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ANNEX 3

of the Commission Decision on the financing of the Annual Action Programme 2019 – part 2 in favour of the Republic of Mozambique

Action Document for ″Sustainable Investments and Jobs for Mozambique″

1. Title/basic act/ CRIS number	Sustainable Investments and Jobs for Mozambique CRIS number: MZ/FED/041-809 financed under the 11th European Development Fund (EDF)	
2. Zone benefiting from the action/location	Republic of Mozambique The action shall be carried out at the following location: Republic of Mozambique.	
3. Programming document	National Indicative Programme (NIP) 2014-2020 for Mozambique	
4. Sustainable Development Goals (SDGs)	SDG 6 – Availability and sustainable management of water and sanitation for all. SDG 7 – Universal access to affordable, reliable, sustainable and modern energy. SDG 8 – Promotion of sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. SDG 9 – Resilient infrastructure, inclusive and sustainable industrialization and innovation Other significant SDGs: SDG 4 (quality education), 13 (combat climate change) and 17 (global partnership).	
5. Sector of intervention/ thematic area	Good governance	DEV. Assistance: YES[1]
6. Amounts concerned	Total estimated cost: EUR 440 840 000 Total amount of EDF contribution: **EUR 99 000 000**.	

[1] Official Development Assistance is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	This action might be co-financed in joint co-financing by: - International Finance Corporation (IFC), Swiss State Secretariat for Economic Affairs (SECO), Swedish International Development agency (SIDA), British Department for International Development (DFID), Facility for Investment Climate Advisory Services (FIAS), and the World Bank (WB) for an indicative amount of EUR 5 400 000. - Government of Mozambique for an indicative amount of EUR 440 000			
7. Aid modality and implementation modalities	Project Modality - **Direct management** through Grants - **Indirect management** with the Republic of Mozambique. - **Indirect management** with the entity to be selected in accordance with the criteria set out in section 5.4.2. - **Indirect management** with the International Finance Corporation (IFC), member of the World Bank group. - Contribution to the **Regional Blending Facilities/Platforms** implemented in indirect management by the entities indicated in the appendix to this action document, in accordance with the Regional Blending Facility's/Platform's award procedure.			
8 a) DAC codes	230 - Energy (50 %); 21020 - Road Transport (25 %); 14020 - Water (10 %); 250 - Business and other services (3 %); 330 - Trade policies and regulations (4 %); 11330 - Vocational Training (4 %)			
b) Main Delivery Channel	12000 – Recipient Government; 13000 – Third country Government; 44004 – International Finance Corporation; 46002 – African Development Bank			
9. Markers (from CRIS DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	X	☐
	Aid to environment	☐	☐	X
	Gender equality and Women's and Girl's Empowerment	☐	X	☐
	Trade Development	☐	X	☐
	Reproductive, Maternal, New born and child health	X	☐	☐
	Reproductive, Maternal, New born and child health	X	☐	☐
	Disaster Risk Reduction	X	☐	☐
	Inclusion of persons with disabilities	X	☐	☐
	Nutrition	X	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	X	☐	☐
	Combat desertification	X	☐	☐

	Climate change mitigation	☐	☐	X
	Climate change adaptation	☐	X	☐
10. Global Public Goods and Challenges (GPGC) thematic flagships	Sustainable energy			

SUMMARY

Mozambique ranks amongst the ten countries with the lowest Human Development Index and those with the lowest annual Gross Domestic Product (GDP) per capita. Despite the substantial quantity of natural resources available, the country´s economic diversification remains weak, with a high dependence on primary sectors such as mining, forestry, fisheries, natural energy. Manufacturing contributes minimally to the GDP (8 % in 2016) and the country´s exports consist of mainly unprocessed or semi-processed basic or raw products. The lack of economic diversification can be related to the country's challenging economic infrastructure and business environment. Inadequate transport infrastructure, lack of access to reliable electricity and water, low productivity, low education levels, lack of skilled labour, as well as excessive cost of borrowing and a challenging regulatory environment are some of the main barriers to inclusive and sustainable economic growth. Moreover, in the current macro-economic situation there is very limited access to financial markets.

Against this background, the achievement of the United Nations 2030 Agenda for Sustainable Development commitments by the Government of Mozambique remains very challenging, in particular the goals related to universal access to energy, decent jobs and sustainable economic growth, resilient infrastructure and sustainable industrialisation as well as and combating climate change.

In his State of the Union Address on 12 September 2018, the President of the European Commission announced the "New Africa-Europe Alliance for Sustainable Investment and Jobs: Taking our partnership for investment and jobs to the next level"[2] that sets up a renewed partnership focusing on Africa’s economic potential and the mobilisation of the private sector with a specific focus on jobs creation for youth. It complements the long-standing political partnership between the two continents. It deepens the economic and trade relations and goes beyond a donor-recipient approach to constitute an alliance between equals.

The **overall objective** of the action is to improve economic and social development with a particular focus on sustainable job creation. The **specific objective** of the action is not only to mobilise funds but also to catalyse more sustainable private and public investment in Mozambique. The proposed activities will lead to the following outputs: (1) Resilient and sustainable infrastructures are constructed; (2) Business development and support services for Small and Medium Sized Enterprises (SMEs) are reinforced; (3) Quality of vocational training and access to jobs linked directly or indirectly to the gas sector have increased, particularly in Cabo Delgado; (4) The business environment has improved, and; (5) the creation of a “Knowledge facility” to provide support services to activities under outputs 1, 2, 3 and 4.

[2] COM(2018)643 final of 12.9.2018.

Implementation of the activities, in particular economic infrastructure, will be done through the Africa Investment Platform, while activities related to improving investment and business climate will be conducted through provision of grants and procurement in indirect management with International Finance Corporation (IFC, member of the World Bank group) and the Government of Mozambique.

1 CONTEXT ANALYSIS

1.1 Context Description

Mozambique ranks amongst the ten countries with the lowest Human Development Index (180th out of 189 countries in 2017) and among the ten lowest annual GDP per capita (USD 1136)[3]. In spite of significant progress in poverty reduction since the late 1990's, over 46 % of the population continue to live below the national poverty line[4] and the absolute number of poor has remained relatively constant (11 800 000 people) as the population has been growing faster. Inequality and spatial differences have increased. There is a widening economic gap between rural and urban zones (37.4 % urban poverty compared to 50.1 % in rural areas) and geographical regions (Provinces in the Centre and North have poverty rates of nearly 40 points higher than the Province of Maputo). There are concerns that the dividend from the gas mega-projects expected for the next decade could further increase inequality if not carefully managed. Mozambique's impressive economic growth, averaging 7 % annually over a decade, largely driven by natural resource discoveries (mainly extractives including coal and gas), abruptly slowed down in 2015, declining to 3.7 % in 2017 and projected to reach 3.3 % in 2018. The economic downturn factors included droughts and floods that hit agriculture production, lower commodity prices affecting mineral exports, and a contraction of Foreign Direct Investment (FDI) inflows as several mega-projects reached completion. These were aggravated by the discovery in 2016 of undisclosed state-guaranteed loans representing 10 % of GDP (approx. USD 1.4 billion) and the resulting serious breach of trust in the national systems and lower investor confidence that decreased FDI inflows. Nonetheless, considering the expected FDI inflows related to investments in large gas deposits, Mozambique has the potential to become a middle income country in the course of the next 15 years. The International Monetary Fund (IMF) considers that Mozambique is in debt distress and in need of a debt strategy to lower debt risk to ″moderate″.

Mozambique's economic diversification remains weak, with a high dependence on primary sectors such as mining, forestry, fisheries, natural energy. The lack of economic diversification is very much related to the country's challenging economic infrastructure and business environment, including inadequate transport infrastructure, lack of access to reliable electricity and water, low productivity and low skilled labour, as well as excessive cost of borrowing and a challenging regulatory environment and weak enforcement.

The pace of reforms related to the business environment and investment climate appears to be stagnating, as reflected in Mozambique’s continuous low position in international rankings such as the Global Competitiveness (133 out of 140 countries) and Doing Business (135 of 190 in 2019 deteriorating from 121 in 2016). Nonetheless, Mozambique recently entered into a

3 GDP per capita , PPP (constant international USD), World Bank Data, 2017.

4 Income poverty head count using PLEASe methodology. Adjusted foodbasket. Ministry of Economics and Finance. Directorate of Economic and Financial Studies. Poverty and well-being in Mozambique. October 2016.

number of trade commitments, such as the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) and the European Partnership Agreement (EPA) that should provide a catalyst for deeper reforms of trade facilitation aspects of the business environment.

An additional challenge in the long term is Mozambique's demographic trend. The working age population of about 11 000 000 persons is projected to double by 2030. Almost 500 000 persons will enter the labour force per year over the next years, double the rate of the past decade. In addition, the high pace of population growth (2.8 % per year) which is not supported by adequate economic growth rate (3.3 % in 2018) will bring the current population (27 900 000) to reach 40 000 000 by 2030[5]. This further challenges the Government to provide basic services (health and education) and infrastructure.

Finally, with 2 300 kilometres of coastline along the Indian Ocean, as well as nine river basins prone to flooding, Mozambique ranks third in Africa for vulnerability to climate change. Cyclone Idai that made landfall on 14 March 2019 in the port city of Beira was one of the worst ever weather-related disasters in Southern Africa. It brought flooding, landslides and high winds, affecting nearly three million people and causing almost 1 000 deaths across Mozambique, Malawi and Zimbabwe. On 25 April a second disaster, category-four tropical cyclone Kenneth, hit the Northern part of Mozambique, causing more destruction. A Post-Disaster Needs Assessment, coordinated by the Government of Mozambique, in collaboration with the European Union, the World Bank, the United Nations and the African Development Bank, confirms that recovery needs stand at USD 3.2 billion. The IMF was the first to approve a new concessional loan for Mozambique. In the wake of Idai, the IMF approved a USD 118 200 000 Rapid Credit Facility Assistance to Mozambique to address large budgetary and external financing gaps arising from reconstruction needs.

During the International Donors Pledging Conference, the EU pledged EUR 200 000 000: EUR 100 000 000 from the European Commission in grants, among which EUR 10 000 000 from the budget of this action, and EUR 100 000 000 from the European Investment Bank (EIB) in concessional loans.

1.2 **Policy Framework (Global, EU)**

This action will support several relevant EU and global policy frameworks. First of all, the action will contribute to the "New European Consensus on Development – our world, our dignity, our future"[6] which marks the pathway towards achieving the Sustainable Development Goals (SDG) agenda by 2030 and the "New Africa-Europe Alliance for Sustainable Investment and Jobs: Taking our partnership for investment and jobs to the next level"[7] that sets up a renewed partnership focusing on Africa’s economic potential and the mobilisation of the private sector with a specific focus on jobs creation for youth. The action will cover the four main pillars of the latter: (1) boosting strategic investment and strengthening the role of the private sector; (2) investing in people by investing in education and skills development; (3) strengthening the business environment and investment climate and (4) tapping the potential of economic integration and trade. The action also builds on the "EU Growth and Jobs Compact" for Mozambique which identifies the development of quality infrastructures, developing specific value chains and fostering an enabling environment for business as major actions to increase economic sustainable growth. Moreover, the action will be implemented according to

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[5] Fourth National Population Census – 2017.

[6] OJ C 210 of 30.6.2017.

[7] COM(2018)643 final of 12.9.2018.

the principles guiding the "External Investment Plan" (EIP) and its three strategic pillars to which it will contribute.

The action is also in line with the ILO Centenary Declaration for the Future of Work, adopted in June 2019 and the Decent Work Agenda.

In addition, the action will contribute to the updated ″Aid for Trade Strategy 2017″, by contributing to efficient and resilient transport and renewable energy, contributing as such to addressing climate change as per the Paris Agreement. The action is also in line with the Communication "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries"[8] and will seek synergies with initiatives under the Sustainable business for Africa platform (SB4A).

Finally, the action is in line with the National Indicative Programme (NIP) 2014-2020 for Mozambique and its two focal sectors: good governance and rural development. The action will contribute more specifically to the good governance focal sector's objective of addressing business environment constraints for sustainable and inclusive growth and the rural development focal sector's objective of enhancing rural competitiveness through the development of private sector and economic diversification.

1.3 Public Policy Analysis of the partner country/region

The country's main policy guiding document is the 5-year Government Plan (PQG) 2015-2019, which has as overall objective the improvement of living conditions of Mozambicans by increasing employment, productivity and competitiveness in a context of peace and security. The five main objectives of the current PQG are: (i) consolidation of the national unity, peace and sovereignty; (ii) development of human and social capital; (iii) employment and productivity promotion; (iv) development of social and economic infrastructure and (v) sustainable and transparent management of the natural resources as well as 3 support pillars. The proposed action will contribute in particular to objectives (ii), (iii) and (iv). Transport, energy, water, agriculture and trade sectors have sound specific strategic documents and national programmes (some of them already mainstreaming gender and climate change) that will guide the different activities contemplated under this action[9].

For aspects of business and private sector development, the main framework is the Action Plan for Improving the Business Environment 2019-2021 (Plano de Acção para a Melhoria do Ambiente de Negócios - PAMAN) which includes a matrix of 55 reforms with a strong focus on simplifying licensing procedures for enterprises and increasing their competitiveness. The PAMAN encompasses several of the reforms proposed to be supported by the present programme. It has a clear framework for monitoring and evaluation of reforms at regular intervals and a clear set-up for public-private sector dialogue.

8 COM(2014)263 final of 13.5.2014.

9 Transport sector: Integrated Transport System and the new Road Sector Strategy (RSS-3), PIDA. Energy: National Electrification Strategy and the Integrated Plan for Energy; Strategy for New and Renewable Energy 2011-2025; EU-Mozambique Sustainable Energy Joint Declaration, 2016; Africa Renewable Energy Initiative (AREI). Water: Estratégia Nacional de Gestão de Recursos Hídricos; National water policy -2007; Water Delegated Management framework. Agriculture: Plano Estratégico de Desenvolvimento do Sector Agrário (PEDSA) 2011-2020; Plan for Agrarian Development, 2015-2019 National Program for Sustainable Rural Development, 2016. Trade: Plan for Agrarian Development, 2015-2019 National Program for Sustainable Rural Development, 2016. TVET: Plano Estratégico do Ensino Técnico Profissional included in the Education Sector Plan (PEE).

1.4 **Stakeholder analysis**

The relevant stakeholders for this action can be grouped as follows:

<u>Line Ministries at central and deconcentrated level</u>

The Ministries of Transport; Energy; Public Works; Industry and Trade; Agriculture; Labour; Environment; Finance and Education will play a key role in this action. In general they lack adequate human capital, capacities and competences to develop and implement appropriate policies. A number of public autonomous agencies under the umbrella of the line Ministries (such as the National Road Agency, the Road Fund, the National Energy Fund, the Energy Regulatory Authority, the Investment Fund for Water Supply or the Water Infrastructure Agency) will also play a key role in action implementation.

<u>Public utilities and State owned companies</u>

Two public companies are relevant for actions in the area of renewable energy: Electricidade de Moçambique (EDM), the public utility responsible for the generation, transmission, distribution and retail supply of grid connected electricity and Hidroelectrica de Cahora Bassa (HCB), the state-owned company which operates the 2075MW hydro power plant (HPP) in the Zambezi river, the largest in Sub-Saharan Africa. As for the water and sanitation sector, the Investment Fund for Water Supply (FIPAG) and the Water and Sanitation Infrastructure Agency (AIAS) are the most important entities. FIPAG is responsible for the supply of water of the 18 main urban centres in the country while AIAS is in charge in the secondary and small villages.

<u>International Financial Institutions (IFIs)</u>

IFIs are well represented in Mozambique and several of them have local offices. These include KfW, AFD, AfDB and the WB (including its investment arm, IFC). While these work in a large spectrum of sectors, most of them focus on Small and Medium Enterprises (SMEs) support and large infrastructures with a particular attention to energy and environment. The WB and AfDB are the two largest contributors to the Government road sector programme after the Chinese Exim Bank. Due to undisclosed state-guaranteed loans crisis, since 2016 IFIs have reduced (with very few exceptions) their loan operations to nil prioritising the use of grants and limiting activities to the preparation of the projects in the pipeline.

<u>Meso-level Actors and Civil Society</u>

Various business associations are active in Mozambique. However, due to their lack of resources and limited capacities, service provision to their members is rather weak. Of particular importance is the Confederation of Economic Associations of Mozambique (CTA), the largest confederation which channels most of the formal public-private dialogue. *Euro Camaras e Associacoes em Mocambique* (EuroCam), an association of EU Member States' chambers of commerce has become a formally registered business association in 2019. EuroCam was officially presented to the public at the first EU-Mozambique Economic Roundtable in May 2019, organised by the EU in cooperation with the Ministry of Industry and Trade and EuroCam. The Roundtable represented the starting point of a more proactive and structured dialogue between public and private sector actors and the EU to enhance the overall business and investment climate in Mozambique. This initiative proved successful as it attracted a large audience from the Government as well as the national and international private sector. Follow-up actions will be pursued.

<u>Private Sector</u>

In terms of business volume, the private sector is led by a few medium-sized and large enterprises. Nonetheless, micro, small and medium-sized enterprises (MSME) are the major employment providers and are key for the provision of operational (commercial) services and financial services in rural areas. According to a WB study[10], around 75 % of Mozambican registered companies are micro businesses (less than 5 employees), with a strong geographic concentration around Maputo city and province.

Investment promotion is dominated by large investments (so-called mega-projects), while progress in providing an enabling environment for MSMEs appears to be lagging behind.

In line with the informal economy levels in the Sub-Saharan region, the estimated informal economy for Mozambique (2010-2014) is at approximately 38 % of GDP, representing a labour force of 13 to 14 000 000 people (almost half of the population). A large part of MSME businesses are informal and/or not based on well-developed business concepts and growth strategies. A Government report found that SMEs in Mozambique comprise nearly 99 % of the market, but only contribute 28 % to GDP.

1.5 **Problem analysis/priority areas for support**

Closing the infrastructure gap is crucial for Mozambique if the country wants to make progress towards meeting the SDGs and tackle extreme poverty. Infrastructure is critical for its economic and social development. Indeed, lack of essential basic infrastructure is a major obstacle to business development, particularly when it refers to access to energy, road infrastructure and water and sanitation.

Despite a huge potential for energy generation, there is a need to incentivise first movers to the country and to de-risk investment operations to leverage participation of the private sector. The current access rate to electricity of 28 % places Mozambique on the bottom of the list of ranking of African countries. Limited access to energy and its poor quality are amongst the most important issues coming out from the Doing Business reports year after year as it constitutes a major barrier to business and economic growth. Besides, the power utility's recent master plan shows that if domestic peak demand continues to grow at about 5 % annually—which is a rather conservative estimate—and no new generation is added; by 2023 the installed capacity will not be enough to meet the domestic demand. The need to import electricity will only aggravate the financial sustainability of the public utility, increase electricity cost and further reduce Mozambican economic productivity. Climate change related effects on hydrological resources and lack of investment for both renewal/maintenance of productive assets (hydropower) and increasing new generation capacity could aggravate the situation in particular in Central and Northern Mozambique, regions that depends almost entirely from the power produced by Hidroeléctrica de Cahora Bassa (HCB).

Many constraints hamper the participation of the private sector in the energy sector in Mozambique, but one of the main ones is access to finances, including guarantees. For Independent Power Producers (IPPs) funding the equity part of the mandatory local content (5 to 25 %) is a major issue with important consequences on the project timeline implementation and the final energy cost. Besides, interconnection cost to the grid and the implementation of environmental and social measures are also aspects with a high impact on the energy cost associated to IPPs and therefore on energy affordability. In addition, high country indebtedness prevents access to concessional loans from development financiers and the issue of guarantees

[10] World Bank, Mozambique Economic Update: A Two Speed Economy, September 2017.

to cover both the country and off-taker associated risk. Access to finances is also preventing the public company HCB, responsible for over 80% of the energy consumed in the country, to materialise its 10 years investment plan despite being the most profitable public company in the country.

Important parts of Mozambique's transport backbone are yet to be completed or face maintenance issues. Mozambique is divided into three development corridors that link its ports to inland parts of Mozambique and neighbouring countries: (1) Maputo Corridor (South; linked with South Africa and Eswatini), (2) Beira Corridor (centre; linked with Zimbabwe) and (3) Nacala Corridor (North; linked with Malawi and Zambia). In addition, the National Road 1, although a national corridor, is key to ensure country unity, logistics and trade between North and South regions. Modernisation, completion and maintenance of the corridors are therefore important to foster local and regional trade and to create logistics and free trade hubs so that Mozambique can truly benefit of its strategic geographical location in the region. Road fund revenues are inadequate to cover all maintenance requirements along the country, and in particular periodic maintenance. Current donors funded programmes in the road sector focus mainly on the upgrading the secondary and tertiary roads that feed the main road network.

Current water and sanitation coverage in Mozambique is amongst the lowest in Sub-Saharan Africa, with only 50.3 % having access to safe water and 27 % to adequate sanitation. Disaggregated, urban safe water coverage is 82.5 % and rural is 36.1 %. Small town water coverage is estimated to have the lowest water coverage, reaching only 25 % of the population. The lack of capacity in the field of small water systems' projects conception; implementation and operation remains an important constraint, particularly in secondary and small towns.

The infrastructure sector in the provinces of Tete, Zambezia, Sofala and Manica suffered a considerable amount of damages and losses due to the cyclone Idai. In the Post Disaster Needs Assessment (PDNA), recovery needs for transport are estimated at USD 598 200 000, for Energy at USD 201 400 000 and for Water and Sanitation at USD 106 200 000. The amount pledged at the Donor conference remains below the needs to rebuild all infrastructure in a better, more resilient way.

In the area of business development, a mission from the Directorate-General for International Cooperation and Development's (DG DEVCO) Trade and Private Sector Development and Engagement Facility (TPSD) undertaken in 2018 underlined the existence of an embryo of innovative ecosystems with concrete results, namely business incubators and accelerators. As they have strong potential for supporting a new generation of job creating entrepreneurs it was recommended to support them. This support will eventually provide SMEs with a conduit through which they can develop their business, receive peer-to-peer and professional business coaching and also facilitate their access to equity funding. Moreover, incubators of start-ups provide strong additionality, job creation and lead to the creation of new industries in a relatively stagnant private sector.

The lack of educated and skilled population is also a major constraint to the inclusive growth of the country in general. This problem is even stronger in Cabo Delgado, one of the poorest and most remote provinces in the country, with high rates of youth unemployment and underemployment and a lack of development of basic infrastructure despite the development of gas fields in the same region. Local populations feel that the promises of wealth and well-being connected to the development of the gas fields have not yet been translated in economic opportunities, local employment and/or investment in social services. On the contrary, the establishment of extractive industries in the region implied land appropriation, resettlement of communities and increased deprivation as some people were cut off of their informal means of subsistence and led to increased social segregation. This has only increased the entrenched feeling of marginalisation and grievance towards the Government.

Cabo Delgado province is particularly vulnerable to multiple challenges as it is confronted with multidimensional security threats, including violent extremism, radicalisation of youth, cross-border crime, illegal trafficking and smuggling (drugs, wildlife etc.). Since 2017, a large number of brutal attacks to villages, roads and security and armed forces have occurred since 2017. In addition, in April 2019 this northernmost province was hit by the devastating Cyclone Kenneth.

Gas is a capital intensive industry, but not particularly labour intensive. Besides, the employed technologies are very complex and require highly specialised skills, also due to the hazards and risks associated with gas extraction. Hence the need to ensure fair working conditions, including safety and health at work. The large employment opportunities are indirect and induced. The problem is that even basic-skilled labour is hard to find in Northern Mozambique. The province has the highest illiteracy rate in the country, 61 %, which is way above the national average of 45 %. An accent should be put on the development and reinforcement of small and medium-sized enterprises, the ideal vehicle to promote more economic diversification, knowledge transfer and job creation.

Mozambique's business environment still shows important challenges even if certain reforms were adopted and implemented. The pace of reforms can be improved and their implementation has been challenging. International competitiveness rankings are low and have remained stagnant for the last decade. Some examples: Ease-of-doing-business ranking 137 out of 190 countries; competitiveness ranking at 133 out of 138 countries; corruption ranking 142 out of 175 countries; and Logistics Performance Indicator at 50 % of the highest performer.

Determinant barriers to business include, among others: high levels of corruption; land tenure insecurity; extraordinary high interest rates charged by commercial banks; lack of skilled labour; restrictive legislation regarding the hiring of foreign workers; cumbersome customs processes and heavy/bureaucratic administrative procedures; limited access to energy services and poor infrastructure network; periodic challenges in foreign exchange availability in the market; weak interinstitutional approach to business environment; regulations that are subject to frequent changes, not always in the sense of easing doing business; and poor law enforcement.

Besides, MSMEs often face additional difficulties as they are unable to meet the requirements to obtain a business license, apply for a loan or open a bank account due to complex and non-transparent administrative procedures. Furthermore, MSMEs owners and management (informal or formal) often do not have the required skills to elaborate bankable proposals, or lack the collateral (title deeds or proof of ownership of assets) and/or initial down payment to access finance.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Macro-economic stability. The debt crisis constitutes a major risk for the macro-economic stability and for the debt sustainability. This may be a serious impediment for public and private investors to consider new investments and loans.	H	Continue promoting improved and transparent public finance management (EU funded project). Close follow up of art.4 missions by IMF.
Commitments to reforms. New and massive domestic revenues to be generated by gas exploitation may not be an incentive for reforms contrary to a situation characterised by resource scarcity.	M	Maintain policy dialogue by the donor community.
Independence of judiciary sector. Investors' confidence is partly built on the predictability and stability of the judicial system and courts' decisions in case of litigation resolution.	M	Upcoming EU funded programme aiming at strengthening the judiciary system. Political dialogue under art. 8
Assumptions		
The macroeconomic stability of the country has to be considered as the key assumption. The possible incapacity of the Government to honour its coming debt-related obligations would trigger a further deterioration of confidence to the country's governance. In this case, potential public or private investors would reduce even more their risk exposure in Mozambique. The very few blending opportunities that exist today would probably collapse. The second assumption is the continued commitment of the Government to implement reforms and in particular those related to business environment and poverty reduction. Without a conducive business environment, investments, in particular in infrastructure, would hardly contribute to wealth and job creation. Wealth creation would not benefit to the poorest and most vulnerable people if inclusive and pro-poor targeted redistribution policies are not well designed and efficiently implemented.		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1 Lessons learnt

The private sector is still at an early stage of maturity especially the middle range of the enterprise spectrum. Entrepreneurship spirit and management skills are not widely spread. The banking sector is largely reluctant to embark into lending operations to businesses and prefers the security of the retailer market.

It is important to provide advice and coaching (through technical assistance) to MSMEs when they consider to start, grow, expand or diversify their business. This support should continue all along their investment or restructuring project. Rural enterprises and agribusiness need this support even more intensively because of their geographical isolation and the extreme reluctance of bankers to consider this sector of economy. The same applies for companies working in non-traditional sectors such as renewable energy, financial technologies, digitalisation, etc.

Infrastructure development is key for growth[11]: lack of access to energy and poor road conditions in the rural areas constrain economic growth and in particular the entire agriculture value chains due to the resulting high transport costs and lack of seasonal access.

Climate change will make natural disasters such as Cyclone Idai more frequent and stronger. Therefore, an accent needs to be put on ″re-building better″ in the reconstruction and recovery programme to make infrastructure climate resilient.

Vocational Education and Training (VET) does not automatically create employment: In line with the EIP, the focus of this pilot project will be put on improving the business environment through the enhancement of the human capital. The close involvement of the private sector from the beginning of the action is necessary to ensure that all skills developed and trainings given are in line with the real needs and opportunities of the labour market. As the literacy level in Cabo Delgado is very low, foundation courses will be necessary.

Doing business: With IFC support, various licences were streamlined and costs, time and procedures were reduced which resulted in savings for the private sector. For example: (i) start-up procedures were simplified through the streamlining of licensing and (ii) the amount of Property Registration procedures were reduced from 8 to 6 (DB2014 report). IFC also supported reforms related to business registration including the adoption of a single form for simplified business start-up, an internal reorganisation of the one-stop-shop and online publication of the company statutes. However, some reforms have not been recognised by Doing Business either because they have not been fully implemented or they are not captured by the Doing Business methodology. A lesson learned is that for a reform to be fully implemented and recognised it needs to become mandatory rather than optional.

3.2 Complementarity, synergy and donor coordination

The current donor coordination structure in Mozambique is the result of various reforms in the last years. The architecture remains complex, with numerous linkages and sometimes overlaps between various groups and substructures, despite the continuous attempts to simplify.

Development Cooperation Platform (DCP): The DCP was established as an informal development partner's platform aiming at facilitating exchange of information and coordination. The DCP, now co-chaired by the EU and the US, intends to be formalised as a vehicle for discussion with the Government on development policies.

Sector Working Groups: These groups have the general objective of facilitating policy dialogue with the Government of Mozambique in specific areas. Key working groups for this action are: private sector; energy, co-chaired currently by Norway and the EU; roads; vocational education and training; and agriculture and rural economic development. The EU is further active in working groups for public finance management, decentralisation, rural finance, land, and women's economic and social empowerment.

[11] Mid-term review of the Nampula Provincial Development strategy phase 1 of 2010-15 and the provincial Agribusiness sub-programme for phase 2.

Important synergies are expected with the EU 11th EDF thematic funded programmes PROMOVE Trade, Agribusiness, Transport, Energy, Nutrition and Biodiversity but also with the activities supported by the Global Climate Change Alliance + (GCCA+) Programme in Mozambique. The activities to be implemented are also complementary to programmes funded by other donors in the covered areas.

4 DESCRIPTION OF THE ACTION

4.1 Overall objective, specific objective, expected outputs and indicative activities

The **overall objective** of the action is to improve economic and social development with a particular focus on sustainable job creation.

The **specific objective** of the action is to catalyse more sustainable private and public investment in Mozambique.

The action has the following **expected outputs**:

1. Resilient and sustainable infrastructures are constructed.
2. Business development and support services for SMEs are reinforced.
3. Quality of vocational training and access to jobs linked directly or indirectly to the gas sector have increased, particularly in Cabo Delgado.
4. The business environment has improved.
5. A ″knowledge facility″ is created to provide support services to activities under outputs 1, 2, 3 and 4.

The **main activities** as per output are the following:

Related to output 1: resilient and sustainable infrastructures

1.1. Procurement is undertaken for the construction, rehabilitation and modernisation of the main transport corridors.

Having secured the completion of the Nacala Corridor by leveraging funds from the 11th EDF Regional Indicative Programme for Eastern Africa, Southern Africa and the Indian Ocean; discussions are ongoing with the AfDB and the Government for construction of the missing link on the transport corridor between Mozambique and Tanzania. Upgrading of the section Mueda-Roma (96 km), an extension of the National Road 1, in the province of Cabo Delgado is the last missing link to connect both countries by an up to standard tarmac road. Another opportunity, also under discussion, is the rehabilitation of the National Road N1 between the Zambeze Bridge (funded by the EU) and Save River in the Central region of the country and , requiring a cost-effective solution to connect the South with the productive areas located in the North. Extensive assessment will be carried out to assess the social impact of the investment. Specific attention will be paid to the quality of the jobs generated in the framework of EU investment in line with the SDGs and the decent work agenda[12].

1.2. Procurement is undertaken to increase the renewable energy generation capacity.

[12] https://www.ilo.org/global/topics/sdg-2030/lang--en/index.htm

The action should contribute towards the implementation of the investment master plan of HCB that operates the Cahora Bassa hydropower plant responsible for 80 % of the total electricity consumed in the country and a significant volume of energy exported to neighbouring countries. Funds to be leveraged with loans from the AFD and commercial banks should support the refurbishment of new turbines and rehabilitation of the power dispatch substation. This will secure over 2 000MW of hydropower capacity already installed. In addition, discussions are advancing on the support to renewable energy generation, mainly solar and wind, through support to initiatives such as PROLER[13] implemented by AFD and the mobilisation of ElectriFI-type of instruments (such as Electrification Financing Initiative (ElectriFI) the Dutch Development Bank (FMO), the Facility for Energy Inclusion (FEI), and the Climate Investor One (CIO, etc.).

1.3. Support is provided to develop infrastructure for the provision of water and sanitation services.

Discussions with potential partners have just started but the action should contribute to the extension of water distribution network and sanitation facilities in the main and secondary cities in the country. Provision of water to the newly developed areas of Maputo, Beira or Nampula or the implementation of an innovative funding mechanism to leverage participation of private investors to address water and sanitation in secondary centres are on the table. Since discussions are at a very early stage, the impact is yet to be defined, but past experiences have proved that over 200 000 people could get improved access to water and sanitation.

Related to output 2: reinforcement of business development and support services for SMEs

2.1 Capacity building activities (coaching/training) to SMEs and start-ups will be delivered by business incubators and business accelerators that are selected through a Call for Proposals. These activities will touch upon topics such as: soft skills, marketing skills, preparing business plans, training/coaching on accessing financing (including equity financing) and preparing bankable finance requests, training in business management, strategy and leadership; coaching for adopting production processes and reach product quality required by international quality standards, international labour and environmental standards, occupational safety and health, transition from the informal to the formal economy, opportunities related to environmental certification, potential businesses impulsed by the green economy, more cost/resource efficient and sustainable production and consumption, strategy on making B2B contacts, EU funded prizes for start-ups/innovative companies. Gender sensitive proposals will be encouraged and prioritised.

This activity will also include the reinforcement of the skills of business incubators and accelerators themselves (training of trainers) e.g. by encouraging partnerships with EU based incubators/accelerators.

13 PROLER stands for Renewable Energy Auction Project in Portuguese. It is a project fully funded by the EU through the Africa Infrastructure Trust Fund with EUR 4 000 000. It is a four year project implemented by the AFD. PROLER should contribute to the installation of over 200MW of solar and wind power by developing a legal and operational framework favourable for Independent Power Producers (IPPs). The first auction round is expected by end 2019.

Related to output 3: Enhanced quality of vocational training and access to jobs directly or indirectly linked to the gas sector

3.1. Support is provided to improve the quality of curricula of technical and professional education taught so that graduates are better prepared for employment opportunities generated directly and indirectly by the gas sector. Workers' and employers' organisations will be involved as to ensure the curricula are adapted to the labour market needs. Training programmes also include foundation courses (literacy, numeracy, Portuguese and English) and work readiness courses. Training will also be given to improve skills and competences of teaching and management staff.

3.2. The link between education and the job market is reinforced through career guidance, job fairs, work placements, etc. Partnerships with international gas companies as well as their extensive network of contractors, in particular the local SMEs, will be promoted. The action will also look into the possibility to finance scholarships and traineeships abroad.

Related to output 4: improvement of the business enabling environment

4.1. Following the launch of the Sub-National Doing Business Mozambique 2019: provide technical assistance to Government officials to develop reform action plans at the provincial level. Train Government officials and other stakeholders, especially at the local level, on how to use the Doing Business report findings, how to interpret results and how to design and implement policy recommendations, considering the Doing Business data as baseline information to monitor progress.

4.2. Provide specialist advice to ongoing key reform processes including national level reforms expected to have an impact on the global Doing Business assessment or other sector-focused identified regulatory constraints or focused on specific themes more the (e.g. the local content policy/law, the Labour Law, Court Costs Law, etc).

4.3. Conduct analytical assessments to identify industry-specific constraints blocking investment or private sector growth and operations – particularly for small and young businesses –and provide policy recommendations. e.g. Enterprise Survey.

4.4. Support the implementation of the recently approved Property Registration Law, including the development of a comprehensive and phased reform implementation plan, the development of electronic records and piloting of an automated system for property registration, and training of relevant government officials.

4.5. Training of insolvency practitioners and judges, developing regulations, and assisting with capacity-building of the regulator to ensure that the Insolvency Law can be put into practice.

4.6. Train inspectors of the National Inspectorate of Economic Activities (INAE) to adopt a risk-based approach for inspections e.g. prioritizing the protection of public goods (i.e. public safety, health, and environment).

4.7 Train inspectors and strengthen the capacities of the General Inspectorate of Labour (IGT). Strengthen fundamental principles and rights at work through social dialogue mechanisms and raise awareness on the decent work agenda, including child labour, forced labour, social protection, equal opportunities and non-discrimination.

4..8. Support the establishment of a modernised legal framework for secured transactions, targeting alignment with international best practices, to allow movable assets to be used as collateral for loan purposes. Support the establishment of an electronic registry of (loans) collateral and build the capacity of the registry office.

4.8. Build greater awareness, both among policymakers as well as the financial sector on the importance and benefits of movables-based finance and the utilization of the secured transactions registry.

Related to output 5: the "Knowledge facility"

5.1. Technical assistance and capacity building can be mobilised through this "Knowledge Facility", which is a horizontal tool to support/complete all activities carried out to reach the outputs 1 to 4. Studies can also be undertaken and events and seminars can be organised to support the policy and social dialogue needed around this action in line with the Jobs and Growth Compact for Mozambique.

4.2 Intervention Logic

The European External Investment Plan (EIP) offers an innovative way of mobilising public and private sources of financing for development building on the expertise of relevant public and private actors. Besides, the EIP is recognised as a key tool for the implementation of the new Africa-EU Alliance for Sustainable Investments and Jobs: Taking our partnership for investment and jobs to the next level[14]. This is based on the recognition that public and private investment are vital drivers of sustainable development, that private investment can complement public expenditure, and that businesses can be partners in sustainable development creating win-win situations.

Although the macroeconomic situation in Mozambique is complex and access to international finance markets extremely challenging, by allocating over EUR 84 000 000 to the Africa Investment Platform, this action will contribute to leverage over five times this amount from other development financial institutions, private corporations and banks in order to support the development of better transport, water and energy infrastructure.

By improving road conditions, it is expected that there will be greater availability of transport for local communities and reduced transport costs, thus contributing to sustainable, inclusive and broad-based economic growth and to poverty reduction. Farm gate prices will increase as transporters pass on some of their transport cost savings to farmers and transport of food from surplus areas to food deficit areas will be more affordable.

Access to energy is a catalyser for economic development and cost, quality and reliability are key factors for increasing competitiveness. Mozambique's extremely low energy access rate (28 %) prevents the delivery of basic services to the population and economic growth. Access, quality and reliability of electricity are also mentioned among the main barriers for a conducive business environment (2017 Doing Business report). Electricity demand has grown steadily in the last ten years at an annual pace of 14 % obliging the country to import energy and it is expected that it continues to grow as the utility increase access to the grid at an annual pace of 450 000 new connections during the next five years with support from the donors community. Therefore, there is a need to increase the generation capacity substantially to cope with this growing demand, meet the universal access target and catalyse economic development. In a difficult macroeconomic context, EU grants will be mobilised with a twofold objective: (1) to provide public companies access to finance in more concessional terms and (2) to leverage

[14] COM(2018)643 final of 12.9.2018.

private investment for Independent Power Producers (IPPs). Thus, EU funds will contribute to secure the capacity installed at the publicly managed Cahora Bassa Hydropower plant (2065MW), representing 80 % of generation capacity installed in the country, by supporting its 10 year Investment Plan. On the other hand, supporting IPPs through a specific fund will accelerate investment in the diversification of the energy mix with new renewable energy sources. Granting access to finances for equity, grid interconnection, environmental and social measures and use of innovative technologies (solar storage) will reduce the final cost of energy in the country. In addition, it will increase the share of renewal sources in the energy mix, catalyse jobs' creation and contribute to fight climate change by reducing CO2 emissions.

Contribution to SDG 6, ensuring everyone's rights to water and sanitation are fulfilled, will bring multiple economic, social and environmental benefits for human development such as improving outcomes in health, nutrition, education and gender. Mozambique lags behind on its regional neighbours with respective access rates to water and sanitation of 50 % and 27 %. This action aims to correct this situation by bringing necessary support to both public and private operators to reinforce their capacities, improve management and extension of the services. Sanitation could also cover attempts to arrange the country's solid waste management system in some towns.

Under output 1, at least EUR 10 000 000, such as pledged in the Donor Conference in Beira, will be destined at building back better infrastructures in the hit provinces. The possibility of setting up a blending operation with the EIB will be considered.

Development of economic infrastructure is to be complemented by addressing key issues of the investment climate and business environment by co-funding broader based relevant projects implemented by the IFC: the Mozambique Investment Climate Programme (IC, 2018-2022), the Secured Transaction and Collateral Registry Project (STCF, 2018-2020), and the Sub-National Doing Business in Mozambique (SNDB, 2018-2019). They are also funded by the Swiss State Secretariat for Economic Affairs (SECO), the Swedish International Development agency (SIDA), the British Department for International Development (DFID), the Facility for Investment Climate Advisory Services (FIAS), and the World Bank (WB). The projects address some key issues necessary especially for start-ups and SMEs to flourish in the country to open possibilities for more and sustainable jobs. The projects have strong components aiming to build the capacities of Government officials and also aiming to ensure proper implementation of the adopted/existing regulatory framework with a special focus on making regulations transparent and information easily accessible. Through the support to these projects, it is aimed to contribute to (i) crosscutting improvements to the investment climate (as guided by the DB methodology, through the streamlining and automation of property registration procedures, by helping develop the insolvency regulatory and institutional framework, and by introducing good regulatory practices to improve the delivery of business inspections), (ii) improved access to credit especially for MSMEs and women and (iii) development of sub-national Doing Business action plans. Moreover, this action foresees to support projects from business incubators/accelerators (through a Call for proposals) for providing capacity building activities (coaching/training) to SMEs, as well as improve the services delivered by the business incubators/accelerators themselves.

Technical assistance and grants will be combined to expand and improve the services delivered by these meso-level actors but also to better analyse, prioritise and plan development skill careers in close liaison with the technical assistance (TA) that is crucial to the successful implementation.

Most Vocational Education Training projects focus on the enhancement of quality of the technical education (resources, curricula, assets) but fail to make the bridge between education and employment. The key to success for the EU project in Cabo Delgado will be the development of partnerships with the gas industry and their service providers to ensure that youth acquire the knowledge, skills and competencies required for the jobs available. It is suggested to limit this pilot intervention to a maximum of three to four public TVET schools in Cabo Delgado.

The ″Knowledge Facility″ provides technical assistance to the action. Part of that technical assistance can benefit national and local authorities, investors, companies, promoters of SMEs and business associations. It can help them develop, together with Financial Institutions, sustainable and financially viable projects and attract potential investors. The technical assistance will also inform and support the (sector) policy and political dialogue on specific priority reforms as well as the overall dialogue on improving the investment climate and the general business environment. Market intelligence and investment climate analyses can be undertaken when needed. Finally, the knowledge facility can also be used to organise outreach events, seminars or symposiums.

4.3 Mainstreaming

Gender: The action aims at addressing the existing biases and inequalities of access to opportunities for women and youth, through the following: 1) Technical assistance activities will include a focus on support for women and youth business entrepreneurs; 2) Activities supporting public-private dialogue on business environment shall endeavour to include particular gender, youth and SMEs business concerns as those are less prominent in public-private dialogue and policies; 3) Support to VET in Cabo Delgado will ensure that young girls are given equal opportunities to obtain the required entry level for vocational training and throughout the course they will receive specific accompaniment to ensure that they enter the job market on equal grounds and 4) The project monitoring arrangements will make sure that indicators are disaggregated by gender whenever possible.

In addition, access to energy and water are recognised as key factors to address gender issues. Therefore specific gender analysis will be required prior to projects approval to ensure that economic return also benefits women. Gender sensitive indicators and disaggregated data to monitor real impact on gender following the guidelines of the ″Gender Equality and Women's Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020[15]″ will be required. Furthermore, infrastructure projects requiring resettlement plans will put a particular accent on women's rights and empowerment through the mitigation and accompanying measures.

Environment and climate change: By increasing the installed generation capacity with renewable energy, the action will reduce consumption of fossil fuels and biomass, and thus, reduction of greenhouse gases emission (CO2 footprint) and deforestation, the most common sources for lighting for final action's beneficiaries. Moreover, improved access to sustainable energy will help Mozambique to attain its Nationally Determined Contribution (NDC) prepared for the Paris Agreement (2015).

Investment in economic infrastructure through the Africa Investment Platform will be climate proof by design, anticipate future needs related to climate change (notably, for water/sanitation

[15] SWD(2015)182 final of 21.9.2015.

infrastructure) and follow existing national and international environmental policy and standards in terms of environmental impact assessments and mitigation measures at the implementation phase. Supported water infrastructure will also be aligned with sound integrated water management practices.

Support to SMEs will not only promote alignment with international standards, they will also promote opportunities made possible by greening principles (e.g., cost/resource efficiency).

Good governance: The strengthening of platforms for interaction between the public and the private sector, will contribute to improved governance of business environment issues (including trade facilitation issues and knowledge related activities) affecting Mozambican companies.

4. 4 Contribution to SDGs

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG 6, ensure availability and sustainable management of water and sanitation for all, SDG 7, ensure access to affordable, reliable, sustainable and modern energy for all, SDG 8, promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and SDG 9, build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

Other significant SDGs are SDG 4, ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, SDG 13, take urgent action to combat climate change and its impacts, and SDG 17, revitalise the global partnership for sustained development.

5 IMPLEMENTATION

5.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country.

5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3. Implementation of the budget support component

N/A

5.4. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[16].

5.4.1 Grants (direct management)

(a) Purpose of the grants
The grants will contribute to achieving expected output/result number 2 "Business development and support services are reinforced to support SMEs".

(b) Type of applicants targeted
Potential applicants for funding will be legal entities registered in Mozambique or in EU Member States with proven experience in providing coaching to business incubators and accelerators.

5.4.2 Indirect management with a Member State Organisation

A part of this action may be implemented in indirect management with an entity which will be selected by the Commission's services using following criteria: a proven track record of implementing programmes in skills development in Mozambique, sound operational and financial capacity, transparency.

The implementation by this entity entails all actions contributing to output 3: ″Quality of vocational training and access to jobs linked directly or indirectly to the gas sector have increased, particularly in Cabo Delgado.″

5.4.3 Indirect management with an international organisation

A part of this action may be implemented in indirect management with the International Finance Corporation (IFC). This implementation entails all actions contributing to output 4: "Business environment has improved".

The envisaged entity has been selected using the following criteria: IFC, being member of the World Bank Group, is successfully implementing the "Mozambique Investment Climate Project" (2018-2022 USD 4 800 000) which is aimed at improving the country´s business enabling environment and facilitating private sector investment, following a request for continued support by the Government of Mozambique at the closure of a previous operation. It is also implementing the Secured Transaction and Collateral Registry Project (2018-2020, USD 762 500) supporting the effective implementation of specific reforms. Moreover, the results of the first sub-national Doing Business report that benchmarked business regulations across a number of provinces will be published in June 2019, the additional EU contribution to the Sub-National Doing Business (SNDB, USD 927 500) funding could support dissemination of the report in the provinces and support the development of an action plan at provinces level.

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16 www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

IFC is a valuable partner and recognised for successfully implementing business environment programmes in Mozambique. During the implementation of the first and this second programme, they have been able to establish excellent relationships with the Government, private sector and related civil society organisations, making IFC the preferred choice for implementing this part of the project.

5.4.4 *Indirect management with the partner country*

A part of this action contributing to output 5 "a ″knowledge facility″ is created to provide support services to activities under output 1, 2, 3 and 4 " may be implemented in indirect management with the Republic of Mozambique according to the following modalities:

The partner country will act as the contracting authority for the procurement and grant procedures. The Commission will control ex-ante all the procurement and grant procedures.

Payments are executed by the Commission.

The partner country shall apply the Commission's rules on procurement and grants. These rules will be laid down in the financing agreement to be concluded with the partner country.

5.4.5. Contribution to the Africa Investment Platform

This contribution may be implemented under indirect management with the entities, called Lead Finance Institutions, identified in the appendix to this action document.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions:

a) The Commission decides that natural and legal persons from the following countries having traditional economic, trade or geographical links with neighbouring partner countries shall be eligible for participating in procurement and grant award procedures: South Africa. The supplies originating there shall also be eligible.

b) The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

Budget line	**EU contribution (amount in EUR)**	**Indicative third party contribution, in currency identified (amount in EUR)**
5.4.1 Direct management (Grants)	**3 000 000**	
Output 2: Business development and support services for SMEs are reinforced **Grants -** 2.1 Financial support	3 000 000	
5.4.2 Indirect management with MS	**4 000 000**	
Output 3: Quality of vocational training and access to jobs directly or indirectly linked to the gas sector have increased, particularly in Cabo Delgado	4 000 000	
5.4.3 Indirect management with IFC	**2 000 000**	
Output 4: Business environment has improved 3.1. Trade facilitation measures are implemented	2 000 000	International Finance Corporation (IFC), Swiss State Secretariat for Economic Affairs (SECO), Swedish International Development agency (SIDA), British Department for International Development (DFID), Facility for Investment Climate Advisory Services (FIAS), and the World Bank (WB) – EUR 5 400 000 - Government of Mozambique – EUR 440 000
5.4.4 Indirect management with the partner country	**1 000 000**	
Output 5: Knowledge facility: support services are given to activities under output 1, 2, 3 and 4. **Procurement -** 2.2. Knowledge Facility	1 000 000	
5.4.5 Contribution to the Africa Investment Platform	**85 000 000**	Financing from International Financial Institutions + Private Investors to be identified at a later stage on a project-by-project basis 336 000 000

Output 1: Resilient and sustainable infrastructures to catalyse further economic sustainable growth are constructed 1.1. Main transport corridors rehabilitated/upgraded 1.2. Energy generation capacity from renewable energy maintained/increased 1.3. Water and sanitation services are improved	 25 000 000 50 000 000 10 000 000	
5.9 Evaluation and 5.10 Audit	**300 000**	
5.11 Communication and visibility	**100 000**	
Contingencies	**3 600 000**	
Total	**99 000 000**	341 840 000

5.7 Organisational set-up and responsibilities

A twofold approach has been chosen to implement the action:

Funds allocated to the Africa Investment Platform will be governed by its established structure. Projects will be selected according to the decisions taken in this order by the Strategic Steering Committee, the Technical Assessment Meeting and Board. The relevant financial institutions will propose the specific governance arrangements.

The National Authorising Officer and the European Commission, represented by the EU Delegation to Mozambique, will meet regularly to ascertain what services and actions need to be contracted under output 5 and how to do this best to support the objectives of this project.

For the rest of activities (outputs 3 and 4) the EU will integrate the specific governance structures created by the implementing partners.

5.8 Performance and Results monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partners shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results as measured by corresponding indicators, using as reference the Log-frame matrix.

Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a mid-term and final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission or via an implementing partner.

A mid-term evaluation will be carried out for problem solving, learning purposes, and in particular with respect to its impact on job creation.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall inform the implementing partners at least 1 month in advance of the dates foreseen for the evaluation missions. The implementing partners shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

It is foreseen that a contract for communication and visibility may be contracted under a framework contract.

6 PRE-CONDITIONS

N/A

APPENDIX 1 - INDICATIVE LOGFRAME MATRIX

	Results chain: Main expected results	Indicators	Sources of data	Assumptions
Impact (Overall Objective)	Improve economic and social development with a particular focus on sustainable job creation.	1. Real GDP growth rate** 2. Proportion of population living below $1.25 (PPP) per day** 3. Human Development Index ranking 4. Employment rate by formal and informal sector (disaggregated by gender) 5. Number of graduates fully employed in sustainable way 6 months after graduation (disaggregated by sex)	Mozambique Social and Economic Plan UNDP Human Development report Ministry of Labour reports	*Not applicable*
Outcome(s) (Specific Objective(s))	Catalyse more sustainable private and public investment in Mozambique.	1.1. Foreign Direct Investment Rate (without megaprojects in gas) 1.2. Cumulated private and public investments mobilised on projects supported by this action 1.3. Mozambique's score in "Doing business indicators"	1.1. Central Bank of Mozambique, Agency for Investment and Export Promotion (Apiex) 1.2. Reports of International Finance Institutions (IFI) implementing the actions 1.3. World Bank Doing Business	The Government remains committed to policies contributing to poverty reduction. Political and security stability are granted. Macroeconomic context is stable.
Outputs	1. Resilient and sustainable infrastructures are constructed.	1.1.1. New MW of RE installed** (EU RF L2#2.10) 1.1.2. MW of RE maintained 1.1.3. Km of new road constructed** (EU RF L2#2.16) 1.1.4. Number of water connections 1.1.5. number of latrines built 1.1.6. Km of functional sewage infrastructure	1.1.1. Ministry of Mineral Resources and Energy (MIREME) and Electricidade de Moçambique (EDM) reports 1.1.2. Hidroeléctrica de Cahora Bassa, EDM, Fundo de energia,, MIREME, Ministry of Food Security and Agriculture (MASA reports 1.1.3 Road Fund and Road Agency reports 1.1.4. Ministry of public works and water, FIPAG 1.1.5. Ministry of public works and water, FIPAG 1.1.6. Ministry of public works and water, FIPAG	New Electricity law approved New energy regulator operational New road strategy approved Delegate framework for water management supported by public stakeholders

	2. Business development and support services are reinforced to support SMEs.	1.2.1. Number of SMEs (including start-ups) receiving support (coaching/training), including number of SMEs led by women/men and main beneficiaries disaggregated by age-group 1.2.2. Number of training/coaching days delivered to SMEs. 1.2.3 Number of persons trained (disaggregated by topic and sex) 1.2.4. Number of training/coaching days devoted to building capacities of business incubators/accelerators (disaggregated by topic)	1.2.1. Project reports, , evaluations 1.2.2. Project reports, evaluations 1.2.3. Project reports, evaluations 1.2.4. Project reports,, evaluations	SMEs committed to participate
	3. Quality of vocational training and access to jobs directly or indirectly linked to the gas sector are increased, particularly in Cabo Delgado.	1.3.1. Number of students graduated in technical courses directly related to the gas sector (disaggregated by sex) 1.3.2. Number of students graduated in technical courses indirectly related to the gas sector (induced jobs)(disaggregated by sex) 1.3.3. Number of graduates fully employed in a sustainable way 6 months after graduation (disaggregate by sex)	1.3.1. Project reports and Monitoring & Evaluation (M&E) activities 1.3.2. Project reports and M&E activities 1.3.3. Project reports and M&E activities	Gas megaprojects are materialised Security conditions in Cabo Delgado are granted Investors committed to employ local staff and local companies
	4. The business environment has improved	1.4.1. Number of sub-national Doing Business Action Plans developed by province 1.4.2. Time and procedures for property registration resulting in an overall reduction of administrative costs for the private sector 1.4.3. Number of insolvency practitioners registered 1.4.4. Number of new improved regulations/procedures/standards using new risk-based criteria 1.4.5. Access to credit, especially for MSMEs and women	1.4.1. Action Plans on sub-national Doing Business indicators by city 1.4.2. Doing Business indicator and Project reports 1.4.3 Project reports, government reports 1.4.4 Project reports, INAE reports 1.4.5 Doing Business reports, Project report	The Government remains committed to policies contributing to improve business environment
	5. A ″knowledge facility″ is created to provide support services to activities under output 1, 3, 4 and 5	1.5.1. Number of staff of business associations trained 1.5.2. Number of people attending seminars 1.5.3. Number of studies conducted by consultants	1.5.1 Project reports, 1.5.2. Project reports, 1.5.3. Project reports,	All the above assumptions for each output

Appendix 2: List of eligible Lead Finance Institutions

- AECID (Agencia Espanola de Cooperacion Internacional al Desarrollo, Spain)
- AFD (Agence française de développement, France)
- BIO (Belgian Investment Company for Developing Countries, Belgium)
- CDP (Cassa Depositi e Prestiti S.p.A., Italy)
- DEG (German Investment Cooperation, Germany)
- EIB (European Investment Bank)
- KfW (Kreditanstalt für Wiederaufbau, Germany)
- COFIDES (Compañía Española de Financiación del Desarrollo, Spain)
- FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden, The Netherlands)
- PROPARCO (Groupe Agence française de développement, France)
- SIMEST (Società italiana per le imprese all'estero, Italy)
- SOFID (Sociedada para o Financiamento do Desenvolvimento, Portugal)

- AfDB (African Development Bank)
- The World Bank Group