



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 09-Jul-2018 | Report No: PIDISDSC25096

**BASIC INFORMATION****A. Basic Project Data**

Country Southern Africa	Project ID P164847	Parent Project ID (if any)	Project Name Southern Africa Trade and Connectivity Project (formerly Nacala Corridor) (P164847)
Region AFRICA EAST	Estimated Appraisal Date Jan 04, 2021	Estimated Board Date Mar 23, 2021	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Government of Malawi, Government of Mozambique	Implementing Agency Ministry of Transport and Communication, Ministry of Transport and Public Works	

Proposed Development Objective(s)

The project development objective is to increase private sector activity along targeted corridors of Malawi and Mozambique, through reduced trade costs and time, increased value chain development, and improved access to infrastructure.

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
Environmental Assessment Category A - Full Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Introduction and Regional Context

1. **The potential for regional integration to contribute to structural transformation, job creation and poverty reduction in Eastern and Southern Africa is undermined by the slow progress of implementation of regional commitments.** As a result, poor citizens of African countries have seen little in terms of economic gains from integration. The WBG’s new *Regional Integration and Cooperation Assistance Strategy* (RICAS) for Africa concludes that “the state of play with regional integration could best be described as a ‘glass half full’”.¹ This “implementation gap” has several causes. For one, the private sector is often not involved in the process and insufficiently organized to contribute in a more meaningful way and urge governments to move forward on commitments. Instead import-competing and otherwise protected industries that have the most to lose from greater integration often successfully lobby against implementation. This is compounded by the limited leverage and enforcement capacity that regional economic communities have.² Achieving the goals in the RICAS requires a renewed effort that puts addressing implementation gaps at the center of support to increasing the gains from economic integration.

2. **The RICAS proposes to operate with a spatial and sectoral focus as the best way of promoting integration and to prioritize specific transnational economic corridors where integration can be realized.** This includes taking an “infrastructure plus” approach that simultaneously integrates financing infrastructure gaps with policy, regulatory and institutional steps to support the functioning of markets, facilitating collective action to improve

¹ World Bank (2017), “Supporting Africa’s Transformation: Regional Integration and Cooperation Assistance Strategy (FY18-FY23)”, December 15, 2017 Report No. 121912-AFR, p. 17.

² 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 organisations? Synthesis Report. Brussels: ECDPM.



public goods provision, and maximizing finance for development by supporting the mobilization of commercial finance enabled by upstream reforms to address market failures. Generating greater economic dynamism along 6-8 select corridors is a central strategic priority within this context.³ The challenge is to complement investments in regional infrastructure connectivity with reforms that alleviate policy, regulatory and other barriers to regional trade and value-addition, thereby creating an environment for private sector investment along the corridor.

3. **There is broad momentum towards further economic integration in Southern Africa, including under the recently signed African Continental Free Trade Area (AfCFTA).** Regional integration is especially high on Africa's overall development agenda because while the most important traditional export products, including cash crops and minerals are largely shipped to global markets, regional markets are important for non-traditional exports, including by smaller firms, and could help to drive economic diversification. Significant progress has also been made with the enactment of the SADC trade protocol and movement towards a tripartite FTA. However, there are still widespread import and export restrictions, especially for agricultural goods, that are applied frequently and unpredictably.⁴

4. **In this regard, the WBG has been supporting variable geometry approaches to regional integration as an effective means to address collective action problems.** For example, under the Accelerated Program for Economic Integration (APEI) initiative, the participating mainland countries of Malawi, Mozambique and Zambia, along with the island States of Mauritius and Seychelles have focused on enabling and intensifying intra-regional trade links and speeding up the implementation of numerous regional initiatives under the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The APEI countries have committed to reforming trade in goods, improving trade in services, enhancing the business regulatory environment and improving trade facilitation. The World Bank Group and other external actors can use their convening power, as well as a variety of methods and instruments, to facilitate precisely this kind of joint action.

5. **The Nacala Corridor Project is the most advanced operation under the forthcoming APEI Regional Business Plan and provides an opportunity to put into practice an "infrastructure-plus" corridor approach to regional integration in Southern Africa.** Under the APEI initiative, Malawi, Mozambique and Zambia requested the WBG's support in developing the Nacala Corridor at the October 2017 WBG-IMF Annual Meetings. Revitalizing the Nacala Corridor would be a strategic tool for improving trade connectivity, enhancing the competitiveness of sectors and increasing value-added through private sector investment. This corridor operation would also complement and enhance the impact of the substantial portfolio of the WBG and other donors that is supporting agricultural and

³ Specifically, the RICAS commits the WBG to identify 6-8 economic corridors in Africa along transport trunk routes, production centers (e.g. maize, rice, or livestock) or along trans-boundary waterbodies and use a combination of Bank instruments along these corridors to support countries address policy issues that affect productivity, trade and private investments, finance remaining infrastructure gaps, and promote skills development to take up the job opportunities.

⁴ World Bank Group (2018 forthcoming). Advancing Industrialization and Trade in Southern Africa: Support to the Implementation of the SADC Industrialization Strategy. Project Completion Report.



industrial development in all three countries. There have also been large investments by the private sector, for example in the railway, and complementary public investment in road and port infrastructure, along the corridor. However, there are numerous constraints that impact the utilization and exploitation of the Nacala Corridor including lack of border and connectivity infrastructure, non-transparent and unpredictable of trade policies applied at the border (including numerous non-tariff barriers), and weak coordination amongst countries.⁵ These impact heavily on the connectivity of the poor to markets, a critical issue for poverty reduction, not only limiting trade volumes directly but also by constraining the development of critical transport and logistics services along the Nacala Corridor, raising the cost and limiting the range and quality of logistics services and reducing liner connectivity.

6. **A corridor approach can be an effective way to target infrastructure investments and implement policy reforms to reduce trade costs in a strategic location.** Throughout the world most trade moves along a few high-density routes and economic activity often clusters around these corridors. Africa is no exception and improving corridor performance can be an effective approach to increase and diversify growth and deepen integration into the regional and global economy. A corridor approach can help prioritize infrastructure investments and maximize returns to scale. It can provide a context for effective implementation of critical policy reforms, which otherwise face substantial political economy resistance at the national level. Successful corridor development elsewhere has led to improved access to the global market through the main seaport, a virtuous cycle of expanding regional markets, increased regional integration and greater attractiveness to FDI, resulting in job creation, small and medium size enterprise development and more rapid economic growth.⁶

7. **The Nacala Corridor is a trading route whose point of entry and exit is the Nacala port in Mozambique. It connects the central part of Mozambique with landlocked Malawi and Zambia** (see Figure 1 and Annex 1 for relevant maps on the Nacala Corridor).⁷ Specifically, the corridor extends along a railway network that includes the Northern Rail System of Mozambique, the Malawi Railway System, the Mchinji/Chipata Rail section, which connects the Corridor to Zambia; and, the road system connecting all three countries. The corridor boasts a strategic location, with proximity to energy resources, fertile lands, tourism destinations, and a favorable climate. The Port of Nacala is East Africa's deepest natural port and is currently the third largest port in Mozambique in terms of volume of cargo handled. While volumes handled have stagnated over the past 7 years (Table 1) this is

⁵ Ksoll c. & Kunaka C. (2016), "Malawi's new connectivity: Paving the way for seamless corridors - A Trade and Logistics Analysis" Malawi Country Economic Memorandum 2016, Background Paper Series.

⁶ Sequeira, Sandra, Hartmann, Olivier and Kunaka, Charles (2014) Reviving trade routes: evidence from the Maputo Corridor Discussion papers, 14. SSATP, Washington, USA.

⁷ The principal axis, from Nacala to Moatize, follows a 915-kilometer railway from the Nacala port at the coast in Nampula Province through to Cuamba in Niassa Province and onto Nkaya in Malawi before terminating at Moatize in Tete Province. In addition, there are two sub-corridors that feed into the principal corridor: The Cuamba – Lichinga Axis, defined by the branch railway that runs from Cuamba to the provincial capital of Lichinga, connecting high potential agricultural regions in hinterland Mozambique to the main urban centres of northern Mozambique and southern and central Malawi; and the Limbe - Nkaya – Chipata Axis which links the main commercial centre of Blantyre in southern Malawi, the capital city of Lilongwe in central Malawi and the railhead just outside the provincial capital of Chipata in eastern Zambia to the Nkaya junction, which is the connecting point on the principal Nacala-Moatize axis. Chipata is then linked to Lusaka via the M4 roadway.

likely to increase significantly following a \$370 million JICA-funded port modernization program which begins in September 2018.

Figure 1: Map of the Railway Line in the Nacala Corridor



Source: World Bank Group

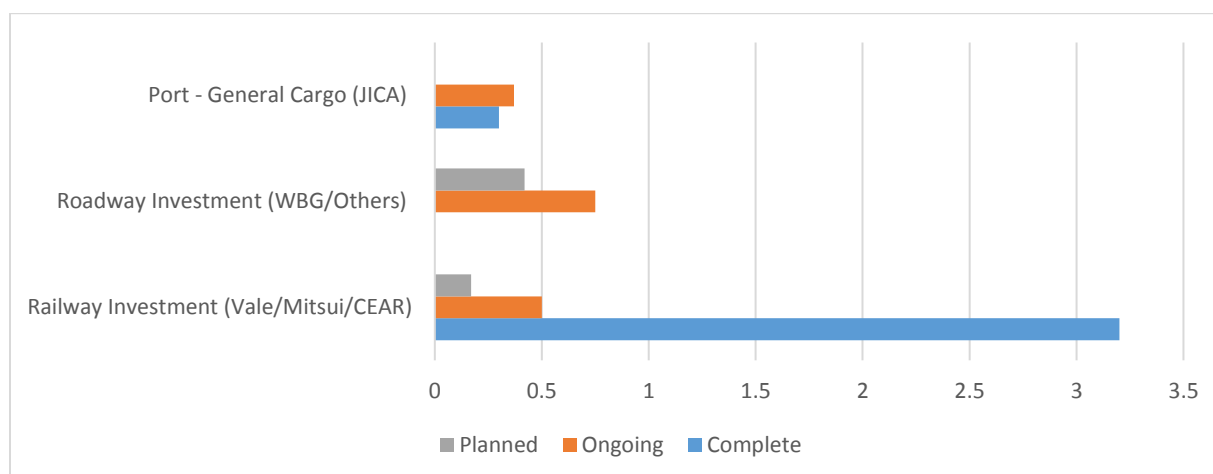
Table 1: Volumes handled by the Nacala port

	2010	2011	2012	2013	2014	2015	2016	2017
1. Vessel (no. of vessels)	273	295	358	479	365	322	281	277
2. Containers (twenty-foot equivalent unit (teus))	71,112	89,714	65,163	82,808	97,081	79,417	71,142	70,931
3. Cargo handled ('000 tonnes)	1,152.5	1,354.4	1,351.0	1,912.3	2,170.6	1,716.1	1,635.3	1,666.7

Source: www.portosdonorte.co.mz

8. Substantial private and public investments have been made along the Nacala Corridor to improve its operation, but significant gaps remain. \$3.2 billion private investment has flowed into rail infrastructure that has helped rehabilitate most of the Nacala railway line. With the support of the WBG, the EU, EIB, AFDB and JICA, a further \$1 billion has been invested in the primary road transport infrastructure along the corridor from Nacala to Lusaka (Figure 2). Additionally, over \$600 million in public investments has also been mobilized for rehabilitating Nacala port. Additional investments are not only expected in the rail sector but also in establishing multi-modal facilities at the key offtake points in Chipata, Blantyre and Lilongwe. However, key infrastructure gaps remain including poor border infrastructure, underdeveloped mechanized handling infrastructure at the Nacala port, and lack of logistics infrastructure, especially regarding agriculture.

Figure 2: Public Investments in the Road and Port Sector along the Nacala Corridor (US\$ billions)



Source: World Bank

9. **A comprehensive approach to regional development has in part been laid out in a set of strategies for the entire Nacala Corridor Region.** The JICA funded Project for Nacala Corridor Economic Development Strategies in the Republic of Mozambique (PEDEC-Nacala) has initially targeted five provinces in the Northern Mozambique Region i.e. provinces of Nampula, Cabo Delgado, Niassa, and Tete and the seven northern districts of Zambezia Province. A total of 93 “priority projects” covering various sectors were selected to be implemented between 2015 and 2035. Out of these priority projects, a total of 48 projects were selected as “high priority projects”. The high priority projects were to be initiated by 2017 and completed by 2025.⁸ Recently, JICA has carried out a similar exercise for Malawi and Zambia and outlined several projects.⁹

10. **The regional “infrastructure plus” approach to the Nacala Corridor requires coordinated investments in trade connectivity infrastructure together with improving trade and regulatory policies, institutional capacity and coordination.** JICA has calculated that transporting cargo by rail from Nacala to Blantyre could reduce transport costs by 78% compared to Beira, 40% compared to Dar es Salaam and 39% relative to Durban.¹⁰ However, a range of barriers and inefficiencies currently increase costs often beyond those of competing corridors. Achieving the potential of the corridor requires investments in border infrastructure, in ICT hardware and in key logistics and

⁸ The 48 high priority projects are grouped under the following sector programs: Nacala International Gateway Programme; Nampula Regional Growth Centre Programme; Cuamba Logistics and Industrial Centre Programme; Palma Natural Gas Exploitation and Chemical Industrial Centre Programme; Logistics Modernization Sector Programme; Water Resources Development Sector Programme; Power and Energy Sector Programme; Social and Environmental Management Sector Programme; Human Resources Development Programme; Coordination and Promotion of Integrated Development Programme; and, Support Programme for Less Accessible Areas.

⁹ These include a new road construction project between Liwonde and Cuamba, improvement of electricity supply for industrial areas in Lilongwe, Blantyre, capacity building for the Malawi Investment and Trade Centre, construction of the Lusaka flyover on the Great East Road, road widening with footpath and cycle lane on Nacala Corridor, replacement of the Luanga Bridge, construction of Lusaka Outer Ring Road, construction of Chipata Multi-modal Dry Port, and construction of Serenje-Chipata Greenfield Railway.

¹⁰ In Malawi, the share of exports using rail transport in 2017 was only 15% (Malawi Revenue Authority). However, CEAR projects that rail cargo will increase to 500,000 tons by end 2018, 700,000 tons in 2019 and 1 million tons in 2020.



connectivity assets, such as storage and consolidation facilities.¹¹ These must be complemented by policy and procedural reforms and capacity building. Given the interactive and complementary nature of the interventions, the total benefits of combining these elements would be greater than the sum of the individual parts. A key feature of a regional project, is that interventions would be supported on both sides of the border. The impacts on trade are limited if improvements are only made on one side. In addition, specific benefits can be obtained from coordinating interventions, for example, in the design of border posts.

11. **There is a lack of institutional coordination between countries, between ministries and agencies within countries and between the public and private sectors that must be addressed to reduce costs along the corridor.** For example, coordination is crucial to share advance data on cargo transiting through the corridor, improve transit systems (including regional bonds and guarantees), build one-stop border posts, and align and harmonize documents, standards (see Box 1), fees and charges. This applies to both the road and rail networks. For instance, an efficient rail transit system has still not been developed which results in stoppages that can add up to a day of transit time.¹² Efficient inter-modal connectivity can drive down costs for corridor users but requires not only the necessary logistics infrastructure but also effective coordination among countries and the different agencies responsible for management of trade and transport functions.

Box 1: Standards-related trade barriers in the Nacala Corridor

¹¹ Lack of consolidation centers near production points and adequate storage facilities leads not only to low quality produce and post-harvest losses but also a system that limits incentives to invest in agro-processing activities. As such exporting primarily occurs through cargo aggregators, very few of whom provide value added services.

¹² Currently, cargo trains entering Malawi stop at Nayuchi (for a preliminary border inspection), Liwonde (for generating transit documents and additional customs inspections) and Nkaya (for rail marshalling). At Nkaya, general cargo trains are diverted to either Limbe/Blantyre or Kanengo/Lilongwe and Chipata, where final clearance of cargo occurs.



SPS measures are frequently cited as a barrier for agricultural trade due to insufficient capacity to demonstrate that domestic SPS measures are equivalent to export country requirements or to assess the scientific justification of export country SPS requirements¹³. Currently, there is a lack of policy clarity, capacity and coordination on regional trade of agricultural commodities and food products in the corridor. Agricultural products are covered through a variety of mandates under a range of different Ministries including for Agriculture, Trade, and Health in Zambia, Malawi and Mozambique. There is in particular a patchwork of regulatory approaches, technical resources, competencies and institutional capacities to manage SPS and standards issues.

There is also an excessive use of mandatory standards, an effort at regulating quality rather than just safety, and attempts to conduct inspections on almost all regulated products at borders and despite national guarantees of phytosanitary measures that products comply with the plant health requirements in destination markets, certified goods are turned away.

The lack of infrastructure and equipment (testing and laboratories) also impacts the ability to monitor compliance. For instance, aflatoxin levels in groundnut which along with soybean and cotton were identified through Malawi's National Export Strategy (2012) as having potential for generating significantly increased export revenues would clearly benefit the improvements in the SPS system to be supported through the project. Finally, there is little coordination between the countries which leads to duplication of control on what are often quite perishable commodities. Reducing these barriers is expected to enhance market access for agricultural products.

12. **Developing the corridor will bring economic benefits in all three countries, including large potential impacts on poverty.** The corridor can play an important role in reducing the costs of being landlocked for Zambia and Malawi as well as improving the connectivity of the Nampula, Niassa, Tete, Zambezia and potentially other provinces in Mozambique. Reducing trade costs and improving connectivity along the corridor will facilitate agricultural and industrial development by improving access to global and regional markets for both imported inputs and exported outputs. For example, reducing the cost of fertilizers is an important step towards increased agricultural productivity. But farmers will only make investments in new or additional inputs if they can access markets to sell their increased output. Similarly, lower trade costs can stimulate investment in large scale industrial processing activities which require important inputs from the regional and global market and depend on selling output to large markets to achieve economies of scale. Improved market access in turn can reduce prices at the border, induce a reallocation of resources towards more efficient uses, and in the long run, improve productivity through technology spillovers and pro-competition effects.¹³

Sectoral Context

13. **While trade has contributed to economic growth in the region, it has not been inclusive, with limited impacts on job creation and poverty reduction.** The population living under USD 1.90 a day in Malawi is 70.9%

¹³ Winters, L. A., McCulloch, N., & McKay, A. (2004). Trade liberalization and poverty: the evidence so far. *Journal of economic literature*, 42(1), 72-115.



(2010), in Mozambique it is 62.9% (2014)¹⁴, and in Zambia it is 57.5% (2015).¹⁵ In Malawi, nearly 95% of the poor live in rural areas, relying primarily on farm activities with low returns, and are highly vulnerable to climate shocks and environmental degradation.¹⁶ In Mozambique, the weak impact of sustained strong economic growth on poverty reflects a pattern of growth driven by capital-intensive and import-dependent sectors, while low-skilled jobs in the agriculture sector continue to dominate employment. As a result, the poorest people, living mainly in rural areas of the central and northern provinces, have benefited less from economic growth than the overall population.¹⁷ In Zambia, extractives-based growth, uneven territorial development and weak governance all contribute to high levels of chronic poverty. This results in policies and public resource allocations that often entrench rather than alleviate distortions to address poverty and promote diversification.¹⁸

14. **Diversification of trade driven by deeper regional integration can drive more inclusive growth.** However, trade costs between the three countries and with the wider region remain very high. In many cases, trading with other continents is easier than trading amongst each other. Not only does this highlight the significant gaps in and logistics connectivity infrastructure, but it also reflects a neglect of policies and procedures both domestically and regionally, non-transparent and unpredictable trade regimes, the prevalence of non-tariff barriers, and regulatory barriers in services and for investment. Regional markets are important for Africa's non-traditional exports such as agro-processing, manufactures, and services, which tend to be more labor-intensive and important for sectors where the poor people are engaged.¹⁹

15. **Substantial economic potential also exists for regional trade, especially with regards to agriculture, light manufacturing, forestry, and tourism and for private investment in these sectors.** The agricultural sector dominates economic activity in both Mozambique and Malawi, with 24.8% of GDP for Mozambique, 28.1% of GDP for Malawi in 2016 while Zambia is actively diversifying away from copper with a focus on agribusiness (agriculture has a share of 6.5% of GDP).²⁰ The Zambian Development Agency undertook a market research survey and found that the Tete Province (in the Nacala region of Mozambique) offers export opportunities for both Malawi and Zambia in several sectors.²¹ For example, the lack of processing facilities in Tete necessitates the importation of processed and refined products from other provinces as well as Malawi and Zimbabwe while Tete has a large population of cattle and goats resulting in abundant hides that go to waste due to lack of leather processing plants. Meanwhile Zambia is relatively advanced in the area of leather production. This is an opportunity for companies engaged in the leather value chain to source hides from Tete province. Work from a

¹⁴ Following the release of Mozambique's new poverty assessment, this will be updated.

¹⁵ World Bank Development Indicators

¹⁶ World Bank (2018, forthcoming), "Malawi Systematic Country Diagnostic: Breaking the Cycle", Decision Review Draft 23 May 2018

¹⁷ Mozambique Integrated Feeder Road Development Project (P158231) PAD

¹⁸ World Bank (2018), "Zambia Systematic Country Diagnostic March 15, 2018", Report No. 124032-ZM

¹⁹ World Bank & WTO (2016). The role of trade in ending poverty. Washington, DC & Geneva.

²⁰ World Bank World Development Indicators

²¹ ZDA (2017) "Market Research Findings for Malawi, Angola and Mozambique", Zambia Development Agency



recent World Bank ASA on regional value chains in the SADC region has also found the following opportunities for the three Nacala countries, of which there is potential for value addition to boost more competitive exports:²²

- **Malawi** is becoming increasingly competitive (in the region) in exports of oil seed products. The country has seen large export gains which would indicate high potential for specialization and value chain linkages. In the soy value chain exports are increasing quickly with most trade already intra-regional. Malawi's specialization lies upstream and combined with other regional countries' segment specialization signifies potential for value chain development.
- **Mozambique** is particularly competitive in fish and sugar and may potentially be competitive in the next five years in fertilizer based on historical progression patterns. In the soya value chain, Mozambique is specialized in the midstream segment (soy-cake). This would indicate that regionally there is strong potential for value chain development. Moreover, analysis from the Mozambique *Let's Work* ASA (P155043) has identified cashews, pigeon peas and sesame as potential value chains to develop.
- **Zambia** is currently competitive (i.e. has an RCA>1) in many agro-processing value chains (maize, oil seeds, sugar and wildlife) and will also potentially be competitive in the next five years in cement and wildlife. In soy, Zambia penetrated the South African market in 2014 and continues to be a competitive producer to other regional countries.²³ Exports also take place out of destination countries for their regional operations.

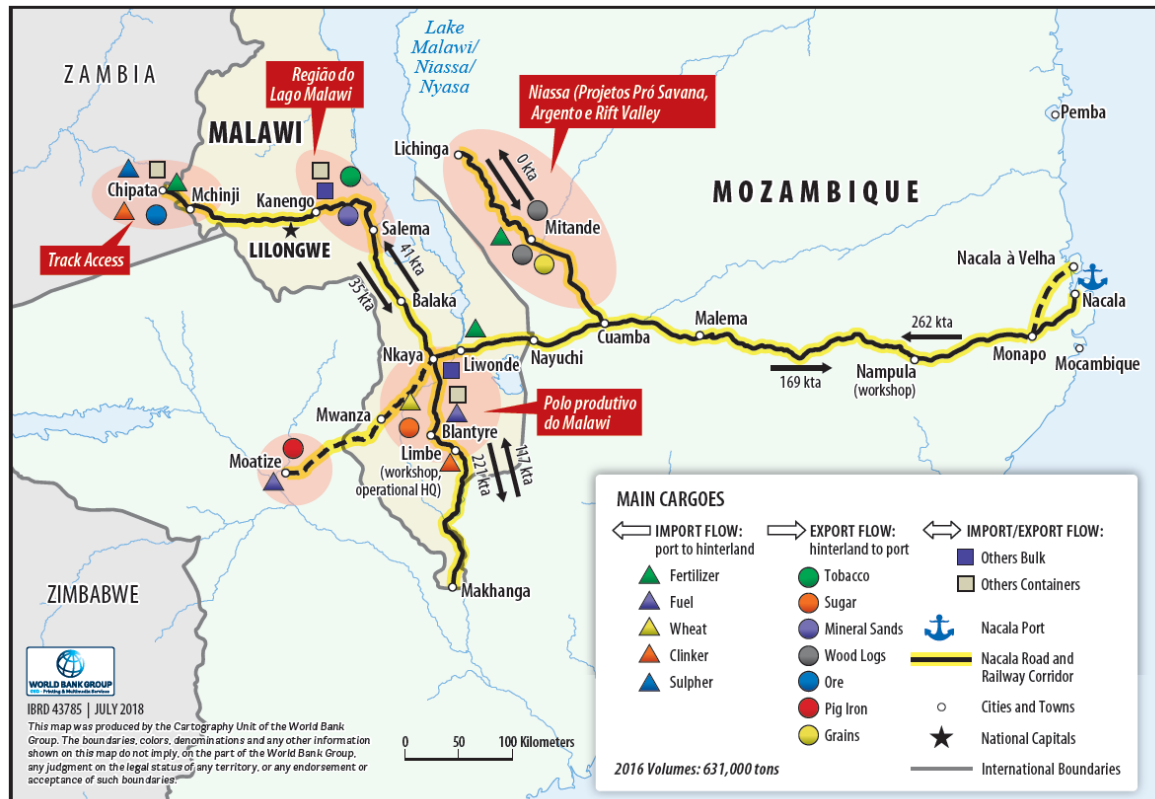
16. **With a combined population of over 34 million people living within the corridor's catchment area²⁴, developing the corridor can help harness potential sources of demand in the region** (Figure 3). On the export side, there is significant potential to integrate smallholder farmers with the regional and global markets and to develop and operationalize value chain strategies. Specifically, in Mozambique, potential demand for the Nacala corridor mainly spans agriculture (oilseeds, cashew nuts and fresh juice); forestry; free zones (Minheuene and Locone) as well as the Nacala Special Economic Zone; mining in Tete; and natural gas in Rovuma basin. In Malawi, demand mainly comes from agricultural products (tea, tobacco sugar, pulses and tree nuts). For Zambia, this would mainly be from cotton, tobacco, and potentially groundnuts and oilseeds. For Malawi, Mozambique and Zambia collectively, this could be cotton. Additionally, exporters of cotton, tobacco, groundnuts, macadamia nuts and maize from Malawi and Zambia could also benefit from this corridor. On the import side, producers in the region would benefit by having easier access to cheaper and higher-quality inputs – especially fuel and fertilizer. Moreover, continued productivity improvements in agriculture will require enhanced access to modern inputs, seeds, fertilizers, and pesticides which could be more easily imported along the corridor (see Annex 2 on Regional Value Chain potential).

Figure 3: Cargo Matrix of Export and Import Flows of Main Products along the Nacala Corridor

²² World Bank Group (2018 forthcoming). Advancing Industrialization and Trade in Southern Africa: Support to the Implementation of the SADC Industrialization Strategy. Project Completion Report.

²³ However, this faces many policy barriers that such a project could help address. For example, Zambia currently has a ban on soybean exports and oil processors in Malawi are calling for a similar ban there.

²⁴ Broadly, this area covers the regions in Mozambique, Malawi and Zambia served by the port of Nacala: the northern, eastern and central provinces in Zambia, the central and southern regions of Malawi and five provinces in northern Mozambique: Cabo Delgado, Nampula, Niassa, Tete, and Zambezia.



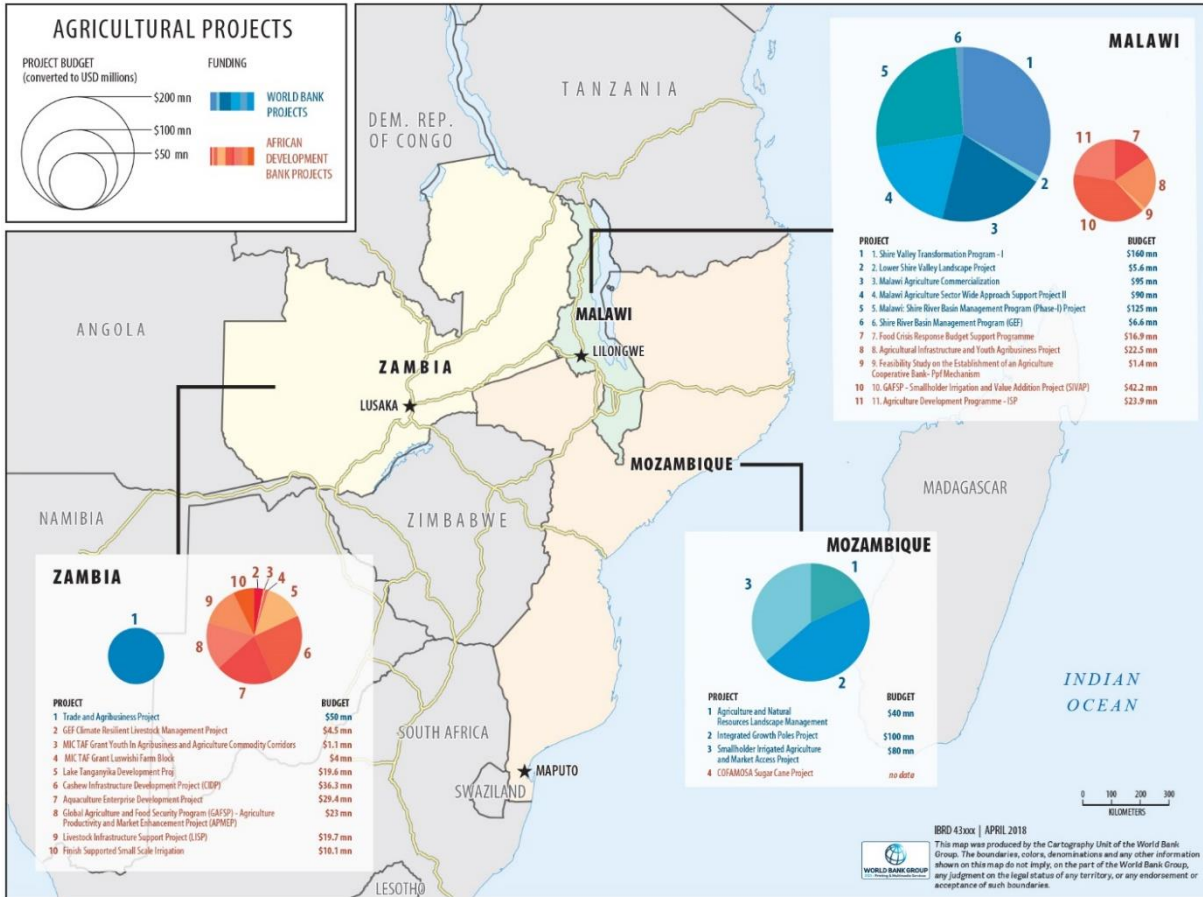
Source: World Bank Group

17. Large-scale and medium scale agricultural investments along the corridor, such as forestry investments and commercial farming investments in soybeans, maize, sunflower; banana, horticulture, animal husbandry and biofuel plantations, have great potential to boost exports for international trade. The population along the Nacala corridor is mostly engaged in subsistence and smallholder farming of food crops which include cassava, maize and beans. Horticulture and cash crop production has only recently been developing with cotton, cashew, sesame, macadamia, soya, tea, bananas, sugar, pigeon peas, groundnuts, tobacco and forestry products being produced commercially, often thanks to anchor firms (or “aggregator” models). There is a growing consensus that aggregator models offer a potential way to resolve the market and coordination failures faced by smallholders. These 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. At the moment, transport costs remain very high. Agricultural production and high transport costs are interdependent in that the improvement of current conditions in one would lead to an improvement in the other.²⁵ Among other donors, the World Bank and the AfDB are undertaking several agricultural and rural development projects that add up to \$800 million (Figure 4)

²⁵ USAID (2018), “Nacala Corridor and Port Performance Assessment”, February 2018 Draft Final Report

and are aimed at improving productivity and farmer incomes in the region. These span food processing, agribusiness, livestock, irrigation and market access²⁶.

Figure 4: Agricultural investments by the WBG and the AfDB



Source: World Bank

18. **Development of the Nacala Corridor will require stronger private sector participation in the identification of reforms to boost ownership, assist in monitoring progress, and ensure that priority reforms are being tackled.** Some mechanisms for private sector dialogue exist in each of the three countries. For instance, the WTO-TFA has catalyzed consultations on trade facilitation.²⁷ Mechanisms of dialogue that through chambers of commerce that are sector specific are also held albeit are ad hoc and issues based. Revenue authorities have Customs to Business

²⁶ For example, the Mozambique Agriculture Aggregator Pilot (MAAP) - funded under and part of the Let's Work Partnership – is investigating the way in which commercial firms or "aggregators" in farm based value chains in Mozambique work with out-growers to increase the productivity and returns of both parties, and through this, to increase jobs and improve earnings. Let's Work is administered by the World Bank and is supported by a range of development partners and private sector actors.

²⁷ In accordance with articles 2.1 (opportunity to comment and information before entry into force) and 2.2 (consultations) of the Trade Facilitation Agreement, the Nacala countries have been making efforts to engage with the private sector at both national and regional levels.



forums in Malawi and Zambia to discuss tax and customs issues. At the corridor level there is issue specific feedback that informs bilateral dialogue i.e. fees and charges on Malawian transporters levied in Mozambique. However, there is no formal mechanism that builds in regular private sector feedback, dialogue and monitoring to drive corridor reform. The APEI pillar on peer-to-peer learning has tried to catalyze private sector dialogue at the regional level but the lack of financing has been challenging. A stronger role is required by the private sector in Malawi, Mozambique and Zambia to identify shared trade challenges and provide opportunities for partnership on intensifying trade reforms on the Nacala Corridor.

Relationship to CPF

19. **The proposed project responds to and complements the SCD constraints and objectives** underlined in the respective Country Partnership Frameworks (CPF) of each of the three Nacala Corridor countries (Malawi and Zambia CPFs are in progress). All three countries have recognized regional integration as an avenue for undertaking trade-related reforms, as detailed below:

Mozambique

20. **In the case of Mozambique, the CPF²⁸ aims to increase regional integration and FDI by supporting reforms around trade.** This includes support to the Accelerated Program for Economic Integration (APEI). It also emphasizes in Objective 2: increasing agricultural growth, the promotion of agribusiness development of large-, medium-, and small-scale commercial agriculture, agro-processing, and forestry value chains. The SCD also identifies the need to support better road infrastructure and improving linkages between smallholders and agribusiness companies and general access to both national and regional markets for agriculture and forestry products. Furthermore, the CPF seeks to develop a stronger business environment through a geographically focused, integrated strategy which addresses the business environment, trade facilitation, and finance.

21. **Additionally, the Mozambique National Development Strategy (2015-2035) highlights under pillar 2 (development of infrastructure) and pillar 4 (institutional coordination), the need for national infrastructural improvement.** The Cabinet approved the Project for Nacala Corridor Economic Development Strategies (PEDEC) in November 2016. This Resolution mandated the Minister who supervises of industry and commerce to coordinate project implementation.²⁹ Mozambique's "National AGOA Utilization Strategy 2018-2035" also highlights that the Nacala port suffers from inefficient port operations and lack of modern technology, which leads to low productivity and congestion (both entering the port due to the single entrance and inside the port

²⁸ World Bank (2016), "Mozambique Systematic Country Diagnostic, June 2016" Report No. 103507-MZ

²⁹ JICA (2018), "The Project for Supporting the Promotion of Nacala Corridor Development, Final Report", March 2018, Investment and Export Promotion Agency (APIEX), Ministry of Industry and Commerce, Republic of Mozambique



due to storage limitations).³⁰ Furthermore, recommendation 2 of the Mozambique DTIS 2015 notes that a more efficient Nacala corridor, especially one in which regulations and the regional bond scheme are reformed, could lead to higher shipping volumes, lower costs, and expanded transit trade that offers significant opportunities for economically weaker regions in the north.³¹

Malawi

22. **Malawi's forthcoming CPF (in progress) lays emphasis on the need to address infrastructure deficits to support private sector development and service delivery through improving the transport system to lower the costs of domestic and international trade (para 144).** One of the main priorities of the SCD is to create a business enabling environment to support structural transformation, increased productivity, and regional integration. Regional integration provides an opportunity to support economic diversification and more inclusive growth (para 152). It also stresses that an underdeveloped logistics services sector, poorly performing trade corridors, and poor trade facilitation also constrain regional integration (para 132). Increasing regional integration will call for improving the efficiency of trade procedures, increasing coordination across numerous agencies, and reducing border inspections (para 246).³² It also highlights the need to address supply-side constraints under the framework of regional integration in order to lessen the handicap imposed by its inland location. In addition, Malawi's National Industrial Policy 2016 sets increased utilization of the Nacala Railway to transport imports and exports as a policy priority. It also stresses the critical role of development of the Nacala Corridor and of Special Economic Zones (SEZs).³³ Additionally, Malawi's National Industrial Policy 2016 sets the utilization of the Nacala Railway to transport imports and exports as a policy priority. It also stresses the critical development of the Nacala Corridor and the development of Special Economic Zones (SEZs).³⁴

Zambia

23. **In Zambia's forthcoming Country Partnership Strategy FY18-22 (in progress),** one of the objectives is to address infrastructure gaps and improve the quality of the business environment as Zambia's weak supporting environment in rural areas and small cities is contributing to uneven territorial development. A top priority is to develop growth of the agri-food system as Zambia has significant agricultural production and marketing potential. Success hinges on better policies, enhanced market access and the availability of technologies that facilitate higher yields. Moreover, direct reference is made to the benefits of developing the Nacala Corridor as it has the potential to help reduce trade costs for goods (and potentially some services), increase trade and investment flows and therefore support diversification if adequate attention is paid not only to the hard transport assets, but to the connecting core trade infrastructure that would include border posts, multimodal/intermodal facilities,

³⁰ Mozambique National AGOA Utilization Strategy 2018-2035, Ministry of Industry and Commerce.

³¹ UNCTAD (2015), "Mozambique Revised Diagnostic Trade Integration Study" August 2015

³² World Bank (2018, forthcoming), "Malawi Systematic Country Diagnostic: Breaking the Cycle", Decision Review Draft 23 May 2018

³³ Malawi National Industrial Policy, April 2016, Ministry of Industry, Trade and Tourism

³⁴ Malawi National Industrial Policy, April 2016, Ministry of Industry, Trade and Tourism



agro-logistics agglomeration facilities and ICT (mainly systems and their interconnectivity) and more generally, trade facilitation. Additionally, the Zambia SCD also puts emphasis on the need to develop second cities and outlying areas as well as improve regional connectivity and this project's objectives are fit with that.

24. **Zambia's National Development Plan (2017-2021) also recognizes the potential of the Nacala Corridor.** It also notes that the government will commence construction of the Chipata-Petauke-Serenje railway line that will complete the link from the port of Nacala to the existing railway lines in Zambia. Further, the Government will promote private investments to construct other rail spurs, including intra-city transit systems.³⁵

C. Proposed Development Objective(s)

25. **The development objective of this project is to reduce transport, trade and logistics costs along the Nacala Corridor.** Trade costs capture both the direct financial as well non-financial costs (including delays and policy uncertainty) that users incur in moving tradable goods along the corridor. Reductions in these costs are critical to improve markets access for producers and consumers in the three corridor countries. This includes costs of transportation, logistics (storage, packaging, freight forwarding and supply chain management), border taxes and fees, and the costs of satisfying regulatory requirements including standards and phytosanitary requirements. The project would contribute to improvements in trade connectivity infrastructure, trade facilitation and logistics and the operational capacity and efficiency of the corridor.

Key Results (From PCN)

26. There are a number of indicators for the project which the team will refine during project preparation. They include:

- Cost to import and export (disaggregated by mode, cargo type and key destinations)
- Average freight transport time on the Nacala corridor (disaggregated by mode, cargo type and key destinations)
- Amount of throughput along the corridor (disaggregated by mode, cargo type and key destinations)
- Private investment in key sectors (transport and logistics services including agro-logistics)
- Range and quality of trade logistics services
- Utilization of agglomeration centers (disaggregated by commodity, types of user)

D. Concept Description

³⁵ Zambia National Development Plan- 7NDP (2017-2021) Volume 1, Ministry of National Development Planning



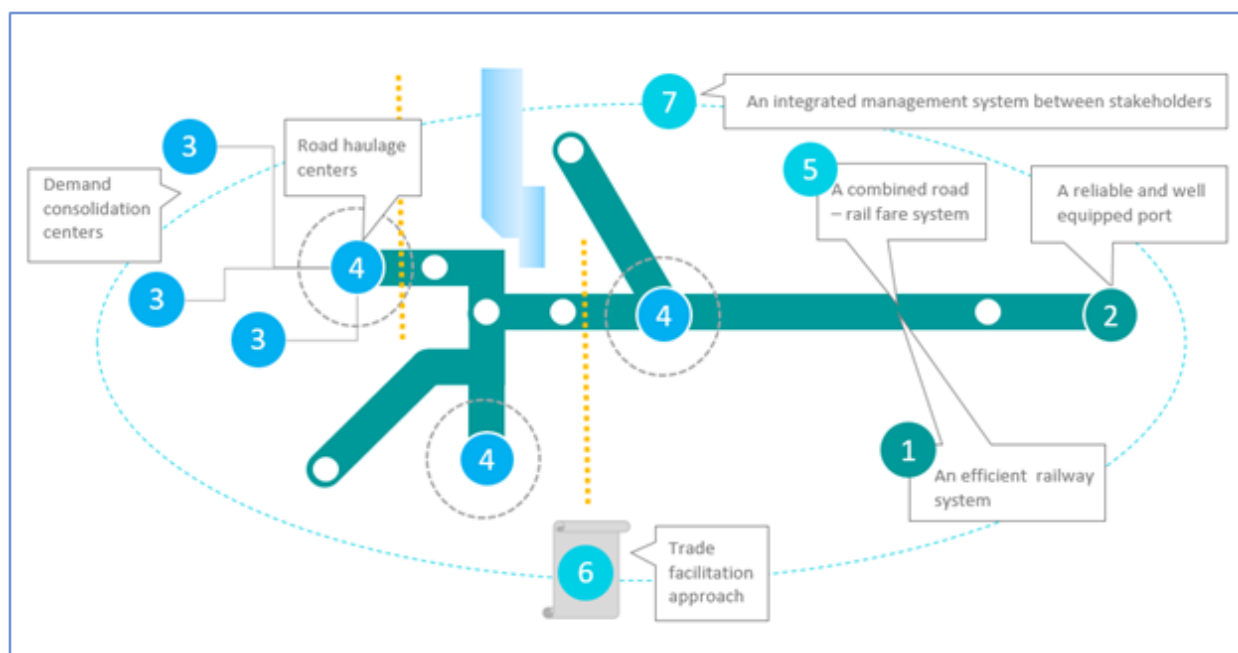
27. The proposed project will be financed by Investment Project Financing (IPF) with credits to Malawi and Zambia totaling \$108 million and grants to Mozambique totaling \$75 million. Grants to regional institutions amounting to \$5 million will be used to support regional coordination. The IPF is suggested as the most appropriate and realistic instrument, as all three countries need significant investments into physical infrastructure to improve border and corridor infrastructure, to support to strengthen border and corridor management and capacities for coordination in corridor development. Additionally, the team will explore the possibility of introducing Results-Based Financing (RBF) with Disbursement Linked Indicators (DLIs) for essential policy change. Project Preparatory Advances (PPAs) will be pursued, as needed, to finance necessary feasibility studies, design work and safeguards assessments in advance of planned infrastructure interventions. The proposed IPF will not only provide the needed financing, but it will also be a tool for sustained knowledge transfer and technical assistance. Other modalities, including an MPA and SOP, were reviewed and discussed with GPs and CMUs but will be assessed further during project preparation.

28. The proposed project is structured around 3 main components that reflect the lessons from previous Bank corridor projects.³⁶ Corridor improvements projects typically require the following main types of interventions:

- infrastructure (which typically accounts for most of the funding with the focus typically on the rehabilitation and upgrading of transport and logistics infrastructure). In the case of the Nacala Corridor, the infrastructure focus is on demand consolidation centers, with selected support to dry ports (road haulage centers), Nacala port and selected road infrastructure (Figure 5).
- border facilities and inland cargo handling facilities,
- transit and trade facilitation through removal of trade barriers,
- streamlining of trade procedures and improving the performance of agencies responsible for border management,
- institutional strengthening for improved corridor management and effective regional coordination.

Figure 5: Illustration of the components for an efficient Nacala Corridor

³⁶ Kunaka, Charles and Robin Carruthers (2014) *Trade and Transport Corridor Management Toolkit*, World Bank, Washington



Source: World Bank³⁶

Component 1: Develop Market Access Infrastructure (\$152 million)

29. **The objective of this component is to improve market access infrastructure by:** upgrading agro-logistics market access trade infrastructure in the Nacala corridor countries; reducing the cost and time to trade through the introduction of technological tools; filling selected gaps in core transport (access roads, bypasses) and coordination (border posts) infrastructure. These infrastructural gaps have been highlighted in the SCDs of the three countries.

Sub-component 1.1: Develop Demand Consolidation centers (\$75 million)

30. **The project will support the Nacala Corridor countries to develop a network of demand consolidation centers or agro-logistics centers and aggregator models around which distribution and marketing of agricultural inputs and outputs, respectively, can be organized** (see Annex 3 for short- and long-term benefits and opportunities provided by agro-logistic centers). Aggregator models exist in many variants: some are based on smallholders contracted as suppliers to a processing and marketing business; others are producer associations working with members who are provided inputs and market access; anchor buyers can provide a market for smallholder products; and in other cases, intermediaries including non-government organizations and donors take the lead in creating linkages between farmers and purchasers. Each modality aims to facilitate the production of cash crops or livestock systems by providing a market, and in most cases by advising on production technology and supplying production inputs. Some aggregation arrangements date from the colonial economy, e.g., for cotton, which is the crop today with the largest number of growers linked to aggregators in Mozambique. After cotton, the most extensive aggregator/out-grower system today is for tobacco, which links 120,000 growers to the Mozambique Leaf Tobacco processing plant in Tete. Other commodities that have limited side selling and



thus deeper aggregator/out-grower systems include broilers, sugar, chilies, poultry, and some high-value vegetables and fruit. Crops grown by smallholders that have looser marketing controls include soybean, sesame, maize, cassava and vegetables like tomatoes and green beans, and fruits like mangoes and banana.

31. **These agro-logistics centers and aggregators will aim to leverage private investment with the use of instruments such as matching grants, lines of credit and guarantees³⁷ to develop demand consolidation centers with corresponding public investments as needed and complement the spatial organization of the dry ports.** This will enable access to market as agricultural collection points, facilitate value addition, while also serving as points of distribution and purchase of inputs. Reducing rural transport prices would require the development of appropriate logistics solutions based also on developing a network of logistics centers.³⁸ The platforms can be hierarchical, with large nodes serving different regions of the country and serving as supply or receiving centers for smaller markets³⁹. In Malawi, a network of carefully planned rural logistics platforms should be developed around which the distribution and marketing of agricultural inputs and outputs can be organized with a need to provide logistics rather than purely transport solutions to the shipment requirements of the agriculture sector.⁴⁰ The model will depend on the type of products and the volume, farmer density, farm productivity, and the current structure of commercial market arrangements to aggregate output and distribute inputs and leverage private investment by utilizing to the extent possible an MFD approach⁴¹. For instance, proposals could be led by private sector (applications led by agribusiness investment in partnership with cooperatives). The project will build on lessons learned from catalytic Fund in Mozambique and the productive alliances program in Zambia.

³⁷ The applicability of these instruments will be explored during preparation.

³⁸ Knoll and Kunaka, 2016

³⁹ In selected cases, particularly at borders (i.e. Mwami-Mchinji), the agro-logistics collection points may also function as a border market for small traders who frequently buy product to trade using the Nacala and Beira corridors.

⁴⁰ CEM, Malawi, 2018

⁴¹ The criteria for will be developed during project preparation and aim to maximize linkages with rural producers and catalyze private investment. The criteria could cover location (proximity to a minimum density of farmers and access roads); amount of potential gain in aggregation (post-harvest loss, area of cultivation and its potential); current market structure (private or public facilities and their function and role); and access to inputs among others.

Figure 6: Illustration of value chain addition for agricultural products

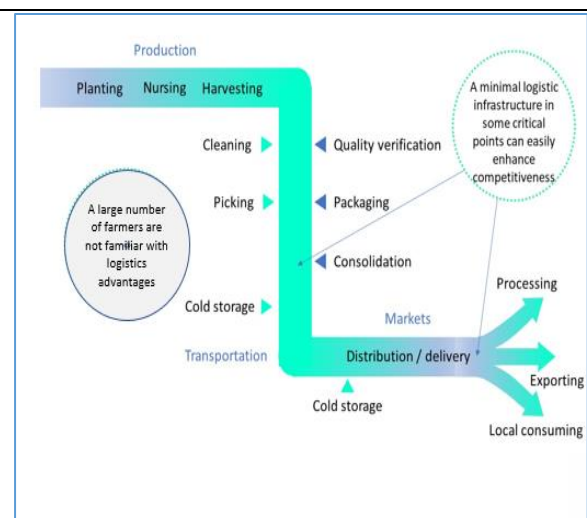
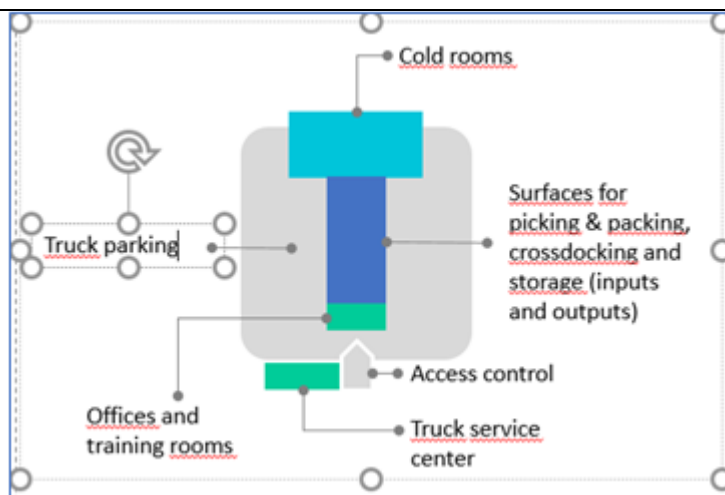


Figure 7: Illustrative layout of an agro-logistics center



Source: WBG ongoing analysis

32. The exports of agricultural products through the Corridor offer scope for expansion: the export-oriented production structure is developing and there is very little value addition. There are not sufficient consolidation centers near production points and lack of adequate storage facilities combined with poor quality and maintenance of rural roads leads to post-harvest losses. As such, almost all the exportation that is currently carried out is conveyed through cargo aggregators in Zambia and Malawi. However, very few firms have knowledge of foreign markets and this inhibits the development of additional processing and value added. Value addition is important for all the corridor countries. The product focus of Malawi's 2015 National Industrial Policy⁴² is organized around the clusters of the National Export Strategy and together lay out a vision for more complex agro-processing in Malawi with significantly increased value-addition and a focus primarily on export markets. Currently, the agro-processing sector is small but is a significant part of overall manufacturing⁴³ and according to the Malawi Grain Traders and Processors Association, only around 10 percent of national maize production makes it to the market. Value addition is dependent on developing access to market infrastructure. Rural logistics platforms could facilitate value addition to agricultural products and help open other sources of income for Malawi's predominantly rural population. In Malawi, most of agricultural produce leaves both the farm and the

⁴² Malawi, MOIT, 2015

⁴³ Malawi National Survey



country unprocessed, thus generating little value and employment within the country and increased value creation would provide additional sources of income and employment for the rural population.⁴⁴

33. Improving dry bulk transport and logistics for fertilizers and grains will translate into significant poverty reduction through an increase in smallholder farmers' agricultural productivity and a reduction in food insecurity.

The degree of agro-processing is also very limited. Continued productivity improvements in agriculture will require enhanced access to modern inputs, seeds, fertilizers, and pesticides, often through imports. Currently, about 40 percent of Malawi's and Eastern Province, Zambia's fertilizer import is already using the railway. However, the distribution system away from the major commercial centers is still nascent. Current pricing trends for fertilizer distribution point to rates being lowest around major distribution nodes. This suggests increasing returns to scale, which is a common characteristic of logistics systems. With smallholders representing 80-85% of the farmers in Malawi and Mozambique, the Nacala Corridor could support a higher bulk of imports and thus a reduction in the costs of importing fuels and fertilizers if the distribution infrastructure was strengthened. Value chains in the region would benefit by having easier access to cheaper/higher quality inputs; and by having more markets available to sell their goods to. As a result, increased investment should follow to the region, and producers can increase production, as well as move up the value chains, leading to higher incomes.⁴⁵

34. The agro-logistics models that the project will seek to develop and finance will be demand driven i.e. consider the potential of freight demand and the different types of customers present in each section of the corridor.

Furthermore, placement and design of agro logistics centers will be based on an assessment of logistics constraints, competitive potential, and potential to leverage private sector investments. The team will also assess the legal and regulatory constraints to product bulking and trade and address those through complementary policy reform and institutional development components. In Chipata, the capital of Zambia's Eastern Province, there is potential for the developing a hub for agricultural products that may be attractive to companies operating there⁴⁵ that already have an extensive network of collection points and associated farmers. Thus, in Chipata, (see Figure 8) the import of fertilizers and fuel by rail could be quickly compensated by exporting products such as cotton, groundnuts, peanut butter, soybeans, maize, honey and other food products. This could represent an export volume equivalent to cargo from one train. The freight flows situation in Malawi is quite similar, although with a significantly greater use of the railway as preferential transport mode for importing fertilizers, clinker and wheat grain to the Lilongwe and Blantyre nodes. The exports from Malawi through the Nacala corridor are concentrated in sugar and some containerized tobacco, cotton, and grains. The current volumes are far from their mobilization potential and barely represent 10% of the total rail flow. Currently, most of the trains bound for Nacala are composed of wagons and empty containers. In Mozambique, the use of the railroad is even smaller and is limited to the wood coming from Lichinga, and to the small exports of cotton from Cuamba and the import

⁴⁴ Malawi, CEM, 2018

⁴⁵ USAID 2016

of fuel from the port of Nacala to Cuamba and Moatize though exports from Tete province through the Nacala corridor have increased since the rehabilitation of the railway was completed in 2016

Figure 8: Example of tentative locations of future agro centers and collection routes around Chipata



Source: WBG ongoing (based on current collection and inputs distribution points)

Sub-component 1.2: Enhance the use of ICT through the corridor (\$20 million)

35. **The efficient operation of the corridor requires a set of technological support platforms that facilitate the service, improve communication between the stakeholders and reduce costs.** Preliminarily, the corridor is expected to have, at least, the following solutions:

- Port Community System (PCS) at Nacala Port
- Freight Stock Exchange for all railway dry ports
- Market access platform for small producers through a centralized trade information center at Nacala Port
- National e-phyto implementation and a regional SPS platform for sharing of detailed SPS information with exporters and between SPS officials
- Cargo tracking system
- Single Window Systems in all countries
- An integrated Rail Community System (RCS) that is connected to the PCS and customs systems

36. **Integrating transit across borders through the harmonization of country-specific procedures and documentation, would result in a seamless flow of intra-Nacala trade traffic.** Support will be provided to the three customs authorities to develop/strengthen their national cargo tracking systems and work together to create a



regional transit tracking system through which they can share data and improve visibility. Additionally, the lack of a rail cargo transit system increases time by up to 12 hours and support would be provided on developing electronic data interchange between the railways and the Customs authorities to enable pre-arrival processing. Large gains are possible with cross border cooperation and the creation of a regional transit framework. Tracking helps to bridge the information gap between trading partners and the regulatory authorities. This ensures efficient cargo security screening, cargo declaration, and compliance across multiple regulatory requirements. The tracking solutions not only help government agencies enforce cargo handling regulations but also prevent theft and dumping of goods in transit.

37. **To improve logistics coordination and reduce delays in border clearance, there is a need to re-engineer and automate border processes such that administrative and legal responsibilities are streamlined amongst the Nacala countries.** These can be achieved through implementing National Single Windows (NSWs) and regional SPS platforms for agricultural trade. Malawi is currently implementing an NSW through the support of the WBG's SSATP II project, while Mozambique has a nascent national single window system that is connected to a few agencies. Zambia has also begun implementing its NSW though the project has not been fully financed. NSW solutions improve transparency and integrity, lower trade transaction costs, improve inter agency coordination and reduce the time taken to clear goods. They allow traders to submit most if not all import, export, and transit information required by regulatory agencies electronically and ideally through a single electronic gateway, , instead of submitting and processing the same information numerous times to different government entities. NSW implementation typically requires a preparation and design component and an automation component and the three countries are in different stages of each with different governance and financing mechanisms. The project will seek to support design and implementation in Zambia and potentially Mozambique and interconnectivity between all three proposed systems as needed. Additionally, given that most export is agriculture-based and to facilitate regional trade, both a national e-phyto system (being designed and piloted by the WTO and IPPC) and a regional SPS platform for sharing of detailed SPS information with exporters and between SPS officials will also be supported.

38. **Support would be provided to Malawi, Mozambique and Zambia to share data electronically to avoid duplication of entry at different border posts in the region, facilitate pre-arrival declaration and data processing as well as sending advance notices for document preparation.** As highlighted in the most recent Malawi DTIS,⁴⁶ error rates in such cases can be minimized by using electronic systems and allowing data sharing between systems and agencies. Data sharing can be extended also to agencies, especially customs of two neighboring countries. Ksoll and Kunaka (2016) highlight that in the case of 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. Moreover, data sharing would allow the authorities to address the common challenge of under-

⁴⁶ World Bank (2014), Malawi Diagnostic Trade and Integration Study (DTIS)



declaration or misdeclaration of origin etc. of goods, among other benefits. Data sharing would require the need for both private and public stakeholders to have modern ICT systems that connect to each other at the port (PCS), at the Railways (RCS), at the Dry Ports (Freight Stock Exchange) at Customs (Customs Processing) and for regulatory processes (Single windows).

Sub-component 1.3: Modernize trade facilitation infrastructure (\$57 million)

39. **There is need to improve trade facilitation infrastructure for border agencies at border posts and other intervention points across the corridor** (see Annex 4 for commitments on the Trade Facilitation Agreement). Facilities at borders and elsewhere are often in poor condition, are often constrained with cramped office spaces, overcrowded public areas and a shortage of equipment. In addition, frequent electrical power interruptions disrupt all border related processes. To prevent the multiple inspections and duplication of paperwork accompanied with exiting one country and entering the other, one stop border posts (OSBPs) that seek to combine the border-clearance activities of the two countries in a single location are also being developed.⁴⁷ OSBPs have been planned between Malawi and Zambia at Mchinji/Mwami and between Malawi and Mozambique at Chiponde/Mandimba (AfDB on the Mozambique side), Mwanza-Zobue (Malawi side), Dedza-Calomue (Malawi side), and, Nayuchi-Entre Lagos (Malawi side). Further the Mozambique Revenue Authority is keen to establish an OSBP at Metangula-Malawi port. Support would be provided to the Nacala Corridor countries to help prioritize their investments in selected OSBPs and prioritize among this list of potential and ongoing OSBPs, as well as to ensure that the key borders have appropriate facilities (layout, parking, inspection bays, administrative buildings etc.), and are adequately staffed (keeping in minds shifts and operating hours) where these are not already being financed. This component is expected to reduce time and cost by improving throughput enabled by modern physical facilities designed keeping in mind modern border procedures. Support would also be provided to ensure their design should cater specifically for the needs of small scale traders, especially women given the evidence that this category of traders' accounts for significant trade flows with neighboring countries (Ksoll and Kunaka, 2016).

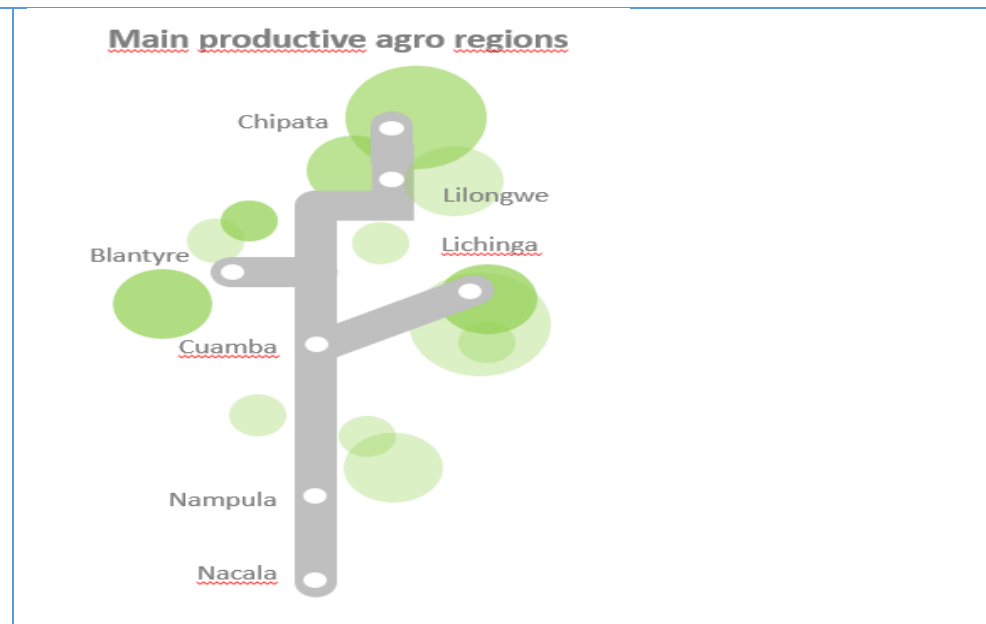
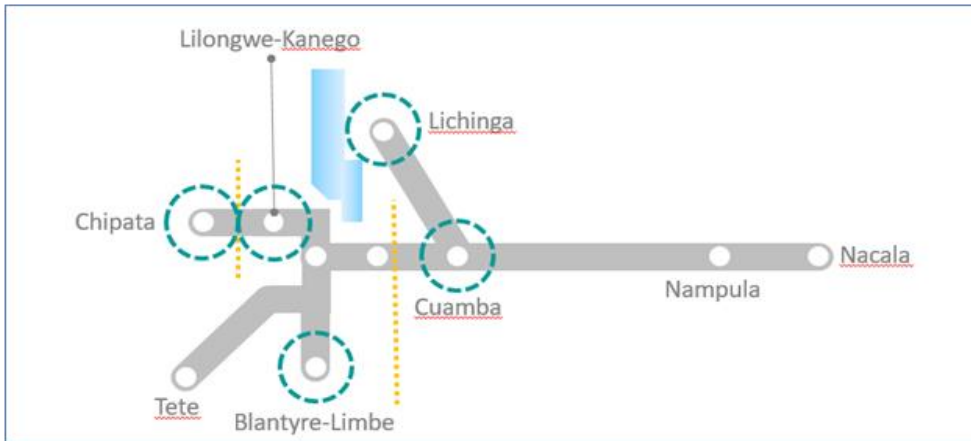
40. **There is also the need to support the development and/or rehabilitation of core trade infrastructure for inter-modal movement of goods in the three countries to leverage private investment.** The port of Nacala is likely to see investment from JICA, while multimodal dry ports (see Figure 9) with private investment are planned in Kanengo (Lilongwe), Limbe (Blantyre) and Chipata (Zambia) – which are also main agro-producing regions. However, the access road to the port of Nacala is congested and the rail yard and proposed dry port in Chipata are unpaved and deficient. The lack of a bypass around Chipata and Limbe is also a potential cause of concern. Further, while most of the primary road network on the Nacala Corridor is either completed or in the process of

⁴⁷ Ibid.



being completed a 50-km gap remains on the Maniamba Cuamba road in Mozambique. Access roads may also be required to connect the agro-logistics centers proposed earlier.

Figure 9: Planned Dry Ports/Haulage Centers



Source: WBG ongoing analysis.

[Component 2: Improve trade and regulatory policy and capacity \(\\$21 million\)](#)

[Sub-component 2.1: Support the development of regulatory and institutional capacity \(\\$13 million\)](#)

41. This component will provide regional and national policy makers and institutions with the information and knowledge base required to improve the Nacala Corridor. This will be achieved by enabling multi-sectoral dialogue among regional and national authorities and key stakeholders, developing adequate policy framework and implementation tools, and strengthening trade related information. The project would support project



implementation units and provide additional technical support for policy coordination, and monitoring and evaluation of the project. It will support the development of various regulatory acts related to trade, logistics, transport (land, sea and rail) and regional integration in Malawi, Mozambique and Zambia, including setting up or strengthening the capacity of regulators on standards and SPS issues. The project will also seek to support the development of a corridor measurement and monitoring tool. This corridor performance tool will seek to include selected KPIs (among other surveys and tools) to enable policymakers and private sector users to identify and tackle bottlenecks and constraints. The project would also support private sector – policy maker dialogue to identify policy reform priorities and ensure that solutions proposed across the corridor have adequate feedback from the private sector. Citizen engagement will also be supported through this component.

42. **Specifically, to improve regional trade of agriculture commodities and food products, there is a need to develop a modern regulatory approach and build institutional capacity to implement that approach in SPS and standards management.** Streamlined, and harmonized procedures and risk based inspections would greatly reduce the time to trade for key perishable exports and would also increase efficiency in capturing genuine SPS hazards. Standards bodies in Malawi and Zambia (IFC's Zambia Investment Climate Project II) have recently embarked on reforming their regulatory approaches and procedures as they seek to modernize operations. In Zambia, the Zambia Compulsory Standards Agency has recently been created to monitor technical regulations while Malawi plans to embark on a similar exercise. The project will support a review of trade requirements (SPS measures, quality standards, other documentary requirements) for a few strategic commodities. This will identify bottlenecks that need to be addressed, including need for pest risk analysis, and dialogue on standards harmonization. The project will support regional dialogue, scientific research, and capacity improvements needed to implement pest and disease risk mitigations for priority commodities. The project will seek to enable common regional approaches for SPS and other standards related issues. The project would fund work programs of national plant protection and veterinary officers in each country leading to the establishment of regional pest and disease lists and agreement on science-based mitigations to manage these risks in regional trade. This sub component will also include: (i) support for regional dialogue aimed at clarifying mandatory and voluntary requirements in the standards documents; (ii) undertake an assessment of the standards affecting agricultural trade between the three countries; and (iii) where needed the project will also seek to support the upgrading of selected laboratories to international accreditation standards to ensure that the three countries have confidence in their systems and procedures including testing facilities and also need to upgrade capacity to monitor pests in the field.

Sub-component 2.2: Reduce non-tariff and regulatory barriers and promote market competition (\$8 million)

43. **Significant barriers to trade remain in place across the corridor, including at the border posts.** This component will support the current efforts underway in the reduction of NTBs as well as other regulatory barriers to trade and investment under APEI, SADC and COMESA. For example, under the APEI initiative, the countries



undertook an NTB identification exercise with the aim to work towards eliminating those NTBs that were identified. Other analytical work undertaken during Diagnostic Trade Integration Studies for Malawi, Mozambique and Zambia have also aided our understanding of the different barriers to trade that exist in these countries. However, progress towards eliminating NTBs remains slow. The main barriers identified include measures that lack regulatory predictability and transparency, harmonization and coordination for proper enforcement of the removal of NTBs within the region. Table 2 highlights the major country-specific NTBs already identified that inhibit regional trade. These NTBs span a number of areas including registration and licensing, standards, prohibitions and inspections and upon discussions with the countries a prioritized list would be tackled under the operation.

Table 2: Main country-specific NTBs identified under the APEI initiative

NTB	Malawi	Mozambique	Zambia
Registration and licensing	A trade permit and license are required to import/export agricultural products and this non-computerized processing must be carried out at the capital	Registration and approval for import/export operations.	Export license for certain goods (maize, minerals)
Standards	No recognition of certificates/tests from bodies accredited overseas. Lack of international accreditation of national standards facilities. Lack of an independent standards accreditation body	Sanitary license for certain plant and animal products. Prior approval for GMOs. Product registration for medicines/pesticides. Authorization for precious metals. Labelling requirements for imports.	No accreditation system in the country. Permit and SPS certificate for agricultural imports. TBT license for autos and sugar (vitamin A) imports. Certificates for agricultural and animal exports (some not necessary for the buyer)
Prohibitions	Export tax on wood. Export prohibitions on certain goods (maize, timber)	Export taxes for certain products (cashew nuts)	Export taxes on timber/minerals
Fees and Charges	Unharmonized fees and charges at border posts	Unharmonized fees and charges at border posts	Unharmonized fees and charges at border posts
Inspection	Frequent incidence of road checkpoints	PSI for certain products	Frequent incidence of road checkpoints

44. There is also a need to ensure market access for investors to provide transport and logistics services along the corridor as well as a strong competition framework for services operators. Barriers to countries' regulations in services trade in sectors such as transport, logistics and ICT, its competition framework, and implementation of existing regulations, have already been identified through work done by the WBG in all the Nacala corridor countries. This includes gaps between commitments made at the WTO / regional level and national policies, as well as other regulatory issues in key services sectors, both towards foreign and domestic services suppliers. A recent study on competition in the road freight sector in Malawi, Tanzania and Zambia found that implementation of pro-competitive regulation affected both the price and quality of service. The Zambian road freight industry



for instance has witnessed an improvement in transport quality and a decline in prices as a result of regulatory changes which led to increased competition between cross-border operators in Zambia, Zimbabwe and South Africa. However, there is a need for a spectrum of competition tools in these countries from advocacy to remove remaining regulatory restrictions (e.g. restrictions on cabotage in Malawi), to ensuring competitive neutrality in sectors where SOEs are present to potential enforcement of the law (e.g. in the case of price setting by associations – in the case that advocacy to sensitize associations to their obligations under the competition law does not have an impact). Based on country consultations during preparation, a prioritized set of tools would be supported through the project while the political economy dynamics constraining reforms also need to be assessed. Finally, an assessment of countries' regulations in barriers to services trade and implementation of existing regulations, will be completed and discussed during preparation stage to identify areas of support.

[Component 3: Improve coordination for trade reform \(\\$15 million\)](#)

[Support regional coordination and performance monitoring in the Nacala Corridor \(\\$15 million\)](#)

45. **To facilitate and sustain dialogue between the three countries, the project will support selected institutional anchors for sustainability and coordination of the operation.** Support will be provided to the Tripartite Joint Technical Committee of the Nacala Development Corridor as it seeks to strengthen the cooperation across the corridor. It recently met in April 2018 after a hiatus of 15 years. It is also envisaged that support will be provided through the APEI framework possibly through the Regional Multidisciplinary Center for Excellence (RMCE) whose eligibility for receiving IDA grants is being evaluated (see Section 3.4). The potential coordinating and convening role of SADC will also be explored.

46. **Efforts will also be made to sustain a continuous policy dialogue amongst the Nacala countries as well as engage with the private sector in a robust manner.** The project will build on the existing private-public dialogue framework under the APEI by intensifying engagements to ensure that policy reforms yield results. Throughout the project, emphasis will be given to accelerated implementation of trade reforms through accountability to peers, peer-to-peer knowledge sharing and strong engagement with the private sector. The accountability to peers encourages countries to maintain the reform momentum and to implement the reform plan, and the peer-to-peer knowledge sharing improves the design of the reforms as well as facilitates execution. To address the issue of low private sector engagement, regular public-private sector consultations will be held to ensure their voice is heard. Stronger private sector participation in the identification of reforms boosts ownership, assists in monitoring progress, and ensures that meaningful reforms are being tackled. In previous consultations with private sector,⁴⁹¹ several issues, including the frequent incidence of NTBs and gaps in agro-logistics, have been highlighted. This project seeks to address some of the issues raised under its proposed components



SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project activities are located in the Nacala Corridor, a trading route whose point of entry and exit is the Nacala port in Mozambique and the central part of Mozambique with landlocked Malawi and Zambia. Specifically, the corridor extends along a railway network that includes the Northern Rail System of Mozambique, the Malawi Railway System, the Mchinji/Chipata Rail section, which connects the Corridor to Zambia; and, the road system connecting all three countries. The Port of Nacala is East Africa's deepest natural port and is currently the third largest port in Mozambique in terms of volume of cargo handled.

B. Borrower's Institutional Capacity for Safeguard Policies

Country-specific implementing agencies in Malawi, Mozambique and Zambia are already working on World-Bank support projects, and have baseline capacity to manage environmental and risks as per the WB policies. Country-specific gaps and capacity building measures will be assessed during project preparation.

The request for a Nacala Corridor Project resulted from the World Bank's engagement on the APEI regional integration agenda, and as such the project is exploring the possibility of utilizing the APEI coordinating mechanism to support the project's coordination. The Regional Multidisciplinary Center for Excellence (RMCE), based in Mauritius, has been playing an important role in the regional integration agenda of the three Nacala Corridor countries under APEI, where it has acted as the APEI quasi-Secretariat to date. Since its inception, RMCE has led the coordination of policy reform in the APEI agenda as well as other regional projects of the APEI countries. For example, the World Bank funded RMCE under the Talent Mobility Program.

The implementing agency of the project in Malawi will be the Ministry of Industry, Trade and Tourism of the Republic of Malawi, which is one of the implementing agencies of the Malawi Agricultural Commercialization Project (P158434), in partnership with the Ministry of Agriculture, Irrigation and Water Development.

In Mozambique, the coordinating and implementing agency will most likely be the Ministry of Industry and Commerce (MIC). While the Ministry of Economy and Finance oversees the Integrated Growth Poles Project (P127303), this is primarily a legacy from a previous ministerial division of responsibilities. Additionally, the recently created Agency for Investment and Export Promotion (APIEX) under MIC will also be one of the key implementing partners of this project.

In Zambia, it will be the Ministry of Commerce, Trade and Industry (MCTI) which is currently implementing the Agribusiness and Trade Project (P156492). However, the government has requested the WBG to consider innovative ways to structure Project Implementation Units (PIUs) i.e. potentially by setting up a private sector mechanism. This will be explored further during preparation stages.

C. Environmental and Social Safeguards Specialists on the Team



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 Ian Munro Gray, Environmental Specialist
 Paulo Jorge Temba Sithoe, Environmental Specialist
 Eden Gabriel Vieira Dava, Social Specialist
 Violette Mwikali Wambua, Social Specialist
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D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The policy is triggered and as a result of initial screening, it is proposed the project is assigned Category A, given that the project will entail civil works (selected road infrastructure, border facilities, truck parking etc.) and may include a number of cumulative and potentially transboundary issues. Since the project locations are not yet defined a framework approach will be taken. Environmental and Social Management Framework will be prepared, consulted and disclosed prior to appraisal and sub-project specific Environmental and Social Impact Assessments and Management Plans will be prepared during preparation or implementation as designs of individual investments are finalized. The ESIA(s) and ESMF will cover potential cumulative impacts and relevant associated investments, such as JICA-funded Nacala Port improvement.
Performance Standards for Private Sector Activities OP/BP 4.03	TBD	
Natural Habitats OP/BP 4.04	TBD	
Forests OP/BP 4.36	TBD	
Pest Management OP 4.09	TBD	
Physical Cultural Resources OP/BP 4.11	Yes	The policy is triggered, and the ESMF will address provisions of OP 4.11. Project preparation will include a screening on presence of the sites of cultural significance in the project areas. In addition the ESMF will include a chance find procedure for each country to be used during civil works under Component 1, and the subproject ESIAs and ESMPs will address any subproject specific impacts and risks.
Indigenous Peoples OP/BP 4.10	TBD	During project preparation a screening and scoping will be undertaken to assess whether Indigenous



Peoples (as per OP4.10) are present in the project area. If present then the requisite consultations and Indigenous Peoples Plans will be prepared.

Given that the project will entail civil works (selected road infrastructure, border facilities, truck parking etc.), in as yet undefined project locations and since these works could potentially entail land acquisition, and impacts on private assets, OP4.12 is triggered and a framework approach will be taken. Resettlement Policy Frameworks will be prepared, consulted and disclosed prior to appraisal and sub-project specific RAPs prepared during preparation or implementation as required according to final subproject site selection and design.

Involuntary Resettlement OP/BP 4.12 Yes

Safety of Dams OP/BP 4.37 No

Projects on International Waterways
OP/BP 7.50 TBD

Projects in Disputed Areas OP/BP 7.60 No

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Feb 01, 2019

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Overall, a corridor-wide ESIA/CIA (if required) and project ESMF, RPF and potentially IPPF will be prepared prior to project appraisal (February 2019). For any investments that will have the designs ready in time for the project appraisal, the project will prepare a site-specific ESIA, and if applicable a RAP. All safeguards instruments will undergo a set of public consultations and will be publicly disclosed in Malawi, Mozambique and Zambia and on the World Bank website.

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APPROVAL

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