By Adrian Chikowore, AFRODAD

The Nacala Road Development Corridor in Zambia, Malawi and Mozambique
Accumulating debts at the expense of citizens and the environment

The Nacala Road Development Corridor is a regional mega-enterprise logistical project developed to enhance the regional connectivity of southeast African countries and to improve their further integration into global trade. The project has been implemented as a public-private partnership (PPP) by which the governments of Zambia, Malawi and Mozambique set up joint ventures to develop and manage the infrastructure and equipment in the corridor.

Improvements in regional connectivity and competitiveness have come at the cost of substantive negative impacts for local communities and the environment, including deforestation and illicit logging of trees, leading to soil erosion and logging. This, in turn, has threatened the livelihoods of rural populations along the corridor. The main beneficiaries of the project include actors in the transport industry, export/import operators, freight operators and the business community, and debts accumulated through loans for the project have come at the expense of citizens' welfare.

Project details

The Nacala Road Development Corridor (NRDC) is a multinational transport logistical mega-enterprise that aims to improve connections between areas in southeast Africa. The project includes the creation and management of highways and ports that directly serve Mozambique and Malawi, and indirectly serve Zambia and Zimbabwe.[1] It is essentially a project designed to connect these countries along an export corridor, connecting extractive and low-value added activities to ports of export, and is designed to feed into global value chains.

The overall focus of the project is to enable the transportation of agricultural produce, equipment and mineral ore from western Mozambique to the port of Nacala in Mozambique. However, this transportation route crosses into Malawi, before crossing back into Mozambique, which is another reason why this corridor crosses between three countries.

The project comprises a total of 1,163km of road works and one-stop border posts (OSBP) between Mozambique and Malawi, and Malawi and Zambia, allowing that services and processes required to declare and pay excise, immigration and export duties are just in one place. It consists of five phases that have been implemented since 2009:

i. It comprises 361km of road works in Mozambique and Malawi, focusing on the rehabilitation of the Cuamba-Muita road in the north of the country.

ii. It comprises 360km of road works in Zambia.

iii. It comprises 312km of road works in Mozambique and Malawi, and an OSBP between Mozambique and Malawi.

iv. It involves the upgrading, widening and renovation of a 75km road between Liwonde and Mangochi in Malawi, along the corridor, as well as the establishment of an OSBP between Malawi and Zambia.

v. It involves the rehabilitation of a 55km road between Nsipe and Liwonde in Malawi; and the construction of an OSBP between Malawi and Mozambique at Chiponde.

How is the project financed?

The project is implemented as a PPP in which the governments of Malawi, Mozambique and Zambia set up joint ventures to develop and manage the infrastructure and equipment in the Nacala Road Corridor.

The main financier of the project is the Africa Development Bank (AfDB), which has provided loans through the Africa Development Fund (ADF) to the governments involved. Other project financers include the Japanese Investment Cooperation Agency (JICA), the Export-Import Bank of Korea (Korea EXIM) and the European Union-Africa Investment Platform.[2]

Early estimates placed the cost of the project at US$ 540.82 million. However, due to subsequent reviews that led to the development of additional work,[3] the corridor's cost stands at an estimated US$ 685.09 million, excluding interest and contingent liabilities charged on failure or delays to raise counterpart funds.[4]

The project has seen the use of two main financing instruments, namely loans from financial institutions and development partners, and counterpart funds, i.e. funds coming from the national governments. Loans and grants provided by the AfDB and other development partners have been used across the five phases to attract private finance. Moreover, the respective governments have offered risk mitigation mechanisms through counterpart financing to avoid financial claims from the contractors or termination of contracts.

An analysis of contracts awarded shows that four out of five companies contracted are Chinese state-owned companies and joint ventures, which constitute at least 71 per cent of the total cost (US$ 145,282,548) of infrastructure provision for contracts entered into between 2014 and 2019.[5] The companies are contracted by the respective governments after acquiring loans that are repaid through taxes and service fees from infrastructure such as the OSBPs. The companies are:

- **China State Construction Engineering Corporation**, a Chinese state-owned based enterprise contracted for the construction of Mwami/Mchinji OSBP in Zambia at a cost of US$ 4,551,341 under Phase IV of the Nacala Corridor Project
- **China Communications Construction Company**, a Chinese state-owned based enterprise conducting civil works on Muita-Massangulo highway in Mozambique at a cost of US$ 39,249,262 under Phase III of the Nacala Corridor Project. The company (including all of its subsidiaries, except where the content otherwise requires) is the first large Chinese state-owned transportation infrastructure group to enter the overseas capital market.
- **Anhui Foreign Economic Construction Group**, Chinese state-owned based company undertaking the construction of Mchinji OSBP1 in Malawi at a cost of US$ 9,642,290 under Phase IV.
- **Mota-Engil Engenharia**, a Portuguese company registered in Malawi undertaking Rehabilitation of Liwonde-Mangochi Road, at a cost of US$ 42,163,498.
- **CRIG-COVEC Joint Venture**, a China-Mozambican venture providing road works on the Cuamba-Muita road project LOT D at a cost of US$ 49,676,157. China Overseas Engineering Group Co., Ltd. (COVEC) and CRIG are wholly owned subsidiary of parent, China Railway Engineering Group (CREC) are all state enterprises.[6]

It is important to note that there is limited to no access to financial reports that document the profits obtained by these companies. However, the project is potentially linked to the Belt and Road initiative, which is being spearheaded by China and is modelled along extractivist lines.[7] It connects the hinterland and the port at Nacala.

What is the project rationale?

Given the relevance of the Nacala Road Corridor for trade competitiveness, it falls within the Southern African Development Community's (SADC) priority projects, which were included in the New Partnership for Africa's Development – Short-Term Action Plan for Infrastructure (NEPAD-STAP) programme, as well as in the more recent Partnership for Infrastructure Development in Africa (PIDA), linked to the AfDB's High 5's strategy.[8]

The project is also aligned to national transport sector investment programmes, which are focused on attracting private sector participation in infrastructure. In the case of Mozambique, the Country Strategy Plan (2005-2009) intended to turn the state apparatus to stimulate the economy by creating an enabling environment for private sector investment and priority infrastructure development, by ensuring transparency, accountability and implementation of legislation against crime and corruption. More recently, this has been reflected in the National Development Strategy 2015-2035.[9] For Malawi, the Malawi Growth Development Strategy (MGDS) I, II and III have also adopted policy approaches that promote private sector participation in infrastructure development and financing through mechanisms including PPPs.

What are the long-term economic, social and environmental impacts?

Debt sustainability remains a key concern in all the three countries, mainly because infrastructure development is one of the major drivers of the increase of debt stocks in the countries. The case of Mozambique is particularly problematic – as of April 2020, it was listed as a country in debt distress by the World Bank Debt Sustainability Analysis (DSA).[10]

The AfDB set conditions that needed to be adhered to in order for funds to be disbursed for the roll-out of the project across all five phases. These include the need to carry out, and cause its contractors to carry out, the project in accordance with country systems i.e. national legislation; and in accordance with the recommendations and procedures set out in the Environmental and Social Management Plan (ESMP) prepared for the project. Given that the project would affect settlements of communities in project areas, another condition has been that the borrower countries, including the contracted private sector companies, would not start any construction without the affected communities having been compensated and/or resettled. The adequacy of compensation has, however, been contentious.[11]

Furthermore, following AfDB procedures, the ESMP included special measures to mitigate the adverse effects of environmental degradation that may leave project areas prone to risks, including hazardous emissions and diversion of flooding. Mitigation measures include control over plants and equipment that could potentially emit exhaust fumes and the imposition of building restrictions to ensure minimum distance from the road. It was envisaged that a tree planting component of the project phases would help to offset greenhouse gas emissions over time.[12]

The design and implementation of the project benefited from public consultations conducted through the Environment and Social Impact Assessment (ESIA) studies, which were carried out using AfDB's standards. For the project phases, meetings and interviews were held with donors (the European Union and the World Bank, among others) as well as with other stakeholders, such as local authorities. A sample of households living along the project road were also consulted. However, these were ad hoc and non-comprehensive engagements on the part of local communities. Thus, access to information was skewed to the benefit of development partners and private sector entities rather than the communities impacted.

It is also important to note that the tax bases for revenue towards national budgets for Malawi and Mozambique were broadened and the burden fell on taxpayers' shoulders. These included revised and increased road and toll fees as well as licences managed under the respective road authorities. The prioritisation of the development of the Nacala Road Development Corridor, instead of investing in the human development needs of the two countries - which both rank low on the Human Development Index - illustrates how inappropriate the two governments' choices have been when it comes to acquiring loans that accumulate debts rather than focusing on the welfare of their citizens. While roads are important, as they might promote connectivity that can facilitate economic activity thereby generating employment, this project is in fact mainly connecting the countries to export corridors and global value chains, i.e. extractive and low-value added activities to ports of export.

Overall outcomes

According to the AfDB, the main beneficiaries of the project are actors in the transport industry, export/import operators, freight operators, the business community, and communities along the corridor. The positive impacts on the beneficiaries have included reduced travel time, transport cost savings, shorter turnaround time for international cargo freight, protection of pavement from premature damage and improved accessibility for communities to social services and markets.[13]

However, the project has had substantive negative impacts for local communities and the environment. These include deforestation: illicit logging of trees in Tete Province as the construction of the Cuamba–Mandimba–Lichinga section of the project was underway in Niassa Province. The Mozambican forests that provide food, firewood, employment and protect farmland have been disappearing at a rate of over 80,000 hectares (198,000 acres) per year since 2000, when the corridor was initiated. This has in turn exacerbated hardships for the people of Mozambique, particularly rural populations facing severely limited employment and livelihood opportunities and who have been affected by natural disasters including cyclone-induced flooding.[14] The flooding amidst massive deforestation has in turn caused soil erosion and reduced carbon dioxide absorption, leading to increased emissions into the atmosphere. The livelihoods created have also come with health threatening developments in which sex work has been on the rise, triggering increases in HIV prevalence rates.[15]

It is important to note that some deliberate efforts have been made during the corridor's construction to encourage communities to participate through provision of labour, goods and services for roads and related works. However, local communities have also been charged for the maintenance of road assets and abiding by axle-load controls. This suggests that the user pays model may be rolled out over time to offset construction and maintenance costs borne by and paid to the private sector companies involved.

Endnotes

1 Mining News (2013) US$38 Million Contract Awarded for Nacala https://miningnews.co.za/2013/07/11/us38-million-contract-awarded-for-nacala-corridor/

2 European Investment Bank (2021) ''Africa Investment Platform'', See https://www.eib.org/en/products/mandates-partnerships/aip/index.htm#:~:text=The%20Africa%20Investment%20Platform%20(AIP,and%20a%20strong%20formal%20economy.

3 African Development Bank Group (2019) ''Malawi - Multinational Nacala road corridor development project Phase V - Appraisal Report'' See https://www.afdb.org/en/documents/document/malawi-multinational-nacala-road-corridor-development-project-phase-v-appraisal-report-110072

4 African Development Bank Group (2019) ''Malawi - Multinational Nacala road corridor development project Phase V - Appraisal Report'' https://www.afdb.org/en/documents/document/malawi-multinational-nacala-road-corridor-development-project-phase-v-appraisal-report-110072

5 African Development Bank (2020) ''Listing of Awarded Contracts from 2014-2019'', January 2020, https://www.afdb.org/sites/default/files/2020/01/08/listing_of_awarded_contracts_from_2014_to_2019_as_at_january_2020.xlsx

6 African Development Bank (2020) ''Listing of Awarded Contracts from 2014-2019'', January 2020, https://www.afdb.org/sites/default/files/2020/01/08/listing_of_awarded_contracts_from_2014_to_2019_as_at_january_2020.xlsx

7 Bruce Byiers, Poorva Karkare and Luckystar Miyandazi (2020) A Political Economy Analysis of the Nacala and Beira Corridors, July 2020, https://ecdpm.org/wp-content/uploads/A-Political-Economy-Analysis-Nacala-Beira-Corridors-Discussion-Paper-277-July-2020-ECDPM.pdf

8 African Development Bank, AfDB's High 5's: A Game Changer in Africa's Development Discourse, Inaugural address by Akinwuni Adesina Announced in 2015, the AfDB's High 5s for Africa are to: Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa. These focus areas are essential in transforming the lives of the African people and therefore consistent with the United Nations agenda on Sustainable Development Goals (SDGs). https://www.afdb.org/en/high5s#:~:text=In%20his%20speech%2C%20he%20outlined,for%20the%20People%20of%20Africa

9 Government of Mozambique (2015) National Development Strategy (2015-2035) https://www.cabri-sbo.org/uploads/bia/mozambique_2015_planning_external_national_plan_author_region_portuguese_.pdf

10 World Bank (2020) ''Debt Sustainability Analysis-Mozambique'' April 2020, https://www.worldbank.org/en/programs/debt-toolkit/dsa

11 African Development Group, (2013) Mozambique Nacala Road Corridor Phase III Project, 2021 update, https://projectsportal.afdb.org/dataportal/VProject/show/P-MZ-DB0-012

12 African Development Bank Group (2019) Malawi - Multinational Nacala road corridor development project Phase V - Appraisal Report afdb.org/en/documents/document/malawi-multinational-nacala-road-corridor-development-project-phase-v-appraisal-report-110072

13 AfDB (2021) Multinational - The Nacala Road Corridor Project - Phase II (Loan to the Republic of Zambia), https://projectsportal.afdb.org/dataportal/VProject/show/P-Z1-DB0-063?lang=en

14 Verité (2020) Exploring Intersections of Trafficking in Persons Vulnerability and Environmental Degradation in Forestry and Adjacent Sectors. Case Studies on Illicit Logging of Pterocarpus Tinctorius and Road Construction in Mozambique. August 2020 https://www.verite.org/wp-content/uploads/2020/08/Mozambique-Case-Studies-Summary-Report-%E2%80%93-Verit%C3%A9-Forestry.pdf

15 International Organisation for Migration (2012) Risks and Vulnerability to HIV: Analysis of Key Determinants on the Nacala Transport Corridor, July 2012, https://southafrica.iom.int/system/files/drupal-private/Nacala_Report_WEB.pdf

AFRODAD