



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation intends to provide assistance to the Government of Malawi to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Dan Petrie at (202) 521-3583 or PetrieDB@mcc.gov.

The attached notification is being sent to the Congress on April 9, 2020. The assistance may be provided and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Emily Davis
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

April 9, 2020

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2020 Program Funds
OBLIGATION AMOUNT:	\$7,600,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020, and section 610(a) of the Millennium Challenge Act of 2003, as amended (the "Act"), this is to advise that the Millennium Challenge Corporation ("MCC") intends to obligate up to \$7,600,000 under section 609(g) of the Act for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with the Government of Malawi.

The funds are expected to finance compact development activities, including but not limited to assessing the expected impact of the proposed compact, furthering design activities, and developing implementation strategies.

SUPPLEMENTAL INFORMATION - SECTION 609(G) ASSISTANCE FOR MALAWI

Background

One of Africa's poorest nations, with a per capita gross national income of \$320 in 2017, Malawi is not yet able to break an endemic cycle of low growth and high poverty rates. Growth in per capita incomes between 1995 and 2015 was 1.5 percent, and poverty headcount rates remain above 70 percent, according to the World Bank. Prior to the global COVID-19 pandemic and an additional year with an unclear political outcome, economic growth in Malawi was forecasted by the World Bank at above-trend at 3.5 to 5.1 percent between now and 2023, though revised forecasts may be lower. Achieving this forecast depends on several variables but will be driven mainly by agriculture (26.1 percent of gross domestic product (GDP) in 2017), which is heavily reliant on weather, and services (52.4 percent of GDP), which will grow as a share of GDP. Manufacturing has held steady at around 9 percent of GDP, but may expand as the electricity situation continues to improve, thanks in large measure to MCC's substantial assistance in the energy sector under the compact that closed in 2018. The lack of diversification in the economy has broad ramifications, including macroeconomic volatility and the impact of the likely decrease in global tobacco prices—Malawi's dominant export crop. With almost three out of four Malawians working in the agricultural sector, it is clear that further efforts to transform and diversify the real economy and reduce poverty—particularly related to agriculture, agro-processing, and tourism—are needed to put the economy on a higher growth trajectory.

Compact Eligibility and Constraints Analysis

Malawi closed out its ambitious \$350 million energy-focused compact in September 2018, meeting compact targets and moving the energy sector closer to long-term sustainability. In December 2018, MCC's Board of Directors (Board) selected Malawi as eligible to develop a subsequent compact in recognition of Malawi's strong scorecard performance, robust partnership with MCC, and success in completing its first compact; the three components of MCC's higher bar for second compact partners. For fiscal year 2020, Malawi remains one of the strongest scorecard performers in MCC's entire candidate pool, passing 18 of 20 indicators, despite being among the three poorest countries in the world.

Historically a strong democracy, Malawi has enjoyed policy stability compared to many of its regional peers. At present MCC is closely following the country's democratic process following the February Constitutional Court ruling nullifying the May 2019 election results, which saw incumbent president Peter Mutharika narrowly elected, and subsequent months of protests and petitions against the results by civil society and the opposition party. The court decision also called for an entirely new electoral commission and a series of electoral reform bills, including moving Malawi from being a plurality-based electoral system to one in which a candidate must receive more than 50 percent of the vote. President Mutharika has appealed this ruling to the country's Supreme Court.

To date, Malawi's key institutions have acted with impartiality and independence as the post electoral environment has unfolded. Whatever the outcome of President Mutharika's appeal to the Supreme Court, MCC will continue to expect Malawi, like all partner countries, to demonstrate a commitment to MCC's eligibility criteria, including democratic governance, throughout the life of the partnership.

The Government of Malawi chose to house its compact development team within the Malawi Millennium Development Trust (MMD), the entity established to succeed the Millennium Challenge Account–Malawi, the accountable entity for the first compact. The Government of Malawi nominated the CEO of MMD (and former MCA-Malawi CEO) to serve as National Coordinator of the compact development team. As a first step in the development of a second compact, MCC conducted a constraints analysis with MMD. The constraints analysis revealed three binding constraints affecting Malawi’s economy: (i) an unstable macroeconomic environment, as reflected in high and volatile inflation; (ii) a high cost for road freight transport services and barriers to linking farms to markets in rural areas; and (iii) difficulties with access to land for investment due to mismanagement of the estate sector and unclear or uncertain land rights, particularly for women smallholders. In collaboration with the Brookings Institution, MCC also conducted its first constraints analysis using tools developed to improve the integration of gender into its framework. While it did not conclude that gender inequalities are a binding constraint to growth, it did point to two constraints to women’s economic empowerment in the Malawian economy: a large agricultural productivity gap and high rates of adolescent marriage and fertility.

Summary of Potential Compact Projects

The proposed compact projects may focus on the following objectives:

- **Transport and Farm-to-Market Linkages:** By promoting a more transparent and competitive business environment and developing a safer and more sustainable transport system, Malawi’s farm-to-market linkages will be improved and made more inclusive, and sustainable private sector investment would be catalyzed. Potential activities may include the following:
 - improving road transport aimed at the provision of sustainable and less expensive road transport connectivity from farm to national and international markets;
 - catalyzing private sector-led strategies for the expansion of agriculture and agro-industry; and
 - facilitating institutional, policy and regulatory reforms in the transport, agriculture, trade, or environmental sectors to improve the Government of Malawi’s capacity in planning, coordination, and effective public sector service delivery.
- **Increased Land Productivity:** Land in Malawi will be more productive due to better functioning land markets and increased investment. Potential activities may include the following:
 - more inclusive and more transparent mobilization of land for higher-value use;
 - increased revenues to more adequately fund land administration; and
 - institutional capacity building.

Assistance to Develop the Compact Proposal

In order to assist Malawi to further develop the proposed compact, MCC intends to fund preparatory activities for each of the projects listed above. Specifically, funds would be used to

- collect data,

- conduct studies, including specific feasibility studies and data collection, designs, and implementation preparations for land, transport, and agriculture, and
- provide essential inputs to project selection, such as women’s agricultural entrepreneurship, environmental reforms for data management and decision-making, and data collection and analysis as part of the economic rate of return studies.

Funding these activities reflects MCC’s commitment to preparing projects in a comprehensive manner, prior to compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

Update and Sustainability of the 2011 Malawi Compact

MCC first partnered with Malawi in 2004 with a \$20.9 million threshold program focused on fighting corruption and strengthening the government’s ability to manage its finances. MCC’s Board selected Malawi as eligible to develop a compact in 2007 resulting in a \$350.7 million energy-focused compact that was signed in April 2011. In March 2012, MCC’s Board voted to suspend the compact due to a pattern of actions deemed inconsistent with MCC’s democratic governance criteria. In June 2012, MCC’s Board voted to lift the suspension of the Malawi Compact, determining that the then new President Joyce Banda and her government had made improvements to the human rights environment, strengthened government accountability, and resumed sound economic policy. The 2011 compact’s three projects detailed below concluded in September 2018 having disbursed \$346.7 million.

Infrastructure Development Project

The Infrastructure Development Project sought to improve the availability, reliability, and quality of the power supply in Malawi. Funding for transmission and distribution infrastructure resulted in increased capacity and improved stability of the electricity grid. The project also supported power availability with the refurbishment of the Nkula A hydropower station. All aspects of this project have been completed. MCC continues to monitor the success, sustainability, and related efforts supported by the Government of Malawi or other donors that will expand upon the foundation of the 2011 compact. For example, the Mozambique interconnector, which will link to the Malawi power grid through the 400 kV substation at Phombeya—one of the MCC-supported infrastructure sites—is a priority project for the Government of Malawi and will be funded by the European Union and the World Bank.

Power Sector Reform Project

The Power Sector Reform Project aimed to both improve the capacity and financial viability of Malawi’s electric utility and create an enabling environment for future investment in and expansion of the power sector. This project complemented the Infrastructure Development Project by providing support for the Government of Malawi’s policy reform agenda and building capacity in pivotal sector institutions. The compact also supported the restructuring of Malawi’s energy market and the preparation of new regulatory rules and guidelines. While the project was completed, MCC continues to engage with the Government of Malawi on the full implementation of some of the reforms during the development of the second compact including energy sector use of data analysis, oversight, and accountability.

Environment and Natural Resource Management (ENRM) Project

The objective of the ENRM Project was to help mitigate the growing problems of aquatic weed infestation and excessive sedimentation in the Shire River; reduce costly disruptions to Malawi's downstream hydropower generation by assisting in weed and sediment management; and implement better environmental and natural resource management in upstream areas. All aspects of this project have been completed. MCC continues to monitor the success and sustainability of this effort as part of its continued engagement with Malawi, including finding way to integrate these efforts into existing or future U.S. government assistance.