AFRICAN DEVELOPMENT BANK GROUP









THE FUND FOR AFRICAN PRIVATE SECTOR ASSISTANCE

Technical Assistance Request

MOZAMBIQUE

NACALA CORRIDOR BUSINESS LINKAGES TECHNICAL ASSISTANCE PROJECT

AFRICAN DEVELOPMENT BANK GROUP



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PISD/PGCL DEPARTMENTS

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ABSTRACT

Project Goal

The Nacala Corridor Business Linkages Technical Assistance project has been designed to complement the OPSD3 Nacala Rail and Port Project in order to support inclusive growth along the Nacala Corridor in Mozambique. The main goal of the TA project is to improve the efficiency and competitiveness of local businesses in the Nacala Corridor for accelerated economic and social growth. This approach is innovative as it moves from the infrastructure corridor construction concept to the development corridor concept by enabling other sectors to maximize their productivity through, for example, in this TA, the empowerment of the construction sector and sustainable job creation thereby creating the enabling environment for industrialization and private sector development. The total project cost is US\$1.12 million comprising USD1 million from FAPA and in-kind contribution from the Government of Mozambique and other stakeholders.

Project Objective

The objectives of the TA project are: (i) to strengthen the business management skills and industry knowledge and know-how of selected SMEs in the construction industry to enable them take advantage of business opportunities provided by the Nacala rail and port project and other investments and (2) provide institutional capacity building, knowledge, expertise and tools to SME support institutions to enable them continue supporting SMEs in construction industry at the end of the TA. This TA project intends to contribute towards an inclusive growth by linking SMEs in the construction sector to large companies operating in the corridor.

Project Components

There are three components namely, (i) Scoping and Initial Assessment (ii) Capacity Building: (Business Diagnosis, Improvement Plan and Networking) and (iii) Project Management, Coordination and Institutional Building.

Project Development Outcomes

Expected outcomes include (i) Growth in income of participating SMEs given increased production, productivity and quality of goods and services (ii) job creation, acceleration of knowledge and wealth creation by local SMEs and (iii) increase in local content in the construction sector. These will concurrently have a significant impact on inclusive economic growth in Mozambique.

Alignment with the Country development programs and Bank's Country Strategy Paper

The TA is aligned with the Bank's Country Strategy Paper 2011-2015 for Mozambique especially with Pillar I- enhanced private sector competitiveness through infrastructure development. The TA is further aligned with some of the key issues in the Bank's analytical note for the new CSP 2016-2020 under preparation, in relation to the promotion of growth in other sectors that have closer linkages with the rest of the economy and greater impact on creating employment and investing in human capital to increase the productivity of the labour force and the economy's overall competitiveness. This is also in line with the Government of Mozambique's Five - Year Development Program (*Programa Quinquenal do Governo, 2015 – 2019*) which emphasizes, private sector development for productivity and competitiveness.

Alignment with the Bank's Strategies

The Project is fully aligned with: (i) the first and overarching objective of the Bank's TYS 2013 - 2022 of achieving growth that is more inclusive; (ii) the third pillar of the Private Sector Development Strategy 2013 - 2017 of enterprise development (iii) the Bank's Regional Integration Policy and Strategy (RIPoS) 2014 - 2023, (capacity building); (iv) two of the Bank's high five priorities, namely Industrialize Africa and Improve the Wellbeing of Africans.

Alignment with FAPA Objectives

The project is further aligned with the FAPA objective of promoting the development of Micro-Small and Medium-Scale Enterprises and strengthening the business enabling environment.

Processing Stage: Boards of Directors Date: May 2017 Major Sector: SMEs Country: Mozambique Grant Recipient: The Government of Mozambique. Executing Agency: Investment Promotion Agency (CPI)

Target Beneficiaries:

- Government of Mozambique
- SMEs in construction sector
- Business Development Service providers
- Private sector companies

Project Development Objectives:

- Strong and competitive local SMEs participation in their supply chain
- Increase in local content,
- Increase in employment and wealth creation by local firms
- Acceleration of knowledge transfer and technology upgrading
- Increase in SME incomes.

Project Main Components:

- Scoping and Assessment
- Capacity Building: (Business Diagnosis, Improvement Plan and Networking)
- Project Management Coordination and Institutional Building

Key Performance Indicators:	
Household Benefits and Job Creation	Number of jobs created (construction)
Gender and Social Effects	• Number of Jobs created (women)
	Female headed beneficiary enterprises
Private Sector Demonstration Effects	SME Upgrade in construction classification
	• Value of goods and services procured locally
Financial Inclusion	Value of contracts signed by SMEs
	Increase in SME turnover

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Financing Plan (US \$):

Financing type, in USD	Total	FAPA	GOM
Grant			
Share of Total			
Technical Assistance	1,120,000	1,000,000	120,000
Share of Total		89%	11%
Total Project Cost	1,120,000	1,000,000	120,000

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LIST OF ACRONYMS

ADOA	Additionality and Development Outcomes Assessment
AEPRENA	Associacao dos Empreiteiros de Nampula (Association of Nampula Contractors)
AfDB	African Development Bank
BDS	Business Development Service
BQR	Beneficial Quarterly Report
CPI	Centro de Promocao de Investimentos (Investment Promotion Centre)
CQS	Selection Based on Consultants Qualification
CSP	Country Strategy Paper
CTA	Confederation of Business Associations)
EU	European Union
FAPA	Fund for African Private Sector Assistance
GPN	General Procurement Notice
ILO	International Labor Organization
IPEME	Institute for the Promotion of Small and Medium Enterprises
INEFP	National Institute for Employment and Vocational Training
JICA	Japan International Cooperation Agency
LCS	Least Cost Selection
NGO	Non- Government Organization
OPSD	Private Sector Department
ORPF	Procurement Department
OSHD	Department of Human Development
PIU	Project Implementation Unit
PCR	Project Completion Report
QCBS	Quality and Cost Based Selection
SME	Small and Medium Enterprise
ТА	Technical Assistance
TOT	Training of Trainers
TVET	Technical Vocational Education and Training
USD	United States Dollars
VC	Value Chain
USAID	United States Agency for International Development
SDI	Spatial Development Initiative
SADC	Southern Africa Development Community

1. STRATEGIC CONTEXT AND RATIONALE

1.1 Institutional Background, Country Issues

This TA is the expression of Bank's effort to promote inclusive private sector development and SME linkages with its large investments. It is also an approach to promote corridor economic development rather than corridor infrastructure only. To strengthen the inclusiveness of the investments financed in the Nacala corridor, the Bank designed two TA projects, a value addition project in Malawi and a business linkage project in Mozambique. This TA project is about the Nacala Mozambique business linkage Project.

The Bank is supporting infrastructure development in Mozambique and, in relation to this TA, the Bank has financed the Nacala rail project, which is being promoted by Vale International SA¹. The Bank has also financed the construction of roads along Nacala corridor in Zambia, Malawi and Mozambique. In addition, the Bank has been supporting Mozambique's business environment at macro level, through the Mozambique Economic Governance and Inclusive Growth program with one of the components supporting the improvement of the business enabling and regulatory environment to foster private sector development, with emphasis on medium and small enterprises.

In view of the large resources in this part of Mozambique, the country has attracted a number of large projects in the surrounding areas in infrastructure developments (rail, port road), in oil and gas in Cabo Delgado, in agricultural development (e.g. pro-savannah - a triangular partnership between Brazil, Japan and Mozambique and a US\$100 million World Bank funded integrated Growth pole projects etc.

These emerging projects and activities are creating potential opportunities for small businesses in multiple service sectors including agribusiness, construction, maintenance, logistics, hospitality etc. This TA is supporting the construction sector in view of its economic importance in the new developments and the opportunity it provides to local SMEs to be integrated in the supply chain.

Mozambique is a resource-driven economy that has shown a steady and significant growth over the last decade with GDP growing at an average annual rate of 7.8% during 2000-2010. The country's economy is largely based on agriculture. However industry, including chemical manufacturing, aluminum and petroleum production, has been growing. As one of the fastest growing economies in Africa, Mozambique's GDP is relatively evenly spread across services (45%), agriculture (32%) and Industry (23%). Mozambique's gross domestic product (GDP) growth rate slowed in 2015 as the economy adjusted to lower world commodity prices and decreased inflows of Foreign Direct Investments (FDI). Real GDP growth is expected to continue decelerating through 2016 and into 2017 at 6%, driven by falling exports revenues, rising import costs and reduced FDI. Weak external demand conditions and low commodity prices are anticipated to continue over 2016-2017, and then recover gradually by mid-2017 in line with world forecasts.

The Nacala corridor development program is part of the Spatial Development Initiative (SDI) under the SADC programs for Mozambique, Malawi and Zambia, which targets sub-regional cooperation. It emphasizes on an integrated development approach with infrastructure and private sector development being the key pillars. The Corridor originates at the Nacala Port in northern Mozambique and spans a total of 1,710 km through Mozambique, Malawi and Zambia. This TA will only support the Nacala Corridor areas in Mozambique. The areas which are economically, socially or environmentally under the influence of the Nacala Corridor are much larger than the immediately surrounding areas of the transport infrastructures of rail and road. The impact areas in Mozambique include five provinces: namely Nampula, Niassa, Cabo Delgado, Zambezia and Tete. The five provinces have over 499,000 km2 and approximately 14 million population (2011). There is a deliberate effort by the Government of Mozambique to develop the northern region of the country owing to the huge potential

¹ The project includes the construction of a railway line stretching from Moatize coal mine located in Tete Province, crossing into Malawi and back to Mozambique, heading to the east coast towards the port of Nacala. The Nacala Corridor is operating as a combination of coal transport, general cargo/freight and passengers. The total project cost is estimated at USD 4.6 billion and the Bank's financing is of US\$300 million.

of the area, which has vast natural resources, arable agriculture land, vast population but low human development indices. Specifically for Nacala corridor, a number of challenges were identified which will minimize inclusive growth along the Nacala corridor. These include: Lack of skilled human resources at all levels; a supply driven education system with fewer graduates in engineering and technical areas; lack of adequate training institutions; inadequate infrastructure; lack of adequate support services; weak business management skills of SMEs; and weak business associations.² Some of the challenges are specific to women.

Mozambique's growth in the past decade, according to the World Bank, has been concentrated at one end of the productive spectrum: foreign-owned, capital-intensive, and export-oriented mega-projects. Mega-projects have contributed significantly to Mozambique's economic growth and have put the country on the map as an attractive destination for international investors, but they have had limited impact on employment creation and productivity spillovers. While representing 62 percent of the production value of the manufacturing sector, mega-projects only employ 3 percent of the sector's labour force and 2 percent of urban private sector employment. Mega-projects dominate Mozambique's exports, about half of which derive from the aluminium smelting mega-project, making the economy highly dependent on world commodity prices. Mega-projects have had limited fiscal benefits — a legacy of the Government's tax incentives to lure foreign investors.³ Mozambique, however, has some experience regarding the development of SME programmes that benefit from large scale projects. For example, IFC supported Government of Mozambique in developing a business linkage programme for the Aluminium smelting plant in Mozal.

The key challenge in all the planned activities and developments, therefore, remain the ability of small and medium businesses to enjoy and utilize to the maximum the potential benefits of these investments. Such huge investments will require skilled human capacity, enterprising businesses, reliable infrastructure and a good enabling environment for business. In addition, there is need for a better information flow across the value chains, strong business support institutions, greater collaboration and enhanced capacity of small businesses to take advantage of the opportunities in the corridor.

1.2 Sector Issues

Construction sector has been growing rapidly in Mozambique and it is expected to continue to grow in the coming years. The Government expected a 10% annual growth between 2012 and 2016. However, the sector⁴ has been hovering between 3 and 3.5% of GDP in recent years. The new LNG project and the extension of access to the "Nacala Corridor" with roads and airports and other infrastructural projects will further increase the public sector budget in the sector. On the demand side, government plays a prominent role with 90% of the tendered projects in the construction industry. Government investments mainly consist of projects in infrastructure, hospitals, schools, roads and water supply. Larger infrastructure projects, financed by central government are governed by the Ministry of Public Works. The expected large investments in LNG projects in Palma, the extension of access to the Nacala Corridor and other infrastructure investments in the agriculture and mining sectors, makes it inevitable that most of the foreign investors and construction companies will likely consider small and medium local construction enterprises for smaller sub-projects, such as housing construction or general infrastructure projects. However the reality is that policies related to the core business of the international companies are restrictive and imply high standards. With the expected Liquefied natural gas (LNG) sector boom, the World Bank estimates that this could dramatically increase its share to an estimated 20% contribution in 2020.⁵ Despite low labour costs for most of the workforce, construction costs in Maputo are more than 30% higher than in South Africa. The higher costs are partly due to inefficiencies of firms and poor business skills management, which will be addressed under this TA project.

² Towards the Inclusion of SMEs in Mozambique's New Economy: A Market System Analysis of the Building Construction Sector in Cabo Delgado, Mozambique. ILO 2015

³ http://www-

 $wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/03/14/000386194_20120314004707/Rendered/PDF/668130CAS0P12400fficial0Use0Only090.pdf$

⁴ World Bank Report - Mozambique – CEM – Construction sector

⁵ IMF (2013)

The construction sector in Mozambique features both formal and informal operators. However, it is within the housing market (family sector) where informal operators are dominant throughout the entire value chain. The formal market for project developers, building materials, equipment rental firms, and contractors has oligopolistic characteristics, but it tends to be more competitive for projects requiring reduced amounts of project finance, including demand for housing projects, construction of small scale industries in both rural and urban areas, and public services at the district level. It is also within this market segment where we find the majority of indigenous contractors and more intensive use of locally generated building materials and project developers (ANEMM, 2000 and Lopes, 2006). In this context, complaints regarding unfair competition, project delays, and delivery of poor quality projects are frequent (Lopes, 2006).⁶

Problems facing SMEs in construction sector are multiple and vary according to the size of the company. Some of the problems relate to: (i) cash flow limitations (which has an impact on their ability to participate in tenders); (ii) hidden costs in the tender process that lowers the margins; (iii) lack of well qualified, experienced and motivated workers; (iv.) missing information about sub-contracting opportunities and the potential around the major projects, (v); lack of understanding of standards and requirements; (v) institutional fragmentation and a low degree of organisation and coordination between the private and public sector; (vi) low degree of inclusion in large projects of international companies; etc. In general, the business environment is not conducive for small and medium construction companies. The generic problem of access to suitable financing conditions for small and medium sized construction companies is also prevalent in Mozambique.⁷

International companies will look for best practical solutions, such as timely commissioning of subcontracted skills, implementing company standards on occupational health and safety (OHS), construction quality standards, and any applicable norms. Main contractors select their subcontractors according to own established standard benchmarks.

Despite all these challenges, the construction industry holds great potential for broad based growth, employment generation, capital formation and technological development. Through its strong dependence on backward and forward linkages, it stands as a foundation for stimulating structural changes and sustaining the development of other sectors, including agriculture and forestry, among others. Its value added chain encompasses activities which include the production of raw materials and processed goods, civil and heavy construction works, as well as project engineering, development and management. Value creation within the sector involves project developers, building material suppliers, construction equipment rental firms and contractors⁸. This TA project has targeted contractors in the SME sector.

Given the challenges faced by SMEs and the complexity of the construction sector, some small firms are satisfied to remain in the informal market. For example, during recent discussions on the Palm LNG project some small businesses in construction industry in Palma, indicated they would not be in a position to be subcontracted by international companies such as Anadarko or ENI and other related infrastructure projects because the local companies were not aware about project requirements and standards. The information lacking included: (i) Size and nature of projects to be subcontracted; (ii) Required certificates as precondition for being considered as a preferred subcontractor; (iii) Applied standards related to housing construction quality; (iv) Standards of Safety, Health and Welfare at work; (v). Design standards; (vi) Commissioning standards; (vii) Requirements for handling new technologies; and (viii) Prevailing contractual obligations related to guarantee and indemnity bonds. Most of the above mentioned attributes can create additional expenses to the subcontractors if not in line with the international company's standards. Non-compliance by sub contracted small and medium companies implies the risk of late handing-over of projects and payment of penalties by the sub contracted firm. This TA will contribute towards addressing some of these pertinent challenges through strengthening business management skills of SMEs in construction industry and creating a platform for continuous engagement between stakeholders in the value chain. The TA will also assist in creating an atmosphere of trust whereby large companies can sub-contract SMEs with some level of confidence.

⁶ IFC Report (2013)

⁷ Towards the Inclusion of SMEs in Mozambique's New Economy: A Market System Analysis of the Building Construction Sector in Cabo Delgado, Mozambique. ILO 2015

⁸ The Value chain of the construction is displayed in the Technical Annex

1.3 Rationale for Bank Involvement

1.3.1 Alignment with the Country development programs and Bank's Country Strategy Paper

The TA is aligned with the Bank's Country Strategy Paper 2011-2015 for Mozambique especially with Pillar I- enhanced private sector competitiveness through infrastructure development. This pillar aims, among others, to help close the skills and infrastructure gaps with a view to promoting SMEs competitiveness, and contributing to their increased access to regional markets and consequent creation of jobs and revenues. This TA project targets business management and skills development to enhance the productivity and competitiveness of the SMEs in construction sector to stimulate job creation. The TA is further aligned with some of the key issues in the Bank's analytical note for the new CSP 2016-2020 under preparation, in relation to the promotion of growth in other sectors that have closer linkages with the rest of the economy and greater impact on creating employment and investing in human capital to increase the productivity of the labour force and the economy's overall competitiveness. This is also in line with the Government of Mozambique's Five -Year Development Program (*Programa Quinquenal do Governo, 2015 – 2019*) which emphasizes, private sector development for productivity and competitiveness.

1.3.1 Alignment with Bank's Strategies

The project is aligned with (i) the Bank's Ten Year Strategy 2013-2022 under the core operational priority of private sector development, which aims at increasing support to micro, small and medium enterprises and social businesses as engines for job creation and inclusion;, (ii) The AfDB Private Sector development strategy which focuses its resources on the biggest opportunities for job creation across the continent, and is built around (a) improving Africa's investment and business climate; (b) expanding access to social and economic infrastructure; and (c) promoting enterprise development and (iii) aligned with two of the Bank's high five priorities, namely Industrialize Africa through capacitating of the SME construction industry to increase its value addition and Improve the Wellbeing of Africans through increased incomes arising from new contracts in business linkages.

1.3.3 Alignment with FAPA Objectives

The project will be addressing capacity building of entrepreneurs and linking them to markets and opportunities. The project is therefore aligned with the FAPA objective of promoting the development of Micro-Small and Medium-Scale Enterprises and strengthening the business enabling environment.

1.3.4 Prior Bank Involvement and Lessons Learned

Bank Group experience and lessons reflected in program design

The Bank, through OSHD, is currently implementing a skills development project in Mozambique targeting women entrepreneurs and there is an OSAN pipeline project that will make interventions in value chains in agribusiness. In view of limited capacity in Mozambique, this TA will avoid using institutions that are key stakeholders in these two Bank projects. The OSAN project, depending on the scope, could benefit from trained BDS providers/mentors under the TA. The construction sector has been selected because it provides the best potential in business linkages in the envisaged opportunities arising from mega-projects such as the Nacala rail and port project in northern Mozambique.

The TA Project design has benefited from lessons learned in the implementation of Projects in Mozambique in generally and for the business linkages programs in particular. These include: (*i*)Implementation Arrangements: hosting the project in an institution that has experience in undertaking similar programs and has tools and networks to support implementation; CPI has been selected owing to its long experience since 1999 in implementing similar projects. CPI hosted the IFC Mozlink business linkages project and have been assisted by UNIDO in developing an SPX software which is used to assess SMES and benchmark then before linking the SME to a large company. (*ii*) Focused approach: the concentration of the program in a single sector (construction) and in a specific area (Nacala corridor). This will allow for in-depth support concentrated in one

area with larger chances for stronger networking and better learning process. (*iii*) value-chain design: the design should be along the value-chain, and ensure that the gaps along the value-chain are addressed. The TA will not only build the managerial and technical skills but also facilitate access to finance, markets and networks to actors across the value chain. (*v*) Institutional Support – The importance of building institutional capacity of local SME support institutions for continuity and sustainability. The project will build capacities of AEPRENA, IPEME and BDS providers to ensure continuity and sustainability.

A summary of the technical consideration and project design options is presented in Table below.

Alternative	Brief Description	Reason for Rejection
Have a Bank implemented TA	Instead of having a PIU in a local organisation, the Bank would	The proposed arrangement will build the capacity of the local institution and strengthen program ownership.
project	recruit a firm and coordinate the implementation through the consulting firm	Furthermore, the identified Execution Agency (CPI) has the mandate to promote and support business linkages. Having project in CPI therefore increases the sustainability of the program.
Supporting other sectors that have potential for inclusive growth along the Nacala corridor. This includes	The project considered selecting agriculture and agri-business as the sector with most potential and suitable for business linkages. Business Associations such as Ikuru and its affiliates were identified for capacity building to	 Mozambique is preparing a Bank funded Agriculture transformation project with a larger budget and with more activities that would provide greater impact The key and capable institution the TA project was to partner with (GAPI) is already a key Bank partner on an OSHD project. The question of its capacity to handle
agriculture and agribusiness and hospitality	The proposed TA project will focus on construction sector	 two Bank projects became a source of concern. The other Development Partners (World Bank, JICA) have huge agriculture projects in Northern Mozambique which would be more meaningful and would have bigger impact.

Project Alternatives Considered and Reasons for Rejection

1.4 Alignment of Sponsor's Corporate Governance and Corporate Social Responsibilities with International Standards

1.4.1 Alignment with Corporate Governance and Social Responsibilities principles

The Government of Mozambique recognizes the international best practice procedures in corporate governance by implementing the UN Business and Human Rights Principles and the ILO Convention on Labour Laws. The training programs will include basics in corporate governance and social responsibility principles.

1.4.3 Alignment with Gender mainstreaming principles

Although the Mozambican constitution stipulates equal rights for women and a series of laws recognize the rights of women to protection against any form of discrimination, the country is still ranked at the bottom of the UNs' Human Development Index (178 out of 187 in 2014). Gender differences in terms of access to opportunities are even higher in rural areas.

In all regions of Mozambique, men have more authority and power in the communities and within households than women and male-headed households are in a better economic position than female-headed households. However, legal and regulatory framework for business in Mozambique does not contain any instruments that are specifically designed to respond to the barriers or constraints faced by women in business. The only legal and regulatory instruments found to address gender-based disparities is the Family Law Act⁹.

⁹ The Enabling Environment For Women In Growth Enterprises In Mozambique; Assessment Report; ILO-WEDGE-Southern Africa; January 2011

According to a study undertaken in 2011¹⁰, Mozambique is a highly patriarchal society, with gender relations having been affected by, among other key issues, deep structural change in the form of war, migration and urbanisation. Whilst there are different reasons for women having challenges to have access to and control over economic resources, the gender implications of culture and religion are more determinant factors in the more traditional north including Nampula, the target for the TA. In terms of employment, the proportion of economically active men and women in Mozambique is relatively equal, at 78.8 and 82.0 per cent respectively. However, women are predominantly occupied in the agricultural sector (89.3–per cent),

The Government over the years has pursued economic policies that have yielded macroeconomic successes in terms of real GDP growth primarily driven by a few mega-projects such as the Mozal aluminium plant. The mega-projects have been either capital-rather than labour-intensive or dominated by traditional male occupations in construction and transport (Castel-Branco and uno 2010). The formal labour market in the small-scale industry and service sector is also fiercely competitive in ways where women tend to lose out. It is estimated that about 12 per cent of adult men and only one per cent of adult women in Mozambique have access to formal private-sector employment¹¹. The equivalent figures for the public sector are six and two per cent respectively (INE 2010). The table showing participation of men and women in the labour force is presented in the technical annex.

This TA is supporting a more male-dominated sector and, given the strong religious and cultural gender implications, deliberate efforts in selection criteria and project promotion will be made to increase women participation. The project will take advantage of the fact that the current President of AEPRENA is a woman and entrepreneur in construction and she can provide the best case example of a successful construction company which is female-led. In addition, the strengthening of AEPRENA is part of the TA. A member-based women's entrepreneurship associations could play an effective role in representing the needs and concerns of businesswomen and advocating on gender-related issues, promoting women's entreprises and providing business support. Reaching female led-SMEs would be one of the task carried by the TA. A mapping exercise of the situation of women SMEs in construction, gaps and challenges, capacity requirements will be conducted. This will inform the TA and relevant stakeholders of the need of the SMEs led / potential led by women. There will be a deliberate effort to increase the number of women that will be selected in the initial 50 SMEs to be trained. CPI and AEPRENA will reach out to women in the industry creating awareness and invite these for the project launch.

2.1 **PROJECT GOALS AND OBJECTIVES**

This TA project intends to contribute towards an inclusive growth by linking SMEs in the construction sector to large companies operating in the corridor. This will involve identification of products and services (quantities, quality and standards) required by the large companies, identification of SMEs in the construction sector, designing a program to build capacity of the SMEs to meet company needs and standards; and Strengthening of SME Support Institutions (build capacities of SME support institutions to support the business linkages model that will be introduced and build strong networks and platforms for continuous dialogue with the government and other large private sector operators on various aspects that will further business growth in the ecosystem of the corridor. The support will also enable them to have a stronger voice, active participation in dialogue and effectively support the growth of their members' businesses. The SME support institutions include IPEME, CTA, and AEPRENA.

¹⁰ World Development Report Mozambique Country Case Study: Gender Equality and Development; Inge Tvedten, CMI (2011)

¹¹ World Development Report Mozambique Country Case Study: Gender Equality and Development; Inge Tvedten, CMI (2011)

2.2 Project Development Outcomes

Expected outcomes include (i) Growth in income of participating SMEs given increased production, productivity and quality of goods and services. (ii) Job creation, acceleration of knowledge and wealth creation by local SMEs and (iii) increase in local content in the construction sector. These will concurrently contribute towards inclusive economic growth.

The TA will target large scale operators and it is expected to lead to the following:

- a) Better distribution and more value added within the construction market system (large-scale companies sharing created value with corridor SMEs) through increased efficiency and competitiveness of the construction sector.
- b) Higher demand for better-trained and motivated skilled and semi-skilled workers, putting positive pressure on training providers and companies to improve the quality of vocational trainings and industrial placements;
- c) More and better employment (permanent jobs for construction workers) with increased and more stable salaries;
- **d**) Increased profit for local companies, enabling them to invest in equipment, to participate in higher ranked tenders through upgraded class rating, strengthen equity and thus improving their credibility in the market.

Key Performance Indicators: - Each indicator to be disaggregated by gender

- Number of jobs created (construction)
- Number of Jobs created (men and women)
- Female headed beneficiary enterprises
- SME Upgrade in construction classification
- Value of goods and services procured locally
- Value of contracts signed by SMEs
- Increase in SME turnover

Most of the SMEs in construction are lower categories whereby they can only access contracts of lower values. (See section 1.3. in Technical Annex A) With capacity enhanced, SMEs will be able to bid and access higher value contracts which will increase SMEs turnover. The TA project will only play the role of a facilitator to help the SMEs achieve their ambition through proper training, guidance, and access to resources.

2.3 Target Beneficiaries and Key Stakeholders

The target beneficiaries are SMEs in the construction sector operating along the Nacala corridor. Although the number of women in the construction sector is very small, deliberate efforts will be made to ensure that at least 30% of the beneficiaries are women. Other beneficiaries include SME support institutions Business Development Services providers, large private sector companies through lower costs and Government through increase in tax revenue. The targeted institutions are the Association of construction industries in Nampula (AEPRENA), IPEME, CTA and CPI. The large private sector operators will also benefit through reduced costs of doing business as a result of enhanced capacities of SME suppliers. A mapping exercise to identify female-led SMEs, will help in understanding the challenges facing women enterprises and workers and will help in encouraging some of them to apply for participation in the training program.

There are six key stakeholders that will play active roles in the business linkages program.

Private Sector Operators: Large companies are often faced with a challenge to find local SMEs with the potential to meet industry's stringent business standards (including safety, technical, quality, and delivery) and with the motivation and drive to invest time and resources in building their capacity and competitiveness. These will be identified at the start of project implementation and will include Corredor de Desenvolvimento do Norte – CDN S.A., company with the concession of the Nacala rail in Mozambique, who have expressed an interest

to participate. Collaboration will also be pursued with financial institutions that would eventual be financiers of the participating SMEs.

SMEs: SMEs either identified by the procurement department of the participating companies in association with the partner business association or/and identified through call for proposals. The SMEs will be those already providing services to some of the partner companies but need a lot of technical and business capacity building to help them reach the standards prescribed by the companies, or to become stronger and more competitive.

Business Associations and SME Support Institutions: The SME Support Institutions (includes confederation of business associations (CTA), the Nampula Construction Industry Association (AEPRENA), the SME promotion Agency (IPEME), the Vocational Training Institute (INEFP) and the Investment Promotion Agency (CPI)) will be important stakeholders in this project. The Business Linkages Program will benefit from the collaboration through access to databases office space, staff time, local expertise, access to networks of government officials, local experts, government and media, when needed. The TA will create a platform in AEPRENA and support potential female-led SMEs to understand the TA project and register.

BDS Providers and Mentors: These will be individuals to be selected through a call for proposals to assist SMEs to develop capacity within their businesses. The idea behind the mentorship program is to improve the business processes and sometimes to re-engineer the SME's entire business—including its business strategy, health and safety systems, management style, technical skills, and staffing—over a long period of time. The mentorship program is tailored to the individual needs and weak areas of each SME.

Government and Public Sector: The key players in government and public sector will include The Ministry of Industry and Trade, Provincial government in Nampula and Ministry of Public Works.

Development Partners: There are a number of development partners either undertaking similar activities or activities that would support or compliment the intervention. Collaboration will therefore be pursued in a number of identified areas. The partners include; JICA, UNDP, UNIDO, ILO and the World Bank. The TA will benefit from JICA capacity building activities in CPI, who will execute the project. CPI are using a UNIDO toolkit and software (SPX) on linkages and project will collaborate with UNIDO to ensure that the tool is suited for this TA. The project design has benefit from information shared by UNDP, GIZ, ILO and World Bank during preparation and appraisal. The sharing of information and consultation will continue during implementation and all partners will be invited during networking sessions.

2.4 **Project Components**

The TA project will only play the role of a facilitator to help the SMEs achieve their ambition through proper training, guidance, and access to resources. The TA project will initially target 50 SME operators in construction sector in Nampula province and surrounding provinces either already being sub-contracted by large companies operating in the corridor or those that have potential to be sub-contracted.

Component 1: Scoping and Initial Assessment:

This will include the following activities:

- <u>Identification of partner companies</u> Identification of 3-5 large scale operators interested in business linkages. This will involve identification of products and services (quantities, quality and standards) required by the large companies and their SME packages;
- <u>Recruitment and Assessment of SMEs</u>: Identification and selection of 50 SMEs (% of female led SMEs will be determined after the mapping exercise) in the construction sector considered suitable for the Business Linkages Program, through a call for proposals;
- <u>Recruitment and Assessment of BDS providers/Mentors</u>: Identification, recruitment and training of technical and business mentors and orient them to the business linkages project before implementation;
- <u>Assessment of needs and capacity of the Association</u>; Determination of needs and capacity of AEPRENA, women representation and needs in the construction sector and design the required support;

• <u>SME Training and Assessment</u>: Undertake a generic training program of 50 SMEs using tried and tested training methodologies such as ILO's Improve Your Construction Business training methodology or UNCTAD training package for manufacturing and services suppliers and, through an on-going assessment, select 15-20 SMEs that are suitable to participate in the business linkages program using a transparent criteria which will include: SME commitment, willingness to contribute towards the program, willingness to share business information, have business premises etc. Data will be disaggregated by lead of SMEs (gender, age, and area of specialization).

Component 2: Capacity Building: (Business Diagnosis, Improvement Plan and Networking)

The TA project will include a mentorship program to assist SMEs to develop their own capacities to enable them to fulfill contractual obligations according to company specification, budget and on time. The mentorship program will aim at improving the business processes and to re-engineer the SME's entire business—including its business strategy, health and safety systems, management style, technical skills, and staffing—over a one year period. The mentorship program will be tailored to the individual needs and weak areas of each SME operation. In addition, part of the networking will be aimed at facilitating SME's access to finance. TA project will collaborate with IPEME who are promoting a US\$11 million financing scheme for SME loans under a Portuguese Cooperating Fund (Corporate Fund for Portuguese Cooperation - FECOP). The funds are disbursed by BCI; Millennium BIM, Moza, and Banco Unico at 11% interest.

The component will include the following activities:

- <u>SME diagnosis and database creation</u>: Undertake an Assessment/diagnosis of between 15-20 SMEs, which will include analysis of baseline data in order to have a realistic assessment of the SMEs' technical, business and management capacity and identify areas in which they need assistance to effectively deliver products and services at the level required by the participating companies
- <u>Design and delivery of training programs for SMEs: Training program</u> to strengthen SME business management skills to meet company needs and standards; design training curriculum for each category after identification of common skill gaps during the assessment; design a group training curriculum for all the SMEs;
- <u>Design and delivery of BDS/Mentors training programs</u>: training program for Business Development Services Providers and Mentors to support SMEs in business linkages. Although project will make efforts to acquire staff of participating companies to provide technical services, provision of such services by corporations 'staff is a costly exercise. This is therefore an opportunity to train independent consultants to offer these services.
- <u>Design and Implement SME Improvement Plan</u>; develop an Individual Improvement Plan for Each SME detailing all the categories and subcategories that it needs to build its capacity in, the targets it needs to achieve, and the associated deadlines. This activity will include training of employees of the SMEs
- <u>Business and technical mentorship support to SMES</u>: support and execute the Improvement Plan which includes Business and Technical Training covering the common skill gaps identified in the main business and technical categories and bring them all to a similar level of competency and Implementation of improvement plan by each by putting into practice the learning from the training and mentoring sessions.
- <u>SME and Partner Institutions Networking</u>: Organise and facilitate SME and Partner Institutions Networking sessions including participating large companies; financial institutions, government institutions and training institutions;
- Monitoring and Evaluation

Component 3: Project Management, Co-ordination and Institutional Building:

The aim of this component is; (i) to build capacities of SME support institutions to support the business linkages model that will be introduced; and (ii) build strong networks and platforms for continuous dialogue with the government, banks, insurance, tax administration, training institutions and the large private sector operators on various aspects that will further business growth in the ecosystem of the corridor. The support will also enable them to have a stronger voice, active participation in dialogue and effectively support the growth of their members' businesses.

This activities will include:

- Overall project management and coordination
- Design and delivery training programs for the project implementation unit in CPI, the Construction Association (AEPRENA); and other relevant SME support Institutions(IPEME, CTA, CPI) to enable them provide relevant assistance to SMEs on a sustainable basis;
- Consolidation of SME database in partner agencies to ensure that platforms are user-friendly and accessible by stakeholders ;
- Monitoring and Evaluation

2.5 Project Communication Methodology, Donor Cooperation and Visibility;

The communication plan will be prepared by the Executing Agency with support from the consulting firm. The communication plan will include among others: (i) Communication channels and material to be used (ii) Objectives to be achieved through the communication; (iii) Key messages to be communicated; (iv) Person/people/organization responsible for communication; (v) How information will be distributed including specific activities involved; (vi) Timeline for each communication to be made; and (vi) Benchmarks of successful communication. The communication plan will be design to reach both male and female stakeholders. The communication plan will include collection and drafting of lessons learned, modeling of the business linkage project as a product (including key success factors) and organization of stakeholder meetings for mid-term review and project completion.

During project implementation, there will be efforts to enhance donor cooperation with representatives of the donors'¹² agencies. JICA is already supporting CPI in capacity building activities. The Government of Japan has developed a Nacala Development Corridor Master Plan. The Executing agency will pay particular attention to envisaged activities under the plan to increase synergies. The Executing agency with support from consulting firm, will work with representatives of the donors to capture and document information on successes and lessons learned during implementation. These activities and participation of donor representatives on the project steering committee will also assist in enhancing visibility of donors. In addition, the visibility plan will include among others (i) involving the Bank and representatives of donors in the major activities of the project such as launching of project and key project milestones. (ii) Media coverage of major project activities highlighting donor's contribution. (iii) Prominent display of AfDB, FAPA, donor's logos on invitation letters, leaflets, brochures, banners/posters, display panels, online sites or website, and (iv) Press releases on key project activities that will include acknowledgment of donors' contributions.

¹² This will include JICA and Austria Development Agency

2.6 Critical Risks

To ensure the success of the project, mitigation measures have been envisaged to address critical risks identified. The critical risks presented in the table 2 below are indicated in the results-based logical framework matrix.

Table 2: Critical Risks and Mitigation Measures										
Risk	Level	Mitigation Measures								
Economic and Political Governance Mozambique is going through an economic crisis following unreported debt, leading to suspension of donor aid. This has a bearing on Institutions that are fully funded by the Government that are partners in the project	Low	Project will pay for a full time project coordinator and make provision for coordinator operational costs								
Existence of Large Companies with opportunitiesfor SME business linkages: In the short term,construction of liquefied natural gas (LNG) plantscould be significantly delayed because of protractednegotiations. Over the longer run, persistently weakinternational commodity prices and significantslowdowns in China and other key economies mightdelay the expansion of coal mining projects anddampen growth.Active participation and commitment of	Moderate	TA project during assessment will identify more large companies with linkages opportunities The business linkage program has networking activities which will ensure there is continued dialogues with all companies The trained SMES will be part of the CPI database which promotes linkages nation-wide The TA project has been designed taking into								
stakeholders . The project success depends on strong commitment of stakeholders especially the large private sector operators that will sub-contract SMES. There is a risk of not finding committed partner companies (i) that are willing to sub-contract SMES in view of skill deficiencies in Mozambique and poor work ethics and; (ii) that will allow their supervisory workers to participate as mentors in the program.	Noderate	account the early consultation with key stakeholders to get a buy-in and ensure stakeholder ownership of the TA project. In addition, the consulting firm that will be recruited, will undertake a scoping and assessment exercise at the beginning of assignment and facilitate networking sessions to market the program benefits and get a buy-in of all the key stakeholders especially the partner companies.								
Commitment of SMES ready and willing participate in the program: Business linkages program's success depends on identifying self- motivated SMEs, ready to contribute their time and resources in the program and willing to be honest and share intimate information of their business operations	Moderate	The involvement of the Construction Association will help in ensuring most of the participants are members of Association and therefore known. In addition, the call for proposals will select 50 SMES and the first phase will be used to identify those committed through a number of activities. This will provide an opportunity to sieve out those that are not ready as well as get a buy-in from those that will participate in the program. The criteria will include: Fee based training to increase commitment of participants; tight selection criteria involving stringent questionnaire and interviews to identify participants most likely to succeed.								
Project management, coordination and institutional support Coordination problems owing to a multiplicity of project actors. Public institutional capacity, coordination and design and implementation weaknesses present a risk. The limited human and institutional capacity of implementing agencies at provincial level and, the inadequate coordination effectiveness of central entities especially may affect project implementation	Moderate	 Capacity building and Institutional support to CPI to support effective coordination, strong oversight and monitoring and provision of TA for project management and coordination will be integral part of the TA project The project will recruit a fulltime project coordinator to be based in Nampula to support project implementation and report on progress cooperation with JICA institutional support 								

Table 2: Critical Risks and Mitigation Measures

3. IMPLEMENTATION AND EVALUATION

3.1 Project Management

The Project will be implemented under the Bank's new Procurement Framework Policy approved by the Board in October 2015. National Public Procurement Procedures (NPP) will be assessed. However in order to gain time, Advance Procurement Method will be used where necessary upon request from the Government to facilitate some essential pre-project approval activities. The Procurement Plan and Procurement packages for each component of the project was agreed with Government during Appraisal of the project.

3.2. Institutional and Implementation Arrangements

3.2.1 Implementation Arrangements

Centro de Promocao de Investimentos – Investment Promotion Centre (CPI) will be Executing Agency for the Project. A Project Steering Committee will be established, consisting of representatives from the Project stakeholders namely (i) key line Ministries and government agencies at provincial level (Industry and Commerce, Public Works); (ii) private sector; and (iii) Business Associations (the list of positions is presented in the technical annexes). The PSC will provide oversight, strategic and policy guidance. Will be chaired by the Director General of CPI.

The PIU shall consists of a Project Coordinator, a Procurement Specialist and a Gender /M&E Specialist recruited under the Project. CPI will assign an Accountant to the Project on a full time basis. The PIU shall have staff in both Maputo and Nampula offices, with at least one of the staff on full-time basis in Nampula. The decentralized location will allow a closer follow up of the project activities and proper connectivity with CPI headquarters in Maputo. The PIU will provide for the overall fiduciary management, project oversight and coordination. Reporting will be the responsibility of the Project Coordinator who will report to the Bank providing performance reports to AfDB as per agreed terms of reference. The CPI will allocate office space for the project team in Nampula and Maputo. The request for advance procurement, the terms of reference and the expression of interest for recruitment of the project coordinator, the procurement officer and the curriculum vitae of the appointed accountant will be submitted by CPI for Bank's clearance before the submission of the project for approval.

An organizational structure for institutional arrangements is presented below



3.2.2 Program Partners and Implementing Agencies:

The following will be the program partners:

- <u>CPI</u>: Is the Executing Agency and will play key role in SME assessment, database consolidation, project coordination and networking sessions between SMEs and large scale companies
- <u>IPEME</u>: IPEME will support the consolidation of SME database in collaboration with AEPRENA and CPI and provide access to its business orientation centre in Nampula for various training sessions. In addition IPEME will facilitate training of SMEs using their training packages such as 5S and SME toolkit. Also review the BP to provide access to their fund?
- <u>AEPRENA</u>: Collaborate in selection process as well as create mechanism for continued capacity building in identified areas after conclusion of project
- <u>INEFP</u>: Will work with consulting firm in designing specific technical training program based on the findings of the scoping exercise. Staff of INEFP will be counterparts in the training and also receive specific training to support program
- JICA: Will participate through capacity building of CPI
- <u>CTA</u>: Will participate as key stakeholder in networking sessions and identification of partner companies

3.2.3 Implementation Schedule

The program will be implemented over a period of 3 years from the signature of the grant agreement in the 2^{nd} quarter of 2017.

3.2.4 Overall Timeline

Project will be implemented over a 3 year period. Table 2 below shows the estimated delivery timelines for activities under each of implementing phases and the TA components:

	2016	2016		20	017		2018		2019				2020		
Key Activities	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Project Approval process: Country Team Meeting															
Technical Review Committee Meeting															
Advance Procurement															
Donor approval															
Board Approval		l.													
Grant Agreement Signing															
Preparatory Phase – Assessment and launch															
Component 1: Scoping and Initial Assessment															
Identification of partner companies															
Recruitment and Assessment of SMEs in the construction sector:															

Table 2: TA Delivery Timelines

	2016	2016	20	17		20	18		20	19	2020
Recruitment and Assessment of BDS providers/Mentors											
Design and delivery training programs for Business Development Services Providers and Mentors											
Assessment of needs and capacity of the Association											
SME Training and Assessment											
Component 2: Capacity Building: (Business Diagnosis, Improvement Plan and Networking)											
SME diagnosis and database creation											
Design and deliver of SME training programs											
Design and Implementation of SME Improvement Plan;											
Design and delivery training programs for Construction Association and other SME support Institutions											
Provide business and technical mentorship support to SMES:											
Organise and facilitate SME and Partner Institutions Networking sessions											
Monitoring and Evaluation											
Component3:ProjectManagement, Co-ordination andInstitutional Building											
Project management and coordination											
Consolidation of database in partner Agencies											
Partner Agency Institutional capacity building											
Training of Associations											
Monitoring and Evaluation											

3.3 Monitoring and Evaluation of Outcomes

3.3.1 Monitoring and Evaluation Measures and Assurance.

A monitoring and evaluation framework will be developed. Guidance and technical comments will be provided by the Bank. The monitoring and evaluation plan will identify data that needs to be collected. Clear gender indicators will be developed. Developing the plan will be guided by the project logical framework. The project will be closely monitored by the project steering committee in quarterly meetings or special meetings when the need arises. The Bank will also closely monitor the project through reports and supervision missions, which will include a project mid-term review. Financial audits and a project evaluation at the end of the project, will be conducted by external independent consultants paid out of FAPA resources.

3.3.2 Reporting Requirements

The reporting requirements include submission of the following to the Bank by the consulting firm

- Scoping and assessment report
- Inception report
- Beneficiary Quarterly Reports (BQRs)
- Quarterly Financial Reports
- Midterm evaluation report
- A project completion report (PCR) providing overview of project implementation and results, profile new business established and proposal for sustainability of the program.

Other reports

- Audit reports as per FAPA requirement.
- Independent project evaluation report to be provided by an evaluation consulting firm.

3.4 TA Financing Plan

The total project cost is US\$1.12 million and there will be in-kind contribution from the Government of Mozambique and other stakeholders which will include office space, staff time, training costs etc. estimated at USD 120,000. The total cost for component 1 – (Scoping and Initial Assessment) is USD 151,000; component 2- (Capacity Building) will cost USD 407,750 and component 3- (Project Management, Co-ordination and Institutional building) will cost USD 446,250. The additional costs are for Audit (15,000) and evaluation (USD 50,000).

Components	Total Cost (USD)	FAPA(USD)	Local (USD)
Pre- Implementation	82,000	82,000	
Component 1 Scoping and Initial Assessment	135,000	135,000	
Component 2 - Capacity Building: (Business Diagnosis, Improvement Plan and Networking)	407,750	407,750	
Component 3 – Project Management, Co-ordination and Institutional Building	430,250	310,250	120,000
Project Audit	15,000	15,000	
Project Evaluation	50,000	50,000	
TOTAL	1,120,000	1,000,000	120,000

Detailed Cost Tables by Component

Activities	FAPA	Local	Total (USD)
Consultancy – Procurement Expert (10 months)	50,000		50,000
Consultancy – Project Coordinator (6 months)	30,000		30,000
Operating costs	2,000		2,000
Total Pre-implementation costs	82,000		82,000

Pre-Implementation Costs – Advance Contracting

Component 1: Scoping and Initial Assessment

Activities	FAPA	Local	Total (USD)
Consultancy (Selection of project partners (Companies, SMEs, BDS providers, Mentors, SME support Institutions); Identification of SME packages and BLP categories and training activities for all partners	112,000		112,000
Operating costs	23,000		23,000
Total Scoping and Initial Assessment	135,000		135,000

Component 2: Capacity Building: (Business Diagnosis, Improvement Plan and Networking)

Activities	FAPA	Local	Total (US \$)
Consultancy : SME Diagnosis, Design of SME Improvement Plan, Execution of SME Improvement Plan; Mentorship program; Program assessment, Various training workshops for partners, training for employees of SMEs and Networking	317,750		317,750
Operating costs	90,000		90,000
Total Capacity Building	407,750		407,750

Component 3: Institutional Building

Activities	FAPA	Local	Total (USD)
Consultancy : M&E Expert; Communication expert, Database expert and Associations Capacity Building expert,	173,000		173,000
Provision for Local costs – includes office space in Maputo and Nampula; administrative costs, professional staff costs, use of software, IT and related costs etc.		60,000	60,000
Operational Costs	14,000		14,000
Total –Institutional Support	187,000	60,000	247,000

Activities	FAPA	Local	Total (USD)
Consultancy: Project Coordinator	100,000		100,000
Provision for Local costs – includes office space in Maputo and Nampula; administrative costs, professional staff costs, use of software, IT and related costs etc.		60000	60,000
Goods – Office equipment and software	20,000		20,000
Contingency	3,250		3,250
Total – Project Management and Coordination	123,250	60,000	183,250

Component 3: Project Management and Co-ordination

Other Costs

Activities	FAPA	Local	Total (US \$)
Audit	15,000		15,000
Project Evaluation	50,000		50,000
Total Other costs	65,000		65,000

4. FINANCIAL MANAGEMENT

CPI will be responsible for all project Financial Management (FM) related issues. A Financial Management assessment of CPI was carried out by Bank's Fiduciary Services Division (ORPF.2) in accordance with the Financial Management Policy in African Development Group financed operations (2014), the Financial Management Manual for Bank Group Public Sector Operations (2014), and the Financial Management Implementation Guidelines for Bank Group Operations (2014). The objective of the assessment was to determine whether there are acceptable financial management arrangements in place which will ensure: (1) the funds are used only for the intended purposes in an efficient and economical way, (2) the preparation of accurate, reliable and timely periodic financial reports, and (3) safeguard the entities' assets. A Country Fiduciary Risk Assessment done during July 2016 as part of the preparation of the Operation group group of the assessment for the intended out as part of supervision of the ongoing projects, results of which were taken into account in performing the assessment for this new project.

The overall conclusion of the assessment is that CPI's capacity to handle all the FM aspects of the project, satisfies Bank minimum requirements as laid out in the Bank's FM guidelines given their prior experience in managing funds received from other development partners. The department of Administration and Finance has qualified staff to carry out the project implementation. CPI has in the past (in 2006) implemented donor (World Bank) funded project. E-SISTAFE complemented by "Primavera Professional 9.15" accounting software currently used by CPI are adequate for accounting for the project funds. The payment and internal control systems are adequate for the project design. The external audit arrangement is adequate. The Financial and Accounting procedural manual provided is for 2006 and this may need to be updated. The Special account will be used for payment of recurring office operations whereas direct payment method will be used for major consultancies and other huge payments. Budgeting execution arrangement is acceptable. The overall FM residual risk for the project is assessed as Moderate.

In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit a Quarterly Financial report to the Bank not later than thirty days (30) days after the end of each calendar quarter. The project will also prepare and submit financial statements, audited by an independent private audit firm, together with the auditor's opinion and management letter to the Bank not later than six (6) months at the end of each financial year.

5. **PROCUREMENT**

5.1 **Procurement Arrangements**

A Country Procurement Risk Assessment was carried out in 2014 by the Bank. The procurement system has been assessed against the 21 critical sub-indicators, selected by the Bank among the OECD/Development Assistance Committee (DAC) Methodology for Assessing Procurement Systems (MAPS) sub-indicators, in order to ensure that the Bank's fiduciary obligations and standards are not jeopardized when using this system for a Bank-financed project. While the legal framework of the Country Procurement System is generally consistent with international standards, there are some weaknesses.

The identified discrepancies and related risk ratings have been updated, during the appraisal mission, in order to ascertain to what extent the procurement system can be used depending on the type, nature and complexity of the project's transactions. The mission noted particularly (i) the absence of an independent forum through which decisions by the Procurement Entity may be appealed to ; (ii) the lack of capacity of public procurement practitioners and at internal and external control levels (*the General Inspectorate of Finance and the Administrative Tribunal have limited resources*), (iii) the fragility of the private sector in accessing public contracts and (v) the integrity of the payment system is not ascertained since the procurement function is not fully integrated to the PFM system, e-SISTAFE, including at the stage of budget preparation and execution.

The outcomes of the review have led to the conclusions that the risk for the use of the Country Procurement System for the Nacala project is globally rated at "**substantial**" (See further details **Procurement Annex B** 5).

All contracts will be carried out using the BPM in line with the Bank's Procurement Policy for Bank Group Funded Operations (BPM), dated October 2015, utilizing available Bank's Standard Solicitation Documents (SSDs).

5.2 Consulting Services

Consulting services, to be supplied by one consulting firm, for the three components estimated to cost USD 480,700 will be carried out using Quality and Cost Selection Method under the BPM. The consultancy services include (i) **Scoping and initial assessment** (Identification of partner companies; Recruitment and Assessment of SMEs; Recruitment and Assessment of BDS providers/Mentors; Assessment of needs and capacity of the Association; (ii) **Capacity Building - Business Diagnosis, Improvement Plan and Networking** (SME Training and Assessment; SME diagnosis and database creation; Design and delivery of training programs for SMEs; Design and delivery training programs for Business Development Services Providers and Mentors to support SMEs in business linkages; Design and Implementation of SME Improvement Plan; Provision of business and technical mentorship support to SMES; SME and Partner Institutions Networking sessions; and (iii) **Project Management, Co-ordination and Institutional Building** (Design and delivery training programs for the project implementation unit in CPI, the Construction Association (AEPRENA) and other relevant SME support Institutions (IPEME, CTA, CPI); Consolidation of SME database in partner agencies; and Monitoring and Evaluation.

Consulting services for Project evaluation estimated to cost USD 50,000 will be carried out using the Selection Based on Consultants Qualifications (CQS) Method under BPM.

External Audit, estimated to cost USD 15,000 will be recruited using the Least Cost Selection Method under BPM.

Procurement Specialist, project manager, M&E expert and Institutional support consultants will be hired under recruitment of individual consultants.

The various items to be procured under different expenditure categories and related methods of selection are summarized in Table 5 below.

All contracts will be carried out using the BPM in line with the Bank's Procurement Policy for Bank Group Funded Operations (BMP), dated October 2015, utilizing available Bank's Standard Solicitation Documents (SSDs).

5.3 Goods

The procurement of hardware and software office equipment estimated cost is at USD 20,000 will be carried out through Shopping Method of procurement using Bank's Standard Solicitation Documents. Shopping procedures are appropriate for readily available off-the-shelf goods and standard specification commodities of small value.

Item of Expenditure	Shortlisting	Procurement Method	Others	Amount (USD)
1. Goods				
1.1 Office Equipment and Software		Shopping		20,000
2. Services				
2.1 Consultancy firm – Scoping and Initial Assessment, business diagnosis, SME capacity building, design and execution of SME improvement plan, various workshops, networking, institutional support etc.	480,750	QCBS		480,750
2.2 Individual Consultant – Procurement expert, project management and coordination, mentoring, program assessment, monitoring and evaluation	302,000	IC		302,000
2.3 Audit firm - External Audit services	15,000.00	LCS		15,000.00
2.4 Consultancy firm –Evaluation services	50,000.00	LCS		50,000.00
2.5 Operating costs – Including local travel for PIU, local expenses towards workshops, training, seminars, logistics, image building awareness campaigns and communication		LCS	129,000	129,000
2.6 Contingency			3,250	3,250
2.7 Local contribution (in Kind)			120,000	120,000
Total				1,120,000.00

Table 5 - Procurement and Selection Methods

Note: "Others" include Executing Agency's Administrative & financial accounting procedures

Training

The Project will formulate an annual work plan and budget, which will be submitted to the Bank for prior review and approval.

Specific Procurement Notices

Requests for Expressions of Interest (REOIs) for all consulting services to cost the equivalent of USD 100,000 and above would also be published in the United Nations Development Business (UNDB) online, Bank's external website and the national press. When the amount of the contract is less than USD 100,000; the Borrower may limit the Publication of a Specific Procurement Notice (SPN) requesting for expressions of interest to national or regional newspapers. However, any eligible consultant, being regional or not, may express their desire to be short-listed.

General Procurement Notice (GPN)

A General Procurement Notice (GPN) will be prepared and published in United Nations Development Business (UNDB) online, on the Bank's external website and in at least one national newspaper after the project is approved by the Bank and/or before Project effectiveness.

Procurement Plan

The Borrower developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team during the project appraisal mission. It will be made available in the Project's database and in the Bank's external website. This Procurement Plan will be updated by the Borrower's Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. Any revisions proposed to the Procurement Plan shall be submitted to the Bank prior no objection. The Borrower shall implement the Procurement Plan in the manner in which it has been agreed with the Bank.

Assessment of the Executing Agency

The Centro de Promocao de Investimentos (CPI) will serve as the executing agency for the Project and will be responsible for the procurement of consulting services. An assessment of the procurement capacity of the Executing Agency to implement procurement actions for the project has been carried out by the Bank. The UGEA (CPI Procurement Management Unit) is comprised of four members, with limited experience in procurement, that are responsible for the day to day management of procurement, from the planning stage through to the contract management, and reports to the CPI General Director, in his capacity as Competent Authority, in compliance with the decree 5/2016 dated 8th March that Regulates Contracting of Public Works, Supply of Goods and Consultancy and Non-Consultancy Services.

It has been noted through the assessment that although the UGEA has, in numeric terms, enough staff to handle procurement, however, its members are assigned to other tasks within the organization and are not fully dedicated to the Unit. In addition; given that the UGEA deals mostly with Borrower procurement procedures, the low exposure to MDB's procurement procedures capacity of the UGEA will remain a challenge throughout the entire implementation period of the project.

To mitigate the risks identified during procurement assessment Advance procurement for the recruitment of project staff including procurement specialist will be used. The Executing Agency has submitted a letter requesting for Advance procurement (see Annex)

Review procedures

All procurement decisions will be subject to prior review procedures therefore, the following documents are subject to review and approval before promulgation: General Procurement Notice, Specific Procurement Notices, Tender Documents, Tender Evaluation reports, including recommendations for contracts Award, Draft contracts if these have been amended and differ from the drafts included in the tender documents, Reports on Evaluation of Consultant's Technical Proposals, Reports on Evaluation of Consultants' Financial Proposals, including recommendations for contracts documents.

6. **DISBURSEMENT MODALITIES**

The grant resources will be disbursed in line with the Disbursement Rules and Procedures of the Bank.

The consultancy firm will be paid by direct payment method upon instruction and confirmation by the Executing Agency that the work was performed satisfactorily and deliverables accomplished. The service agreement with the consultancy firm should include consultancy fees as a lump sum which should include all travel related costs and living expenses.

Expenses of PIU and beneficiary agencies relating to operating costs, logistics, training/workshop expenses, awareness campaigns and stakeholder platform facilitation, will be paid through a special account to be opened by the CPI in a commercial bank acceptable to the Bank, upon terms and conditions as will be established by the Bank ensuring proper accountability and reporting.

FAPA resources will be disbursed only in USD. Hence, all contracts and each disbursement request under the grant will be USD denominated.

7. **RECOMMENDATION**

The Management recommends that the Boards of Directors approve the proposed grant in an amount of USD 1 million to the Republic of Mozambique for the purposes and subject to the conditions stipulated in this Technical Assistance Request.

Annex 1 - Results-based Logical Framework Matrix of the TA Program

Project Name: Nacala Corridor Business Linkages TA Project – Mozambique

Purpose: To improve the efficiency and competitiveness of SMEs in the construction sector in the Nacala Corridor

	RESULTS CHAIN	PERFORMANCE IND	ICATORS		MEANS OF	RISKS/
		Indicator	Baseline ¹³	Target	VERIFICATION	MITIGATION MEASURES
INPACT	Inclusive Economic Growth (i.e.) Social inclusion: Ensuring equal opportunities for all	GDP in Construction Sector	2499 MZN Million (June 2016) ¹⁴	3267 MZN Million (2020)	Construction Sector Economic Reports: Instituto Nacional De Estatistica, Mozambique. Impact evaluation	
OUTCOMES	 New jobs created (men and women) Improved performance of SMEs in construction sector Expansion of goods and services procured locally (Local content) Increased number of sub-contracts between SMEs and large companies". 	 1.1 Number of jobs 2.1 SME upgrade in construction classification¹⁵ 3.1 Value of goods and services procured locally by large companies 3.1 Value and number of contracts signed by SMEs 	TBD 3 and 4 TBD TBD	TBD 4 and 5 TBD USD10 million (10 companies ¹⁶ @ USD1 million /contract) ¹⁷ TBD	Quarterly progress reports, Association Annual Reports Project Activity Reports	Buy-in and Active participation of large companies. There is a risk of not finding committed partner companies who are willing to sub-contract SMES and allow their supervisory workers to participate as mentors. Mitigation: TA project designed included early consultation with most stakeholders to get a buy-in and ensure stakeholder ownership of the TA project. In addition the consulting firm that will be recruited, will undertake a scoping exercise at the beginning of assignment to get a buy-in of all the key stakeholders especially the partner companies.

¹³ Some of the baseline will be defined during Scoping and Assessment

¹⁴ Instituto Nacional De Estatistica, Mozambique

¹⁵ Construction sector companies classified from 1 - 7 (7 highest) and TA is targeting those in classes 3 and 4

¹⁶ TA project targeting contractors in class 3 and 4 with upper bound contracts of 60 million meticals (i.e. USD1 million – June exchange rate)

¹⁷ According to one source, indigenous construction firms bid frequently for projects requiring limited finance, involving less than US\$500,000. Close to 95% of local construction firms are able to bid for this kind of project (ANEMM, 2000, Lopes, 2006). Lopes (2006) reported the existence of 270 Mozambican contractors, of which only 5% are able to bid for construction projects requiring high project finance.

Component 1: Scoping and Initial Assessment Output 1.1 – Companies' SME packages, business & technical category developed, Output 1.2 – SMEs trained in ILO improve your construction businesses Output 1.3 – BDS providers/mentors trained Component 2: Capacity Building: (Business Diagnosis, Improvement Plan and Networking) Output 2.1 – SME Diagnostic Reports produced and SME improvement plans designed Output 2.2 – Training Curriculum developed Output 2.3 – SMEs and employees trained in	Component 1Output 1.1 – No. Companies participatingOutput 1.2 – Number of SMEs trained andqualify for linkages programOutput 1.3 – Number of BDS/Mentors trainedand qualify for mentorshipOutput 2.1 – SME Improvement Plan andImplementation programOutput 2.2 – Number of courses developedwith accreditationOutput 2.3 (a)- Number of SMEs completingtrainingOutput 2.3(b) Number of SME employees	0 0 0 0 0	5 20 10 20 TBD 20 100	Quarterly progress reports, Training Reports Activity Reports Diagnostic Reports Progress Reports on implementation of improvement plans	Availability of SMES ready and willing to grow. Business linkages program's success depends on identifying self- motivated SMEs, ready to contribute their time and resources in the program and are willing to be honest and share intimate information of their business operations <i>Mitigation:</i> Selection criteria will include: Fee based training to increase commitment of participants; tight selection criteria involving stringent questionnaire and interviews to identify self mativated participants most likely to
business management and technical aspects on contracts Output 2.4 – Workshops, seminars and Networking sessions held Component 3: Project Management, Co- ordination and Institutional Building Output 3.1 – Support Institutions trained Output 3.2 – Consolidated SME database	trained Output 2.4.1 – Platform for construction business linkages dialogue formed Output 2.4.2 – Number of sessions Output 3.1 – Number of programs/activities adopted by SME support institutions after training Output 3.2 –Functioning database in CPI; AEPRENA and IPEME in support of BLP	0 0 0 0	1 60 <u>TBD</u> <u>3</u>		self-motivated participants most likely to succeed. Limited human and institutional capacity of implementing agencies at provincial level and, the inadequate coordination effectiveness of central entities especially may affect project implementation Mitigation: Capacity building and Institutional support to CPI and project will recruit a fulltime project coordinator to be based in Nampula to support project implementation
Scoping and Initial Assessment : Identification of sector; Recruitment and Assessment of BDS prov Services Providers and Mentors; Assessment of n <u>Capacity Building: (Business Diagnosis, Improve</u> deliver of SME training programs; Design and In programs for SME support Institutions; Provide SME and Partner Institutions Networking session <u>Project Management, Co-ordination and Institut</u> in partner Agencies; Partner Agency Institutiona	viders/Mentors; Design and delivery training p needs and capacity of the Association; SME Tr ement Plan and Networking) SME diagnosis an mplementation of SME Improvement Plan; De business and technical mentorship support to ns; Monitoring and Evaluation	orograms for aining and A nd database c sign and deli SMES; Orga dination; Cor	Business Development ssessment creation; Design and ivery training anize and facilitate		ion of which USD 1.0 million is and Local contribution in Kind is valued

outputs

Annex 2 – Detailed Procurement Plan (Goods and Services)

1 General

Country/Organization:	Mozambique
Project/Programme Description	Nacala Corridor Business Linkages TA Project
Project/Programme SAP Identification #	
Grant #:	TBD
Executing Agency:	The Centro de Promocao de Investimentos (CPI)
Approval Date of Procurement Plan:	TBD
Date of General Procurement Notice:	TBD
Advance Contracting	USD 80,000
Period Covered by these Proc. Plans:	Entire Period

Procurement decisions subject to Prior Review by the Bank as stated in the Appraisal Report

2. **Prior Review Threshold:**

3 Procurement Plan Goods

Goods: Prior/Post review Threshold						
Procurement Method Prior review Threshold (USD) Post review Threshold (USD) Frequency of Review						
Shopping	-	-	All			

4 Consultants (see note 1)

Selection Method	Prior review; Threshold (USD)	Comments
1. QCBS (Firms)	10,000	
2. IC	10,000	
3. LCS	10,000	
4. LCS	10,000	

Procurement Packages with Methods and Time Schedule

Procurement Packages: Methods and Time schedule for 36 Months								
Package Description	Lot no.	Estimated Amount in USD (000)	Lump sum or Unit Rate	Proc. Method	Pre or Post Qualification	Prior/ Post Review	SPN Publication Date	Contract Start Date
Office equipment, software and								
Supplies								
	1	20.0	LS	Shopping	Post	Prior		
Total Cost		20.0						

Procurement Packages with Methods and Time Schedule				Basic D	ata	Request for Expression of Interest		Terms of Reference		Short List				
Description*	Date EOI Received	Date No- Objection	Selection Method	Lump sum or Time- Based	Estimated Amount in USD	Prior/ Post Review	Bid Closing Date	Plan/ Revised/ Actual	Date Published	Closing Date	Date Received	Date No- Objection	Date Received	Date No- Objection
Consultancy Firm to support	11 Nov 16	18-Nov-16	QCBS	Lump sum	480,750	Prior	20 Jan 17	Plan	21-Nov-16	5 Dec 16	11-Nov 16	18 Nov 16	15 Dec 16	23-Dec-1
implementation of components 1,2,								Revised						
and 3								Actual						
Individual Consultants:	11 Nov 16	18-Nov-16	IC	Lump sum	302,000	Prior	20-Jan-17	Plan	21-Nov-16	5 Dec 16	11-Nov 16	18 Nov 16	15 Dec 16	23-Dec-1
Implementation								Revised						
component 1, 2 & 3								Actual						
Audit firm -	15-Jan-19	22-Jan-19	LCS	Lump sum	15,000	Post		Plan	22-Jan-19	5-Feb-19	15 Jan-19	22-Jan-19	15-Feb-19	22-Feb-1
External audit services								Revised						
services								Actual						
Independent	15-Jan-19	22-Jan-19	LCS	Lump sum	50,000	Prior		Plan	22-Jan-19	5-Feb-19	15 Jan-19	22-Jan-19	15-Feb-19	22-Feb-1
consultant - Evaluation services								Revised						
E valuation bet vices								Actual						
Total Cost					847,750			Plan						
								Revised						
								Actual						

Request fo	Request for Proposal Proposal Period		sal Period	Bid Evaluation Technical (T) & Financial (F)			Draft Contract				Contrac	Contract Implementation			
Date Received	Date No- Objection	Issuance Date	Submission/ Opening Date	Submission Evaluation Report (T)	No- objection Evaluation Report (T)	Opening Financial Proposals	Draft Contract Received	Draft Contract Amount in USD	Date No Objectio n	Final Contract Received	Contract Amount in USD	Contract Award Date	Contract Signature	Start Date	End Date
15 Dec 16	23 Dec 16	9 Jan-17	20-Jan-17	3-Feb-17	10 Feb-17	10 Feb 17	17 Feb 17	479,250	24 Feb 17	01-Mar 16	479,250	08 Mar 17	15 Mar-17	20 Mar 17	31 Dec 19
15 Dec 16	23 Dec 16	9 Jan-17	20-Jan-17	27-Jan-17	3 Feb-17	N/A	10 Feb-17	302,250	7-Sep-16	14-Sep-16	136,364	21-Sep-16	28-Sep-16	5-Oct-16	2-Oct-19
15-Feb-19	22-Feb-19	28-Feb-19	22-Feb-19	01-Mar-19	08-Mar-19	15-Mar-19	25-Mar-19	15,000	01 Apr-19	08-Apr-19	15,000	15-Apr-19	22-Apr-19	1 May-19	31-Dec -19
15-Feb-19	22-Feb-19	28-Feb-19	22-Feb-19	01-Mar-19	08-Mar-19	15-Mar-19	25-Mar-19	50,000	01 Apr-19	08-Apr-19	15,000	15-Apr-19	22-Apr-19	1 May-19	31-Dec -19

Procurement Packages with Methods and Time Schedule continued

Annex 3 Terms of Reference

TERMS OF REFERENCE NACALA CORRIDOR BUSINESS LINKAGES TA PROJECT

1.0 BACKGROUND

Mozambique is a resource-driven economy that has shown a steady and significant growth over the last decade with GDP growing at an average annual rate of 7.8% during 2000-2010. The country's economy is largely based on agriculture. However industry, including chemical manufacturing, aluminum and petroleum production, has been growing. As one of the fastest growing economies in Africa, Mozambique's GDP is relatively evenly spread across services (45%), agriculture (32%) and Industry (23%). Mozambique's gross domestic product (GDP) growth rate slowed in 2015 as the economy adjusted to lower world commodity prices and decreased inflows of Foreign Direct Investments (FDI). Real GDP growth is expected to continue decelerating through 2016 and into 2017 at 6%, driven by falling exports revenues, rising import costs and reduced FDI. Weak external demand conditions and low commodity prices are anticipated to continue over 2016-2017, and then recover gradually by mid-2017 in line with world forecasts. The construction sector in Mozambique¹⁸ has been hovering between 3and 3.5% of GDP in recent years which is quite small for a fast growing country – e.g. the construction sector had typically accounted for more than 10% of GDP in high growth developing countries. Construction has experienced a reduced GDP from 2006 to 2011^{19} . However, with the expected LNG sector boom this will dramatically increase its share to an estimate of 20% contribution in 2020.²⁰ Despite low labour costs for most of the workforce, construction costs in Maputo are more than 30% higher than in South Africa

The Nacala corridor development program is part of the Spatial Development Initiative (SDI) under the SADC programs for Mozambique, Malawi and Zambia, which targets sub-regional cooperation. It emphasizes on an integrated development approach with infrastructure and private sector development being the key pillars. The Corridor originates at the Nacala Port in northern Mozambique and spans a total of 1,710 km through Mozambique, Malawi and Zambia. The areas which are economically, socially or environmentally under the influence of the Nacala Corridor are much larger than the immediately surrounding areas of the transport infrastructures of rail and road. The impact areas in Mozambique include five provinces: namely Nampula, Niassa, Cabo Delgado, Zambezia and Tete. The five provinces have over 499,000 km2 and approximately 14 million population (2011). There is a deliberate effort by the Government of Mozambique to develop the northern region of the country owing to the huge potential of the area, which has vast natural resources, arable agriculture land, vast population but low human development indices.

In view of the large resources in this part of Mozambique, the country has attracted a number of large projects in the surrounding areas in infrastructure developments (rail, port road), in oil and gas in Cabo Delgado, in agricultural development (e.g. pro-savannah - a triangular partnership between Brazil, Japan and Mozambique and a US\$100 million World Bank funded integrated Growth pole projects etc.

These emerging projects and activities are creating potential opportunities for small businesses in multiple service sectors including agribusiness, construction, maintenance, logistics, hospitality etc. This TA is supporting the construction sector in view of its economic importance in the new developments and the opportunity it provides to local SMEs to participate in the supply chain.

The African Development Bank is in this regard supporting the Government of Mozambique to implement a three-year business linkages Technical Assistance project with funding from the Fund for African Private Sector

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World Bank Report - Mozambique - CEM - Construction sector

¹⁹ See The Business Year – Mozambique (2013)

²⁰ IMF (2013)

Assistance (FAPA). The TA is aimed at contributing to the Government of Mozambique's efforts, to create decent jobs and sustainable incomes for SMES in construction sector along Nacala corridor.

The Government of Mozambique through the CPI – the Executing Agency, is therefore seeking the services of a Consultancy Firm to implement the following components of Nacala Corridor Business Linkages Technical Assistance project: a) Scoping and Initial Assessment; b) Capacity Building: (Business Diagnosis, Improvement Plan and Networking); and c) Project Management, Co-ordination and Institutional Building.

2.0 **OBJECTIVES**

The main goal of the TA project is to improve the efficiency and competitiveness of local businesses in the Nacala Corridor for accelerated economic and social growth in Mozambique. The objectives are: (i) to strengthen the business management skills and industry knowledge of selected SMEs in the construction industry to enable then take advantage of business opportunities provided by the Nacala rail and port project and other investments and (2) provide knowledge, expertise and tools to SME support institutions to enable them continue supporting SMEs in construction industry and other sectors at the end of the TA. The TA project will only play the role of a facilitator to help the SMEs achieve their ambition through proper training, guidance, and access to resources. The TA will target large scale operators who see value in sub-contracting motivated SMEs who wish to improve their capabilities and grow their businesses.

The TA project will initially target 50 SME operators in construction sector in Nampula province and surrounding provinces either already being sub-contracted by large companies operating in the corridor or those that have potential to be sub-contracted

3.0 SCOPE

The consultant/firm working closely with CPI, will be responsible for developing Business linkages between SMEs and large companies. The consultant will also develop mechanisms that will help to nourish sales, income and growth on one hand and good relations, better communication and relevant capacities on the other hand so as to sustain the linkages.

The specific tasks for the consultant/firm will include:

- a) Undertake a scoping and initial assessment to identify project partners including; SMEs, large participating companies, BDS providers, SME Support institutions and other partners.
- b) Design a business linkage implementation framework;
- c) Undertake SME diagnosis to determine skills gap and develop baseline data, improvement plan, upgrade methodology, training content, materials, actions and modes of delivery in order to accomplish outlined objectives in consultation with project partners
- d) Develop a work plan with schedules and timelines for the implementation of the business linkage program in consultation with CPI and project partners
- e) Develop a project monitoring tool
- f) Support SMEs upgrading through business management and technical skills trainings, , business diagnostics, business management skills development, knowledge on contract management, tender procedures, bidding, project closures and other linkage tools to enable SMEs became reliable supply partners to large companies
- g) Deploy BDS providers, consultants, industrial experts and oversee the activities in upgrading SMEs
- h) Mentor at least 20 SMEs to enable them build their knowledge and capabilities such that they can be integrated as suppliers in the supply chains of large companies.
- i) Initiate, actively facilitate and monitor business deals between large companies and SMEs

- j) Produce monthly reports on the project to be submitted to the steering committee and CPI
- k) Document profiles of linkages formed between Large companies and SMEs

The consulting firm will provide support for implementation of three components, namely: **Component 1: Scoping and Initial Assessment:**

This will include the following activities:

- <u>Identification of partner companies</u> Identification of 3-5 large scale operators interested in business linkages. This will involve identification of products and services (quantities, quality and standards) required by the large companies and their SME packages;
- <u>Recruitment and Assessment of SMEs</u>: Identification and selection of 50 SMEs in the construction sector considered suitable for the Business Linkages Program, through a call for proposals;
- <u>Recruitment and Assessment of BDS providers/Mentors</u>: Identification, recruitment and training of technical and business mentors and orient them to the business linkages project before implementation;
- <u>Assessment of needs and capacity of the Association;</u> Determination of needs and capacity of AEPRENA and design the required support;
- <u>SME Training and Assessment</u>: Undertake training of the 50 SMEs using ILO's Improve Your Construction Business training methodology and through an on-going assessment, select 15-20 SMEs that are suitable to participate in the business linkages program using a transparent criteria which will include: SME commitment, willingness to contribute towards the program, willingness to share business information, have business premises etc.

Component 2: Capacity Building: (Business Diagnosis, Improvement Plan and Networking)

The TA project will include a mentorship program to assist SMEs to develop their own capacities to enable them to fulfill contractual obligations according to company specification, budget and on time. The mentorship program will aim at improving the business processes and to re-engineer the SME's entire business—including its business strategy, health and safety systems, management style, technical skills, and staffing—over a one year period. The mentorship program will be tailored to the individual needs and weak areas of each SME operation. In addition, part of the networking will be aimed at facilitating SME's access to finance. TA project will collaborate with IPEME who are promoting a US\$11 million financing scheme for SME loans under a Portuguese Cooperating Fund (Corporate Fund for Portuguese Cooperation - FECOP). The funds are disbursed by BCI; Millennium BIM, Moza, and Banco Unico at 11% interest.

The component will include the following activities:

- <u>SME diagnosis and database creation</u>: Undertake an Assessment/diagnosis of between 15-20 SMEs, which will include analysis of baseline data in order to have a realistic assessment of the SMEs' technical, business and management capacity and identify areas in which they need assistance to effectively deliver products and services at the level required by the participating companies
- <u>Design and delivery of training programs for SMEs: Training program</u> to strengthen SME business management skills to meet company needs and standards; design training curriculum for each category after identification of common skill gaps during the assessment; design a group training curriculum for all the SMEs;
- <u>Design and delivery of BDS/Mentors training programs</u>: training program for Business Development Services Providers and Mentors to support SMEs in business linkages. Although project will make efforts to acquire staff of participating companies to provide technical services, provision of such services by corporations' staff is a costly exercise. This is therefore an opportunity to train independent consultants to offer these services.
- <u>Design and Implement SME Improvement Plan</u>; develop an **Individual Improvement Plan for Each SME** detailing all the categories and subcategories that it needs to build its capacity in, the targets it needs to achieve, and the associated deadlines

- <u>Business and technical mentorship support to SMES</u>: support and execute the **Improvement Plan** which includes Business and Technical Training covering the common skill gaps identified in the main business and technical categories and bring them all to a similar level of competency and Implementation of improvement plan by each by putting into practice the learning from the training and mentoring sessions.
- <u>SME and Partner Institutions Networking</u>: Organise and facilitate SME and Partner Institutions Networking sessions including participating large companies; financial institutions, government institutions and training institutions;
- Monitoring and Evaluation

<u>Component 3: Project Management, Co-ordination and Institutional Building:</u>

The aim of this component is; (i) to build capacities of SME support institutions to support the business linkages model that will be introduced; and (ii) build strong networks and platforms for continuous dialogue with the government, banks, insurance, tax administration, training institutions and the large private sector operators on various aspects that will further business growth in the ecosystem of the corridor. The support will also enable them to have a stronger voice, active participation in dialogue and effectively support the growth of their members' businesses.

This activities will include:

- Overall project management and coordination
- Design and delivery training programs for the project implementation unit in CPI, the Construction Association (AEPRENA); and other relevant SME support Institutions(IPEME, CTA, CPI) to enable them provide relevant assistance to SMEs on a sustainable basis;
- Consolidation of SME database in partner agencies to ensure that platforms are user-friendly and accessible by stakeholders ;
- Monitoring and Evaluation

4.0 DELIVERABLES²¹

- a) Inception report outlining among others:
 - i. Initial list of selected SMEs including their short profiles and core baseline indicators
 - ii. Implementation framework and methodology/'s adopted.
 - iii. Monitoring tool
 - iv. Detailed work plan and timelines
 - v. Linkage team and roles to be played by each team member
 - vi. Communication plan
 - vii. Donor and AfDB visibility plan
- b) Quarterly reports outlining among others SME upgrade activities conducted, issues/problems encountered and solutions therein and plan of activities scheduled for following month. Specific reporting requirements under each component include:
 - i. Improve your construction business Training reports;
 - ii. Activity completion report.
 - iii. Business diagnostics: Comprehensive business diagnostics report for each SME;
 - iv. Improvement Plan Implementation plan/work plan to build production capabilities for each SME, including baseline data, KPIs to achieve and timeline; activity completion report;
 - v. Business Management skills development training reports,
 - vi. Mentoring Reports
 - vii. Technical Skills training reports and activity completion report

²¹ Reports should be prepared and submitted by the consultancy firm- in both hard and soft forms to CPI

- viii. SME Performance Reports: a report on performance based on KPIs for each SME and an activity completion report.
- c) Grant beneficiary quarterly reports (BQRs) to FAPA team and the portfolio management division of the Bank.
- d) Final report providing overview of project implementation and results, profile of business linkages established and proposal for sustainability of the program.

Component 1: Scoping and Initial Assessment:

- a) Reports on Companies' SME packages, business and technical category developed,
- b) 50 SMEs trained
- c) 10 BDS providers/mentors trained
- d) Reports on SME profiles and Association Needs developed

Component 2: Capacity Building: Business Diagnosis, Improvement Plan and Networking

- a) SME Diagnostic Reports produced
- b) Training Curriculum developed
- c) SME Improvement Plans designed
- d) 20 SMEs trained and improvements plan supported
- e) 60 Workshops, seminars and Networking sessions held

Component 3: Project Management, Co-ordination and Institutional Building:

- a) 30 SMEs trained
- b) Capacity of 4 SME Support Institutions enhanced
- c) SME database consolidated and functional in 3 institutions

5.0 RESOURCES AND LOGISTICAL SUPPORT

5.1 Reporting lines

The consulting firm will work under the direct supervision of CPI and under overall guidance of the Project steering committee. The steering committee will review the assignment's deliverables as captured in the activity completion reports and project completion report.

5.2. Obligation of the government and the consultant

5.2.1 Obligation of the government

The Government through CPI will assist the consultancy firm in obtaining relevant information and materials from governmental institutions and state authorities as far as possible.

5.2.1.1 Facilities and exemptions

The Government through CPI will provide the necessary space for the consulting firm and its officers as inkind contribution. The Government through CPI will also designate a Project Implementation Unit (PIU) made up of a project coordinator, procurement expert, accountant and an M&E specialist.

5.2.2 Obligations of the consultancy firm

The consultants designated to the assignment by the consultancy firm shall collectively and individually in all professional matters provide their services to the Government of Mozambique to the best of their knowledge and belief. The Consultants' shall exercise all their skills, reasonable care and diligence in the discharge of their duties under the contract. They shall carry out the services in conformity with common professional practices and in accordance with generally accepted standards.

5.2.2.1 Consultancy firm Office:

The Consultancy firm shall be provided office space by CPI.

5.3 Administrative arrangements

The consultancy firm shall bear all administrative costs. The consultants/key experts designated by the consultancy firm are expected to use their own laptops, photography equipment etc.

5.4 Duration

The contract is spread over a three year period. The consultancy firm is expected to deliver the various components based on the number of estimated person days as indicated below. The schedule shall be determined in discussion with CPI. The assignment period and tasks could be reduced or extended if necessary to achieve desired outputs.

No	Component	Total person days
1	Scoping and Initial Assessment (Including BDS training): to be delivered by one (2) key experts and (1) none-key expert ²² in collaboration with local stakeholders.	80 person days for key expert 60 person days for none-key expert
2	Scoping and Initial Assessment – Group Training of 50 SMEs and 10 BDS providers – ILO experts	60 person days
3	Capacity Building: Business Diagnosis, Improvement Plan and Networking: to be delivered by one (3) key experts and one (2) none-key expert, with support of 15 BDS providers/mentors (Each local BDS provider/mentor will on average provide mentorship to 4 SMEs	240 person days for key expert and 425 person days for none-key expert
4	Project Management, Co-ordination and Institutional Building: to be delivered by one (1) key experts	60 person days for Key expert and

5.5 Modalities for payment

The consultancy firm shall make its quotations in one currency - USD (\$). The validity of the consultancy firm's offer should be 6 months from the closing date. The consultancy firm will be paid upon satisfactory delivery of planned activities as per payment schedule (5.5.1). The final report should be submitted to African Development Bank through CPI for necessary comments from stakeholders, within three weeks after completion of the assignment. The consulting firm will finalize the report within two weeks upon receiving comments and feedback from stakeholders.

5.5.1 Payment Schedule

S #	Description	% of contract value
1	Mobilization fee upon contract signing and receipt of an advance	5%
	guarantee.	
2	Following inception meeting/planning session and receipt of inception	7%
	report.	
3	Upon a) Satisfactory implementation of quarterly work program and	7% per quarter in Year 1
	fulfilling quarterly deliverables for Year 1 as per agreed upon work plan.	
	b) Submission of Beneficiary Quarterly Reports when due for Year 1.	
4	Upon a) Satisfactory implementation of quarterly work program and	7% per quarter in Year 2
	fulfilling quarterly deliverables for Year 2 as per agreed upon work plan.	
	b) Submission of Beneficiary Quarterly Reports when due for Year 2.	
5	Upon a) Satisfactory implementation of quarterly work program and	8% per quarter in Year 3
	fulfilling quarterly deliverables for Year 3 as per agreed upon work plan.	
	b) Submission of Beneficiary Quarterly Reports when due for Year 3.	
	c) Submission of final project completion report in quarter 4 for Year 3.	

²² Non-Key experts include BDS providers and mentors

6.0 TIME FRAME AND IMPLEMENTATION SCHEDULE

It is estimated that the consultancy will be carried out over a period of 36 months as shown in the schedule below:

	Mozambique: Nacala Corridor Business Linkages TA Project												
	Implementation Schedule												
Activity/Year	2017-2019												
	Jan- Mar	Mar- June	Jun- Sept	Oct- Dec	Jan- Mar	Apr- Jun	July- Sept	Oct- Dec	Jan- Mar	Apr- June	Jul- Sept	Oct- Dec	
Signature of Contract													
Inception Report													
Implementation of group training for SMEs and BDS providers													
Undertake SME Diagnostic and development of training Curriculum designed													
Design SME Improvement Plans													
Implementation of SME improvements plans													
Workshops, seminars and Networking sessions													
Implementation of business management and technical skills training													
Capacity building of SME Support Institutions													
Consolidation of SME database													
Monitoring and Evaluation													

7.0 QUALIFICATIONS

The firm will be selected through an international competitive selection process and must be incorporated in a member country of the Bank with a minimum experience of 10 years in carrying out similar projects in business linkages in the construction sector. It should at least have accrued out one such assignment. The consultancy firm's specialization and experience should include at least three of the following: bidding, tendering and post –tendering, (ii) quality, safety and environmental requirements, (iii) business and financial management and organizational internal controls.

The Consultancy Firm will designate experts for implementing each of the three components. These will be made up of: Key expert 1 – responsible for implementing component 1: Scoping and Initial Assessment; Key expert 2 – responsible for implementing component 2: Capacity Building: Business Diagnosis, Improvement Plan and Networking: Key expert 3 – responsible for implementing component 3: Project Management, Coordination and Institutional Building: The specific tasks and qualification for each designated expert are outlined below:

Qualification of Key Consultants/Experts <u>Lead consultant</u>:

Role and responsibility

- Accountable to the project coordinator for the performance of the project against agreed targets, and for the implementation of the business linkage program
- Conduct Assessment and scoping surveys and interviews with large companies to identify SME packages, business and technical category;
- Oversee identification and selection of SMEs to participate in the business linkage program, including successive selections as per program
- Oversee identification and selection of BDS providers and mentors to participate in the business linkage program,
- Identify Stakeholder needs and define appropriate support program
- Oversee work of the consultants/experts responsible for group training, business diagnostics, technical skills development, and management skills development;
- Initiate and actively facilitate and monitor business deals between large companies and SMEs
- Support SMEs upgrading to become reliable partners to large companies through the development and implementation of SME improvement plan;
- Ensure that all activity reporting requirements are met
- Share experience with the steering committee on the progress of the programme and its success
- Determine the scope of work and schedule for the management skills development and improvement plan implementation and mentoring
- Any other work as may be reasonably requested by the project coordinator

Qualification

- Advanced degree in business management, economics, economic development, project management or any related field
- Experience of working in large companies or with large companies in supply chains, distributorships and/or commercial areas or in financial services such as banking
- Experience in setting up a business linkages and a good understanding of the construction sector and operations of foreign affiliates in developing countries and SMEs
- Proven leadership, analytical and communication skills as well as ability to demonstrate attention to details
- Excellent communication skills and ability to write succinct and focused reports
- Proven ability to work effectively both independently and in a team
- Experience with working in a multidisciplinary environment, with BDS providers and in SME upgrading related activities.

<u>Consultant/Expert – Business diagnostics</u> Role and responsibility (Reporting to Lead Consultant)

- Develop a work plan for the implementation of the business diagnostics activity
- Conduct a Training of Trainers for BDS providers to participate in the business diagnostic component, improvement plan and mentoring
- Conduct a one day consultative workshops with selected SMEs and BDS providers to Familiarize them with business diagnostic framework to be used
- Route and schedule visits with the SMEs, establishing specific dates for each SME to be visited and diagnosed
- Collect basic data from SMEs as a foundation for the diagnostics
- Determine specific final arrangements for the actual diagnostics
- Visit and assess SMEs using a comprehensive diagnostic framework/analytical tool that is homogeneous to all SME diagnostics conducted to establish the diagnostic findings for each SME.

- Develop a report in a unified format for each SME on findings to establish a comprehensive general picture of the standing of each SME, including summaries presenting issues established and devised business strategies and possible solutions to address the issues.
- In collaboration with BDS providers work with the SMEs to develop a business improvement plan along with an appropriate implementation plan / work plan
- Develop an SME needs report as a result of the diagnostics to be used for development and implementations of the SME improvement plan that would make the SMEs become business linkage ready. The report shall include findings of diagnosis, causes and possible solutions and a prioritised proposed schedule of proposed solutions with costing.

Qualification

- An advanced degree in economics, business management, finance or related field
- A minimum of ten years' experience of enterprise development or related work
- Prior experience in conducting SME business diagnostic
- Familiar with challenges facing SMEs
- Training of Trainer experience
- Proven skills in SME strategy design
- Ability to work independently and oversee work of BDS providers
- Experience with business linkage facilitation will be an added advantage
- Certification by a recognized organization as an enterprise development expert will be an added advantage.

Consultant/Experts – Technical skills/Specifications in construction sector

Role and responsibility (Reporting to Lead Consultant)

- Design training program and develop training materials based on gaps identified during the SME business diagnosis, SME packages and technical categories;
- Develop work plan for implementing training program
- Deliver training workshops for SMEs and BDS providers
- Prepare a training completion report for each training conducted
- Support SMEs in preparing and implementing their Improvement Plans;
- Support BDS providers to mentor and coach SMEs in implementing the improvement plans
- Any other responsibility as reasonably requested by the lead consultant

Qualification

- Have educational background in engineering, economics, entrepreneurship, finance, business management or any other relevant and related fields.
- Knowledge and deep understanding of critical technical issues in the construction industry including health, safety and environment; maintenance and quality management;
- Experience and understanding of technical specifications, contracts and contractual arrangements, tendering and bidding arrangements, project financing applicable in construction industry;
- Have experience with transfer of knowledge, participatory approaches and/or facilitation

<u>Consultant/Expert – Business management skills training in construction sector</u>

Role and responsibility (Reporting to Lead Consultant)

- Design training program and develop training materials based on gaps identified during the SME business diagnosis, SME packages and business categories;
- Develop work plan for implementing training program
- Deliver training workshops to SMEs and BDS providers
- Prepare a training completion report for each training conducted
- Support SMEs in preparing and implementing their Improvement Plans;
- Support BDS providers to mentor and coach SMEs in implementing the improvement plans
- Any other responsibility as reasonably requested by the lead consultant

Qualification

- Have educational background in economics, entrepreneurship, finance, business management or any other relevant and related fields.
- Knowledge and issues concerning SME capacity building
- Fifteen years' experience of conducting entrepreneurship development training which involves self-assessment, individual transformation and business stimulation activities.
- Excellent communication skills and ability to write succinct and focused reports
- Have experience with transfer of knowledge, participatory approaches and/or facilitation
- Certification by a recognized organization as an entrepreneurship development trainer will be an added advantage

The Consultancy Firm will in addition to the four Key-Experts designate up to 5 none-key experts who will assist the Key experts in the implementation of the components. The none-key experts should have at least three years' experience in supporting SMEs in construction sector in particular and capacity building of SMEs in general. The Consultancy Firm will present CV's of the none-key experts to the Bank through the CPI for its no-objection before they can work on the assignment. The non-key experts will be selected among those that will be trained at the beginning of the program. The Consultancy firm will, in addition identify up to 5 mentors from the participating companies or local experts who should be available to attend briefing and training workshops to enable them assist with mentoring of SMEs especially in technical areas such as health, safety and environment, maintenance and quality management.

8.0 LANGUAGE:

The language of the assignment shall be in English. However Portuguese will be used where applicable, for example when delivering training. Therefore, excellent English and Portuguese communication skills (oral, written, and presentation) are essential.

9.0 MODE OF APPLICATION AND SUBMISSION OF PROPOSAL

- a) Any consulting firm either acting singly or as part of a consortium, which feels it has the right profile for this assignment should submit hard copies in triplicate:
 - i. Detailed technical proposal regarding how it plans to execute this assignment and attach the latest CVs of the lead consultant and four key experts who will undertake this assignment.
 - ii. Detailed financial proposal
 - iii. Names and addresses, including the telephone numbers /email addresses of three referees, preferably past clients
- b) The indicated in (a. i, ii, and iii) should be submitted within 30 days from the date of issue of these TORs to the following:

Antonio MACAMO

Investment Promotion Centre, Program Coordinator Linkages Services – SPX Centre Av. 25 de Setembro, Predio: Jose Antunes No. 2049, 1 andar, Caixa Postal 4635, Maputo, Mozambique; Tel: +258 21313310/70; +258 82 307 1831 Email: <u>amacamo@cpi.co.mz</u>





Annex 5: Advance Procurement Request



Ref: 289/DG/CPI/2016 Maputo, 30th September 2016

Subject: Advance Procurement of a Consultants for the Proposed Afdb SME Business Linkages Project in the Nacala Corridor.

Dear Sir,

- 1. The Investment Promotion Centre (CPI) presents compliments to the AfDB and high appreciation for cooperation of the Bank in support for the private sector development in Mozambique.
- 2. CPI has been selected as the implementing agency of the Fund for Africa Private Sector Assistance which is currently going through the Bank's approval process. The Centre is working hand with the assigned team of officers to finalize the development of the project.
- 3. In this regards, I write to request the Bank to consider advance procurement of the services of two consultants, namely the Project Coordinator and the Procurement expert under the Project to facilitate a quicker roll out.
- 4. It is my hope that you will consider this request accordingly.



To: Mr. Joseph Ribeiro The Resident Representative African Development Bank <u>Maputo</u>

C.c.: H.E. Adriano Maleiane, Minister of Economy and Finance