural and regulatory problems. Additional local costs, such as port and border charges, local and comparative taxes and fees, high fuel and lending costs, a lack of back haul, and the fundamental imbalance of trade in Malawi, all add to the high costs of local transport. The choice of route in both Malawi and Mozambique was found to be largely shaped by the requirements of international clients based on reliability, port efficiency, security, harassment and corruption, border delays, requirement for added value processing prior to shipping, the need for special handling, and the quality of service. A third piece of research was commissioned on non-tariff measures (NTMs) with the objective to identify, monitor, and suggest pathways to eliminate them.¹⁸⁹ The role of regional coordination was considered essential as the linkage, advocacy, lobbying and communication will assist in reducing NTMs for the corridor users.

8. A combination of trade facilitation and infrastructure improvements is expected to create opportunities for private sector investment in improving logistics for value chains to better serve the markets and increase exports (Table 31).

Table 31: "If/Then" Matrix

	SATCP Project Interventions to Unlock Private Sector Development ("If...")	Supporting WB programs and other development partners	Potential Investment/Project Description ("...Then")
Reduce trade and logistics bottlenecks and improve regulatory environment	<ul style="list-style-type: none"> Strengthen regulatory environment and support prioritization of investment by setting up a rail and marine regulator, develop appropriate legislation for respective modes in the transport sector, and support the implementation of the National Transport Master Plan by setting up the National Transport Master Plan Secretariat. (Malawi) Develop logistics strategy that provides a holistic national view for logistics and transport development, prepare port master plan, and a civil aviation master plan. (Mozambique) 	<ul style="list-style-type: none"> SATTFP (P145566) supports the government on trade facilitation and transport investments. 	<ul style="list-style-type: none"> This will open opportunities for advisory and upstream work in transport/logistic services including cold logistics chains, upgrading silos under warehousing management contracts (leveraging on public infrastructure that is underutilized), expanding financial services for improving logistics, and development of aggregation points including dry ports, and industrial parks connected to rail, air and port infrastructure.
	<ul style="list-style-type: none"> Strengthen the capacities of key trade related agencies and ministries, including PPP capacity for Public Private Partnership Commission (PPPC) in Malawi that will assist in conducting feasibility studies (i.e. international bus terminals etc). 		<ul style="list-style-type: none"> Potential exploration of opportunities at PPPC.
Increase agricultural productivity and support diversification	<ul style="list-style-type: none"> Improve access to finance for agribusinesses by expanding risk sharing funds and creating clear commercial links with the markets for firms that seek to increase value added along the corridor using one or more instruments. 	<ul style="list-style-type: none"> In Malawi, the Agricultural Commercialization Project (P158434) supports the financing for the private sector agenda. In Mozambique, the project builds on the Integrated 	<ul style="list-style-type: none"> Together with investments in logistics chain, there is scope for developing commercial farming and processing of high value crops, including in the Shire Valley area. Food manufacturing is a potential industry.

¹⁸⁹ Smith, Graham. 2020. "NTM Incidences along the Nacala and Beira Corridors". Background Paper. South Africa.



	SATCP Project Interventions to Unlock Private Sector Development ("If...")	Supporting WB programs and other development partners	Potential Investment/Project Description ("...Then")
	<ul style="list-style-type: none"> • Increase access to agricultural inputs such as quality seeds, fertilizers, and agriculture equipment • Develop basic adequate infrastructure such as storage facilities • Access to water spring for irrigated agriculture 	<p><i>Growth Poles Project (P127303) and complements the Mozambique Integrated Feeder Road Development Project (P158231) and the Smallholder Irrigated Agriculture and Market Access Project (P164431).</i></p> <ul style="list-style-type: none"> • <i>WB Malawi DPO will operationalize the Control of Goods Act by gazetting Regulations to introduce a transparent and predictable regime for administration of import and export restrictions.</i> 	<ul style="list-style-type: none"> • Component 3 will generate opportunities for private sector actors in creating markets. • Prospective pipeline for IFC's investment and advisory services under Manufacturing, Agribusiness and Services and trade finance services under the IFC's Global Trade Finance Program.
Strengthen transport infrastructure to improve market access	<ul style="list-style-type: none"> • Component 4 seeks to build transport infrastructure that connects production centres to rail, road routes and consumer markets, especially for the Northern region. 	<ul style="list-style-type: none"> • <i>The road network is being built/rehabilitated through several development partners.</i> 	<ul style="list-style-type: none"> • WB/IFC Transport upstream dialogue on advisory/financing solutions for PBC contractors.



ANNEX 6: Regional Eligibility Criteria

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

1. The proposed activities are eligible for regional IDA under IDA 19, based on the following eligibility criteria:

(I) Which involve three or more countries, all of which need to participate for the project's objectives to be achievable and at least one of which is an IDA eligible country. The required minimum number of countries is reduced from three to two if at least one IDA fragile country participates in the regional project.

2. The project includes two International Development Association (IDA) countries (Malawi and Mozambique), one of which is a fragile and conflict-affected situation (FCS). The IDA lending terms are determined with reference to recipient countries' risk of debt distress. Recipients with a high risk of debt distress receive 100 percent of their financial assistance in the form of grants. Those with a medium risk of debt distress receive 50 percent in the form of grants. Other recipients receive IDA credits on regular or blend and hard-terms with 40-year and 25-year maturities, respectively. Given Mozambique's currently high levels of debt distress, it will receive grants. Currently, Malawi is at medium risk for debt distress and will get 50 percent credit and 50 percent grant.

(II) Whose benefits spill over country boundaries (e.g., generate positive externalities or mitigate negative ones across countries.)

3. As the World Bank's Regional Integration and Cooperation Strategy (FY18-FY23) notes, countries that are regionally integrated benefit from growth spillovers, larger markets, and scale economies in production – benefiting producers, investors, and consumers. Moreover, cross-border/trade facilitation interventions and impacts are inherently multi-country in nature. Trade facilitation including efforts to support border crossings, logistics and informal traders, who are often women will increase economic linkages across borders, reduce shared vulnerabilities, create jobs, and contribute to greater regional stability. Also, as noted by the Regional Integration Strategy Update FY21-FY23, promoting trade and market integration will help advance two of the priorities in the WBG recovery efforts – ensuring sustainable business growth and job creation and strengthening policies, institutions and investments for building back better.

(III) Where there is clear evidence of country or regional ownership (e.g., by Regional Economic Communities (RECs), Regional technical organizations, etc.) which demonstrates commitment of most of participating countries.

4. There is clear evidence of country and regional ownership as expressed in several high-level meetings and in-country missions to date. Under the Accelerated Program for Economic Integration (APEI) program, in the past five years the Nacala countries have endeavored to coordinate and accelerate trade reforms in the region. To complement their efforts, the governments of the Nacala countries requested the World Bank for support in the development of the Nacala corridor. The World Bank has been supporting the Nacala Development Corridor Tripartite Committee (NDCTC) – participating in its meetings, providing technical assistance, and helping to shape the agenda of the corridor. Using the regional channel of the NDCTC, the project will lead to intensified high-level policy harmonization with regard to reforms, including those aimed at enhancing logistics efficiency and predictability to reduce time and costs; facilitating cross-border movement of goods and improved market access for export and regional trade; increasing predictability in trade transactions as measured by a reduction in variance of import/export processing and times; and, enhancing market access for trade in services and investment.



(IV) Which provide a platform for a high level of policy harmonization between countries and are part of a well-developed and broadly supported regional strategy.

5. Corridor development is a priority area for regional integration. Several priority development projects are underway on the African continent, as highlighted by the World Bank Regional Integration and Cooperation Strategy (FY18-FY23). They include the Abidjan – Lagos Corridor; North-South Multi-Modal Corridor connecting South Africa, Zambia, Malawi; Central Corridor connecting Tanzania, Uganda, Rwanda, Burundi and DRC; Abidjan – Lagos Corridor; North-South Multi-Modal Corridor connecting South Africa, Zambia, Malawi; the Central Corridor connecting Tanzania, Uganda, Rwanda, Burundi and DRC; the multi-modal Maputo corridor connecting South Africa and Mozambique; and, the Nacala corridor rail and port development connecting Malawi and Mozambique and extending to Zambia.



ANNEX 7: Related Projects

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

1. This annex provides an overview of related World Bank Group (WBG) projects as well as those by other development partners that have informed project design, provided a foundation and are complementary to the SATCP project objectives.

Malawi

2. **Second Phase of the Southern Africa Trade and Transport Facilitation Program Project (P145566) – FY15:** The objective is to facilitate the movement of goods and people along the North-South Corridor and at the key border crossings in Malawi, whilst supporting improvements in road safety and health services along the corridor. Project implementation is still ongoing. SATCP will now finance the Muloza border post and a second phase of the single window due to funding constraints under SATTFP.

3. **Digital Malawi Program: Malawi Digital Foundations Project (P160533) – FY17:** The objective is to increase access to affordable, high quality internet services for government, businesses, and citizens and to improve the government's capacity to deliver digital public services. SATCP seeks to build on this project's third phase of automation of government agencies (especially trade-related) by improving connectivity and the public digital service delivery capacity.

4. **Agricultural Commercialization Project (P158434) – FY17:** The objective is to increase commercialization of selected agriculture value chain products. Component 3 of the SATCP will support the expansion of the productive alliances approach which was developed under this project –where funding for productive alliances' business plans are based on technical and financial feasibility, in line with terms and conditions detailed in the Agricultural Commercialization's Project Implementation Manual.

5. **Financial Inclusion and Entrepreneurship Scaling Project (P168577) - FY21:** This project which is currently under preparation will enhance private enterprise growth and job creation in Malawi by increasing MSME's access to financial services and improving their capabilities. Through providing access to finance opportunities for SMEs, component 3 of the SATCP directly complements this project's objectives.

6. **Malawi Governance to Enable Service Delivery Project (P164961) – FY20:** The objective is to strengthen Local Authorities' institutional performance, responsiveness to citizens, and management of resources for service delivery. Recognizing the country's prevailing political economy challenges, SATCP project preparation has included working with this project team to address transport sector political economy constraints.

7. **Malawi Trade Project (IFC 601527):** This project has provided technical assistance to develop and pilot a new coordinated border management (CBM) model to implement the Cabinet Directive. Component 1 of the SATCP will finance the roll out of the CBM model across Malawi's borders.

Mozambique

8. **Integrated Growth Poles Project (IGP) (P127303) – FY13:** The objective is to improve the performance of enterprises and smallholders in the Zambezi Valley and Nacala Corridor, focusing on identified high growth potential zones (growth poles). SATCP will build on achievements under the IGP on transport infrastructure where 215 km of R604 and R605 roads in Tete Province have been rehabilitated. SATCP will also build on the IDCF of the IGP which approved 18



subprojects corresponding to US\$20.4 million (and generate private sector investment of US\$25 million) in the value chains component.

9. Mozambique Integrated Feeder Road Development Project (P158231) – FY18: The objective is to enhance road access in selected rural areas in support of livelihoods of local communities and to provide immediate response to an eligible crisis or emergency as needed. SATCP will build on this project's achievements by rehabilitating some road networks to enhance connectivity to markets, ports, and other economic services.

10. Sub-National Doing Business Project (P164666) – FY19: The report was released in 2019 and measured ten provinces in the various Doing Business including *trading across borders* in three major seaports, Beira port, Maputo port and Nacala port, as well as one land border crossing, Ressano Garcia. SATCP has used these findings to better situate the time and logistical constraints faced by traders at the Nacala and Beira ports.

11. Foster Digital Innovation and Entrepreneurship ASA(P167862) concluded that issues of access are a binding constraint to the Mozambique economy. **The Data for Development Project (P162621)** seeks to fill data gaps by producing and disseminating quality data for use in evidence-based policy making. The SATCP will seek to use the building blocks from P162621 and P167862 as it seeks to enhanced digital trade capacity in Mozambique.

12. Cyclone Idai & Kenneth Emergency Recovery and Resilience Project (P171040) – FY20: The objective is to support the recovery of public and private infrastructure and livelihoods while strengthening climate resilience in the areas most affected by Cyclones Idai and Kenneth. In complementarity, SATCP is adopting climate change adaptation and mitigation measures in designing some of its project components, most especially in the rehabilitation and building of road infrastructure.

13. Northern Mozambique Rural Resilience Project (P174635) - FY21: Complementary to SATCP's objectives of ensuring that climate-resilient technologies are embedded in all project components, this project is setting out to improve sustainable natural resources management and livelihoods for enhanced resilience of vulnerable communities.

14. Sustainable Rural Economy Program (P174002) – FY21: To increase productivity, Component 3 of the SATCP on value chain development contains provisions for improved access to finance for traders, producers and firms through risk-sharing facilities and capacity building. This project has a similar focus - increase productivity and value added by smallholders and AgriMSMEs, in addition to improving natural resources management practices.

Regional

15. Support to Coordination and Economic Integration among APEI Countries - (P168214): The Accelerated Program for Economic Integration (APEI) supports greater policy coordination and consistency, providing a forum for agencies from different countries (which include Malawi and Mozambique) to come together and engage with the private sectors of corridor countries, in particular to discuss opportunities and challenges related to investments in value chains.

16. Agricultural Productivity Program for Southern Africa Project (APPSA, P094183) - FY13: The objective was to increase the availability of improved agricultural technologies in participating countries in the SADC Region. A key project outcome was regarding regional policy harmonization - all three countries have now aligned their national seed regulations with SADC regional policies. The SATCP will also finance regional coordination in this region, which is central to the APPSA objectives.



17. Malawi-Mozambique Regional Interconnector project (P164354): While this project focuses on enabling regional power trade, the SATCP has benefitted from being informed by the regional approaches used, particularly regarding effective regional implementation arrangements.

18. Supporting Trade, Jobs, and Industrial Development in the SADC region (P169358): This project provides a replicable approach to developing the analytical and institutional foundations for developing regional value chains in Southern Africa. The pilot on soya is being developed with regional research institutions and the SADC Business Council and focuses on Malawi, South Africa, and Zambia. The findings from this work, and the need for addressing constraints to value chain development at both the national and cross-border level, have informed the project. Likewise, the key areas of focus – access to finance, integrating input markets, trade policy reform and trade facilitation – are also central to the SATCP.

Other Development Partners

19. USAID: In Mozambique, USAID initiated the Support Program for Economic and Enterprise Development (SPEED) in 2010. The main objective of SPEED has been to support business, trade, and investment policies that promote private sector-led broad-based economic growth. In addition to providing trade facilitation support, in 2018-19, SPEED+ undertook analyses of the Beira and Nacala ports (and corridors) that have served as critical background documentation for the SATCP. The purposes of the studies were to pinpoint physical and procedural bottlenecks on the corridors, to establish the causes of those bottlenecks and estimate their impact on logistics time, cost, and reliability.

20. JICA: JICA's support to Mozambique is primarily focused on the stimulation of regional and local development, especially corridor development along the Nacala and Maputo corridors. Specifics include road upgrading - Montepuez-Lichinga Road Project, Nampula-Cuamba Road Upgrading Project; Mandimba-Lichinga Road Upgrading; road rehabilitation on Nampula-Ribaue Road 9. (131km); Ribaue-Malema Road (103.5km); Malema-Cuamba Road (114km); Cuamba-Muita Road (133km) and Liwonde-Mangochi Road (75km). The region also benefits from the WCO/JICA Joint Project on Trade Facilitation in Africa which enhances support for Customs administrations.

21. African Development Bank (AfDB): Several projects affecting the trade and transport sector are ongoing and SATCP is coordinating with AfDB on them. They include the Nacala Private Sector Rail & Port Project (Mozambique, Malawi); Multinational Nacala Road Corridor Development Project Phase IV (Zambia, Malawi); SADC Trade Facilitation Project (Regional); Integrated Border Management Support (Malawi, Mozambique and Zambia); COMESA Time Release Study (Malawi, Zambia); East and Southern Africa Transit Facilitation Project (Regional) and the African Private Sector Assistance Fund (Nacala Corridor Business Linkages Technical Assistance Project) (Mozambique).

22. UK: Related support under the Trade and Investment Program; Global Trade Program and EPAs (Mozambique + SACU); and more recently on trade integration through TMEA that are under discussion.

23. EU/EIB: Projects include road rehabilitation at Luangwa Bridge-Nyimba (98.93km); Sinda-Mtenguleni (95.5km); Mtenguleni-Mwami border (50.39km); Nyimba-Sinda (114.78km); Lilongwe Western Bypass (14.0km) (Malawi); OSBP Mwami Mchinga (Zambia Malawi); Tripartite Trade Facilitation Program (regional); TFA support: Articles 3.1, 7.8 (Mozambique); seed sector and cashew value chain (Mozambique), as well as support on the EPA (Mozambique +SACU).

24. GIZ: Also supports the SADC trade facilitation program (regional).



ANNEX 8: Country Programs Adjustment Responding to COVID-19

COUNTRY: Southern Africa Southern Africa Trade and Connectivity Project

1. This Annex describes the adjustments to country programs based on changes that Malawi and Mozambique have made to their medium-term policy, budget, and financing priorities as a result of the COVID-19 crisis.

Malawi

2. Electoral uncertainty delayed a new Country Partnership Framework (CPF) for Malawi; with a new government now installed, a new CPF covering IDA19 and IDA20 is going to the Board. In February 2020 Malawi's Constitutional Court nullified the results of the contested May 2019 presidential election - a ruling that was then upheld in May 2020 by the Supreme Court, paving the way for a fresh election in June resulting in a clear victory by an opposition alliance. The last WBG Country Assistance Strategy for FY13-FY17 was discussed with the Board in December 2012. The FY19 Systematic Country Diagnostic and FY20 Completion and Learning Review, as well as other analytical products, provide the basis for a new WBG CPF, which is set to support the new government's agenda and align with IDA19 priorities. In the meantime, this note sets out how the WBG country program is responding to Malawi's economic and social needs in light of the crisis.

3. Health impact. Following a first wave between June and August 2020, a second wave of COVID-19 has spread quickly in the early months of 2021 with both new infections and deaths increasing exponentially. In less than two months since the beginning of the second wave, the cumulative number of confirmed cases and deaths have more than quadrupled with a marked increase in local transmission and hospitalizations. The 2nd wave is likely due to a more transmissible new COVID-19 variant first detected in South Africa (B.1.351). Gene sequencing of 24 COVID-19 positive samples collected between mid-December 2020 and mid-January 2021 found that 18 samples (75 percent) were the B.1.351 variant.

4. Economic impact. Growth projections for 2020 have been lowered from 4.8 percent to 0.8 percent. Key transmission channels have included a global recession, reduced demand, increased trade costs, and reductions in exports, remittances, tourism, and foreign investment. These effects have combined with a drop in domestic demand due to social distancing behavior and policies. The impact on poverty will be particularly acute in urban areas where the sizeable informal services sector has been heavily affected. Poverty is expected to worsen with the pandemic. An estimated 12 percent of the economically active population have experienced job losses due to the crisis.

5. Distributional impact. The impact on poverty will be particularly acute in urban areas where the sizeable informal services sector is expected to be heavily affected. Within the services sector, accommodation, and food services as well as wholesale and retail trade are likely to be heavily impacted if Malawi experiences wider community-level transmission. The forecasted increase in urban poverty could range from 1.6 percent (representing around 280,000 Malawians) in the baseline growth forecast, up to 4.9 percent (around 880,000 people) in a downside scenario. Given the strong harvest and that the rural economy is heavily agriculture based, in the baseline scenario rural poverty would be expected to see limited impact.

6. Government response. A second "State of National Disaster" was declared on January 12, 2021 with the re-introduction of measures including a curfew, wearing of masks, routine disinfection of public buildings and school closures.

- The Ministry of Health is developing an enhanced COVID-19 preparedness and response plan, to complement the National Vaccine Deployment Plan (NVDP) covering rollout to 20 percent of the population (3.8 million) in



Phase 1. A first shipment of 1,476,000 doses arrived 5 March 2021. The country is also expected to receive additional vaccine doses from the African Union and will mobilize resources for subsequent phases.

- Social protection benefits are also proposed to expand to cover around 35 percent of the urban population while those impacted by COVID-19 in rural areas would also receive a frontloaded top-up cash transfer.
- The Reserve Bank of Malawi has announced several key initiatives, including establishing an Emergency Liquidity Assistance (ELA) framework to support banks, a moratorium on interest and principal payments on a case-by-case basis, reducing fees and increasing transaction amounts for mobile money and e-payments. As of June 2020, about 2,000 enterprises accessed the moratorium to restructure their loans.

7. WBG response. The WBG COVID response is integrated with the broader Country Partnership Framework (Board date: May 4, 2021) for FY21-25 and in line with the WBG Approach Paper on COVID-19.

8. In the Relief phase, to save lives the Board approved a \$7.0 million Emergency Response and Health System Preparedness COVID-19 Project under the Multi Phased Approach in support of the government's contingency plan in April 2020. Under the Pandemic Emergency Facility (PEF), Malawi also received additional funds of \$1.2 million. To protect the poor and vulnerable, the Bank restructured the Social Support for Resilient Livelihoods Project (P169198) to re-prioritize \$40 million towards the COVID-19 Urban Cash Initiative (CUCI) covering 185k poor households as well as COVID-19 top-ups to rural beneficiaries. To continue the focus on strengthening policies and institutions, the government triggered the release of \$30 million under the CAT-DDO (P165056) to address fiscal constraints emanating from, and required by, the pandemic. To support sustainable business growth the World Bank introduced a \$22m emergency MSME facility within the new Financial Inclusion and Entrepreneurship Scaling (FinES) project (P168552), with the longer-term aim of increasing access to financial services, promoting entrepreneurship and MSME capabilities.

9. In the Restructuring phase, the WB supported adjustments to ongoing investments to support improved water treatment, school and market sanitation with a focus on girls in urban areas, and more labor-intensive works to generate employment and livelihoods in rural communities. In addition, the Bank has re-started dialogue with the new government on a reform agenda to strengthen fiscal management and governance, increase agricultural productivity and market access, increase access to reliable energy, and strengthen the resilience of the private sector and households. Upcoming projects being prepared in the Education sector including Malawi Education Reform Project (MERP) (P174329) and Skills for a Vibrant Economy Project (SAVE) (P172627) will include CERC components which could be used as additional effort to support implementation of enhanced COVID response.

10. To initiate a Resilient Recovery, the government has requested World Bank assistance to the procurement and deployment of the vaccine across the country, while also laying foundations for health systems strengthening. The World Bank is also exploring a budget support series to lift market distortions and enable private sector participation in energy and agriculture. In addition, projects worth over \$250 million, including the recently declared effective Malawi Watersheds Services Improvement Project (P167860) and the Malawi Governance to Enable Service Delivery Project (P164961), are expected to enable immediate injection of capital into the economy. IFC is providing technical assistance to enable expedited release and clearance of COVID-19 response imports.

11. Development partners. Burden-sharing is well-distributed among donors to the government's response plan. The IMF approved a disbursement of \$91 million under the Rapid Credit Facility in May 2020 to help meet urgent balance of payment needs and it also approved debt relief support for Malawi of up to \$45 million through its Catastrophe Containment and Relief Trust. The African Development Bank approved a \$45 million budget support operation in July 2020. Meanwhile, the government's response plan is supported by the Global Fund, GAVI, FCDO, the Health Services Joint Fund (pooled mechanism by Germany, the United Kingdom, and Norway) and the USA.



Table 32: Highlights: FY21 indicative lending and restructuring program

	Relief	Restructuring	Resilient Recovery
Save lives	Public health emergency <ul style="list-style-type: none"> Approved FY20: Fast-track COVID Emergency Preparedness Project (\$7.5m) 	Restructuring health systems <ul style="list-style-type: none"> FY21: Additional; Financing for COVID-19 response project to cover vaccine rollout (\$14m) 	Pandemic-ready health systems <ul style="list-style-type: none"> FY23: New Health & demographics Human Capital Project
Protect the poor & vulnerable	Social emergency <ul style="list-style-type: none"> Approved FY20: Re-prioritization of \$40m from within the Social Support for Rural Livelihoods Project to urban poor 	Restoring human capital <ul style="list-style-type: none"> FY21: Education Reform Project (GPE & IDA) 	Putting people back to work <ul style="list-style-type: none"> FY21: Skills for a Vibrant Economy Project
Sustainable business growth and employment	Economic emergency <ul style="list-style-type: none"> Approved FY21: \$86m Financial Inclusion and Scaling Entrepreneurship project incl. emergency liquidity for SMEs 	Firm restructuring and debt resolution <ul style="list-style-type: none"> FY21: PPIAF and FCI ASA on impact of COVID on PPPs & mobilizing long-term finance for infrastructure 	Green business growth & job creation <ul style="list-style-type: none"> FY22: Mpatamanga Hydropower Project FY22: Shire Valley Transformation 2
Strengthening policies & institutions	Maintain line of sight to long-term goals <ul style="list-style-type: none"> Approved FY20: Release of \$30m of CAT-DDO to address immediate fiscal concerns 	Policy and institutional reforms <ul style="list-style-type: none"> Ongoing: Digital Malawi project supports e-government 	Investments to rebuild better <ul style="list-style-type: none"> FY21 FY23: New DPO Series under discussion tackling structural governance and constraints to the business environment

From Relief to Resilient Recovery: FY20-FY23

Mozambique

12. Mozambique registered its first COVID-19 case on March 22, 2020. As of January 24, 2021, 324,868 people had been tested, of which 32,418 (10 percent) tested positive. Of concern, the positive tests reached above 40 percent during the period of January 10 to 27, 2021. Over this two-week period, 10,479 people tested positive, a four-fold increase over the previous peak since the first case was diagnosed. All 11 provinces in Mozambique have seen cases with most cases centered around Maputo city (59 percent of the total) and major cities. Although hospitalizations (1,388) and mortality (305) remained low as of January 24, 2021, the rates for both have increased in early 2021, until coming down again in March 2021.

13. Economically, Mozambique was impacted by reduced global demand and lower commodity prices, with exports declining by 26 percent in the first ten months of 2020. This was the result of: (i) the concentration of Mozambique's export markets (together, the European Union, South Africa and India accounted for almost two thirds of exports in 2019), and (ii) the country's reliance on commodities (coal and aluminum account for 60 percent of overall exports). Supply chains for Mozambique's imports were also affected, particularly as mobility restrictions remained in place in neighboring South Africa, as well as other key import markets such as China.

14. Accounting together for almost a quarter of Mozambique's economic output, the hospitality, transport, retail and real-estate sectors have felt the brunt of lower domestic and external demand. Reduced movement, especially in urban areas, and the drop in international travel was evident in short-term private sector activity. Some improvement was recorded in business sentiment during the last months of 2020. Private services output contracted by 3 and 5 percent in the second and third quarters of 2020 respectively, owing to lockdown measures and supply disruptions. At the same time, lower oil prices are affecting investments in the Liquefied Natural Gas (LNG) industry. One out of three LNG projects



that was still at pre-final investment decision stage has been postponed. Overall, the extractives industry was expected a decline of 12 percent in 2020, having already seen a negative growth of 1 percent in 2019.

15. The economic growth fell by 1.3 percent in 2020, down from a pre-COVID forecast of 4.3 percent. Nonetheless, a growth recovery is expected to begin in late 2021, with growth reaching 4.4 percent by 2022, owing to a rebound in global demand and additional stimulus to the business environment from LNG projects. Mozambique is also experiencing large external and fiscal¹⁹⁰ financing gaps in 2020 and 2021 in a context characterized by exposure to external shocks and limited fiscal space. To help close the fiscal gap, Mozambique is relying on the bilateral debt relief initiative, donor budget support, and draw-down of saving from past capital gains receipts. The government continued to protect priority social expenditures despite the significant budgetary pressures from the global pandemic.

16. Moreover, a sizeable number of Mozambicans will fall back into poverty as a result of the pandemic. Given the depth of the COVID-19 crisis, Mozambique's already difficult poverty situation is expected to be aggravated further. It is likely that livelihoods, food security and nutrition will worsen as incomes are affected by the slowdown in economic activity. The negative impacts on income are expected to be felt relatively more in urban and peri-urban areas where social distancing measures and business closures are having most effect. As such, the pandemic is expected to predominantly affect poor populations in these areas, impacting their sources of income from informal work and self-employment. Mozambique's urban poverty rate was estimated to increase from 29 to at least 31 percent in 2020, pushing an additional 250,000-300,000 urban people into poverty on account of employment and income losses, price increases and a deterioration of public services. A scenario that assumes a cumulative drop in consumption of 25 percent among households with at least one worker in the "at-most-risk" sectors would increase urban poverty by 6.7 percentage points (from 29 to 35.7 percent), corresponding to nearly 700,000 extra poor.

17. The pandemic is also likely to exacerbate pre-existing factors of fragility and widen inequalities and imbalances across the country. The spatial distribution of poverty is skewed – with poverty almost twice as high in rural as in urban centers - and growing inequality between rural and urban areas. The Northern and Central regions continue to lag the Southern regions, with many more people being poor in Niassa (67 percent), Nampula (65 percent) and Zambezia (62 percent) than in Maputo Province (12 percent) and Maputo City (4 percent), the two areas that have seen the largest decline in poverty rates in the past decade. The pandemic could widen these divides, heighten socioeconomic grievances, and sharpen the inequalities and sense of marginalization that have helped to underpin the escalating insurgency in the northern province of Cabo Delgado.

18. Mozambique's debt will remain in distress, but sustainable in a forward-looking sense. External and total public debt are projected at around 103 and 120 percent of GDP in 2020, respectively. While the distress rating is due to the unresolved arrears to Brazil, debt is deemed sustainable in a forward-looking sense considering that, to a large extent, future borrowing and government guarantees reflect state participation in the sizable LNG developments. Still, debt service levels remain high. External and public debt service-to-revenue ratios were projected at 13 and 48 percent, respectively, by the end of 2020. The authorities' strong commitment to implement fiscal consolidation and a prudent borrowing strategy are expected to put public debt indicators on a downward trajectory over the medium term.

19. In addition, nearly 15,000 schools, 178,000 teachers, and over 8.5 million students at all levels of education were affected by school closures since March 2020. This is projected to have impacted losses in enrollment and learning, including the loss of 0.7 years of schooling adjusted for learning, bringing down the effective years of basic education that students achieve during their lifetime to 3.7 years; and 20 percent of the Mozambican children never returning to formal

¹⁹⁰ Overall, the COVID-19 shock is expected to contribute to a fiscal gap of 3.6 and 2.5 percent of GDP in 2020 and 2021.



education. Exclusion and inequality will likely be exacerbated as already marginalized with vulnerable groups – girls, the poor, and persons with disabilities – more adversely affected by the school closures. Even with schools reopening in 2021, Mozambique will need support to attract learners (especially adolescent girls) back to school, ensure a safe and sanitary environment in all schools, come up with remediating measures to catch up with a loss of learning, and continue strengthening distance learning.

20. An important impact of COVID-19 on the health sector has been the high rate of infection among health staff.

Until January 2021, 1,759 or 3 percent of the total health sector workforce in the country have been infected. Government has restricted attendance to clinical care for aged doctors and nurses to reduce the risk of infection. Overall, this translates in reduced availability of staff to deliver care, particularly in areas most hit by the pandemic putting additional burden on the health workforce, who are already overworked due to the general scarcity of health professionals, and whose levels of anxiety and fear are significant and requiring adequate measures to ensure their mental health and well-being. Another important impact is reduction in the provision of other essential services on account of resources being shifted to control the pandemic and manage cases, and on limited use of service by patients who fear being infected in health facilities. Between March and April 2020, the vaccination coverage may have reduced by 30 percent. It is believed that patients with chronic conditions and those on anti-retroviral treatment may have not presented themselves for follow up regularly due to fear of infection or misunderstanding of messages on social distancing and avoidance of crowded spaces.

21. In order to respond to the potential effect of the pandemic, the Mozambique government elaborated a US\$700 million plan

to be funded by development partners and composed of health (prevention and treatment - US\$100 million), budget support (US\$200 million), social protection (US\$240 million) and small businesses support (US\$160 million) measures. As of December 2020, donor disbursements to Mozambique for COVID-19 totaled US\$594.2 million (about 4 percent of GDP). Of this amount, US\$309 million were from the International Monetary Fund, US\$40 million from the AfDB, US\$142 million from the World Bank and the rest from other donors. Only US\$15 million of the donor support secured was allocated to small business support in the end.

22. The government and the central bank provided support to the private sector through a combination of measures: (i) financial sector and credit market measures; (ii) fiscal measures; (iii) measures related to utility costs; and (iv) workforce measures. Direct support (transfers) was not among the measures adopted, and government support was not conditioned on keeping jobs. The resources planned for private sector support corresponded to more than 1.5 percent of GDP, with the available budget reaching 0.6 percent of GDP. The measures related to private sector included:

- The government (US\$15 million) and the social security institute (US\$9 million) financed a US\$24 million credit line to provide direct liquidity support to firms. The credit lines were managed by *Banco Nacional de Investimento* at a discounted interest rate of between 8 and 12 percent.
- The Central Bank relaxed conditions for credit restructuring of commercial banks' clients for up to US\$500 million for 6 months, based on the assessment of borrowers' capacity to pay under the new terms.
- Postponement of income and corporate tax payments for small firms (turnover less than MZN 2.5 million) until 2021.
- 10 percent reduction of electricity tariff for agricultural businesses, restaurants, and hotels
- Suspension of mobile money commission fees and increase in mobile money transaction limits for three months.
- Measures to support the financial sector:
- Cut in the policy interest rate from 12.75 to 10.25 percent in 2020, which was increased back in early 2021.
- Reduction of the reserve requirement for local currency from 13 to 11.5 percent and for foreign currency loans from 36 to 34.5 percent.
- US\$500 million forex credit line to commercial banks.
- Removal of specific provisioning requirements for forex lending to importers.



- Facilitating the restructuring of credits for COVID-19 affected firms if needed, before payments become due.
- Temporary requirement to convert 30 percent of export proceeds to local currency.

23. In more general terms, the government also introduced:

- Simplification of import procedures for medicines and medical equipment.
- Increased surveillance, testing and case management capacity, including infection prevention and control measures in health facilities and laboratories.
- Initiation of protocol development for continuity of essential services.
- Public communication campaign for prevention and test/detection updates.
- Continued supply of water to households irrespective of payment status, delayed payment of water bills and exemption of payment for low consumption users.
- Expansion of the number of beneficiaries of social protection programs from 700,000 to 1,690,000 households.
- Simplifying ID requirements for mobile money transfers to social protection beneficiaries.
- Establishing a fuel price stabilization fund and allocating savings to the COVID-19 response.
- Suspension of VAT on soap, oil and sugar until end 2020.
- Monitoring of market prices to curb opportunistic pricing.
- 10 percent reduction in electricity tariffs for businesses and 50 percent for low income households during the state of emergency.

WBG Support for responding to the crisis

24. The proposed operation is aligned with the Bank's CPF for Mozambique as revised in the recently concluded PLR that includes adjustments to the CPF for COVID-19.¹⁹¹ The FY 17-21 WBG CPF for Mozambique draws on the 2016 SCD which identified three main focus areas in support of the twin goals: i.e. (a) promoting diversified growth and enhanced productivity; (b) investing in human capital; (c) enhancing sustainability and resilience. The PLR added an additional objective, Supporting Recovery and Rehabilitation, under this third Focus Area reflecting stepped-up IDA financing to address the impact of recent cyclones and the pandemic.

25. This operation is part of an adjusted CPF program to help Mozambique manage and respond to the COVID-19 crisis. The COVID-19 response is articulated as follows: the health response under Pillar 1 draws on US\$40 million mobilized through CERC activations as well as US\$4.5 million drawn from other health sector operations and US\$2 million of new Pandemic Emergency Facility (PEF) funding to be disbursed through United Nations partners (United Nations Population Fund, World Food Program, United Nations Children's Fund, and World Health Organization). Additionally, a \$US100 million project, the Mozambique COVID-19 Strategic Preparedness and Response Project (P175884) under preparation will provide support for COVID-19 vaccines procurements and delivery. Under Pillar 2, the World Bank response includes US\$53.5 million to support phase one of cash transfers to the poorest and most affected households; US\$3.6 million to support the water utility, FIPAG, to operationalize relief measures for the water sector; and US\$15 million to support water supply and sanitation improvements for safe return to schools. Under Pillar 3, US\$12.8 million under the Integrated Landscape Management Portfolio are supporting agribusiness, conservation areas, and smallholder farmers. The Power Efficiency and Reliability Improvement Project (P158249) is being restructured with savings achieved from the project to allocate US\$30.6 million for the Government's electricity support program to support most vulnerable customers and also to ensure for hospital and educational centers to continue operating without further hurting the revenues of national electricity utility. Under Pillar 4, the Mozambique Urban Development and Decentralization Project (P163989) and the Maputo Urban Transformation Project (P171449), which were approved respectively in June and

¹⁹¹ Mozambique – Performance and Learning Review of the Country Partnership Strategy IDA/R2020-0117, April 3, 2020.



December 2020, are supporting municipalities in preparing and implementing their respective Municipal Action Plans for COVID-19 response to enhance municipal capacity to identify, monitor, and track infections and expand municipal services to assist the most vulnerable populations. In Maputo, which is at the epicenter of the COVID-19 crisis, the Urban Transformation Project is focusing on rapid deployment of small-scale, low-cost, and scalable urban solutions to reduce COVID-19 community transmission in hotspot areas of the city. This will be combined with simple urban infrastructure investments that are labor intensive to help mitigate the economic impacts of COVID-19 in Maputo City, such as rehabilitation of open spaces, local roads, and alleys. Project resources diverted from ongoing projects to COVID-19 response will be replenished through additional financing operations that will be presented for Board approval in FY21.

Table 33: World Bank COVID-19 Support

Areas of Intervention		Cost (US\$ millions)
Pillar 1: Saving Lives		
	Health (incl COVID-19 Strategic Preparedness and Response Project under preparation)	144.5
	-of which from PEF	2.0
Pillar 2: Protecting Poor and Vulnerable People		
	Social Protection	53.5
	Water and Sanitation	18.6
	Education support	1.3
Ensuring Sustainable Business Growth and Job Creation		
	SME Support	12.8
	Electricity payment relief for social tariff and hospitals health and education public centers	20
Strengthening Policies, Institutions and Investments for Rebuilding Better		
	Policy Reforms to Mitigate Impact and Build Resilience	100
	Support to Cities and Municipalities	20
Total		366.8

26. In addition to this immediate response package, the CPF lending pipeline has been adjusted to mobilize further resources for the COVID-19 response. A lending operations has been brought forward into Quarter 2 of FY21. The Social Protection and Economic Resilience Project (US\$100 million, P173640) will support the second phase of the government's crisis mitigation response by further expanding safety net programs to cover affected vulnerable populations and to support livelihood activities aimed at longer term recovery.

27. Other planned lending operations are being modified to support resilient, inclusive and sustainable recovery. For example, the Mozambique Digital Governance and Economy Project (P173250) will, inter alia, support the National Health Institute to adopt digital services and tools to enable health data collection and support health systems as well as improved communication channels to citizens (a COVID-19 website, chatbots for COVID health information, SMS information systems and call centers). The Improving Learning and Empowering Girls in Mozambique Project (P172657) will build on the World Bank's longstanding engagement in the sector to improve education outcomes while also supporting adoption of distance learning technologies that could become increasingly important if the depth and duration of the crisis are extended. Finally, the planned Sustainable Rural Economy Program (P174002) is expected to contribute significantly to COVID-19 recovery in the rural economy that is already suffering significant economic impacts from the COVID-19 pandemic through its impact on nature-based tourism and a drop-in demand for smallholder agriculture products.



Selectivity, Complementarity, Partnership

28. The World Bank is coordinating closely with development partners on the overall COVID-19 response. The World Bank leads (along with WHO, UNICEF, USAID, and ProSaude) the health COVID-19 core group overseeing the overall coordination from the partner side. The World Bank is also a member of the Social Protection COVID-19 Technical Assistance Group (along with Sweden, UNICEF, ILO, WFP, and FCDO). The World Bank leads the Education COVID Response Group (along with UNICEF and MEPT). Finally, the World Bank leads the Private Sector Working Group (along with the African Development Bank and the UKFO).

29. The Work Bank support is also closely coordinated with development partners with regards to budget support: The IMF approved an emergency support to Mozambique on April 24, 2020 totaling US\$309 million to help bolster foreign exchange reserves and, together with the World Bank's funds, close the fiscal financing gap. The World Bank budget support also reinforces from the IMF's agreement with government on strict transparency and accountability measures regarding expenditures related to the COVID-19 response. The AfDB and European Union (EU) are also preparing budget support operations. AfDB's operation of US\$40 million intends to support actions and reforms related to the health response, supporting businesses and employment with a focus on agriculture, and supporting social protection.

30. Finally, cooperation and articulation of donor response is being carried through via a high level crisis response group made up of the key donors (incl AfDB, IMF, WB, Canada, UK, Ireland, US, EU and Netherlands) that meet on a monthly basis with top government officials (at the level of the Minister of Finance and other Ministers or equivalent for sectoral issues) to take stock of development, highlight key priority issues for support by the donor community and plan for follow up activities/coordination.

31. In addition, a project strategically contributes to the COVID-19 recovery phase. The Economic Linkages for Diversification Project (P171664) will support the private sector and local communities to effectively benefit from the economic opportunities associated large investments, which can be important contributors to post-COVID recovery phase. The project will apply latest guidance and knowledge on private sector development and COVID-19 to foster recovery.

32. In particular, policies for the recovery phase should aim at long-term, productivity driven growth.¹⁹² Resilient firms will be able to take advantage of new opportunities and contribute to build a more sustainable, inclusive future. A dynamic private sector that explores linkages with the country's mega-projects as well as the opportunities of the international markets will be the engine of the economic transformation and job creation. The recovery phase should be considered an opportunity to address pre-crisis constraints on firms' development, promoting investments, and developing supply chains. According to a recent review, government programs promoting firms and productivity growth are encouraged, to address existing barriers to private sector development.¹⁹³

¹⁹² World Bank. 2020. Saving lives, Scaling Up impact and Getting Back on Track. WBG COVID-19 crisis response approach paper.

¹⁹³ World Bank. 2020. Saving lives, Scaling Up impact and Getting Back on Track. WBG COVID-19 crisis response approach paper.