



## 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 Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being sent to the Congress on January 25, 2021. 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/

Leigh Sadleir  
Acting Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

January 25, 2021

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2021 Program Funds
OBLIGATION AMOUNT:	\$4,050,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2021, 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 \$4,050,000 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**

With a per capita gross national income of \$380 in 2019, Malawi has not been able to break an endemic cycle of low growth and high poverty rates. Growth in per capita incomes between 1999 and 2019 was 1.4 percent, and poverty headcount rates remain above 70 percent, according to the World Bank. Prior to the global COVID-19 pandemic, the World Bank forecasted above-trend economic growth in Malawi of 3.5 to 5.1 percent through 2023. Given this shock, however, we expect revised forecasts will be much lower. Achieving this forecast depended on several variables but would have been driven mainly by agriculture (25.5 percent of gross domestic product (GDP) in 2019), which is heavily reliant on weather, and services (54.4 percent of GDP), which would grow as a share of GDP. Manufacturing has held steady at around nine percent of GDP but may expand as the electricity situation continues to improve, thanks in large measure to MCC's substantial assistance for 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, further efforts to transform and diversify the real economy and reduce poverty are needed to put the economy on a higher growth trajectory.

### **Compact Eligibility and Constraints Analysis**

Malawi completed its ambitious \$350.7 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 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 2021, Malawi remains one of the strongest scorecard performers in MCC's entire candidate pool, passing 18 of 20 indicators, despite its status as one of the ten poorest countries in the world.

Malawi has enjoyed policy stability compared to many of its regional peers. Opposition candidate Lazarus Chakwera, of the nine-party Tonse Alliance, won 58 percent of the vote over incumbent President Arthur Peter Mutharika in Malawi's peaceful presidential re-run election on June 23, 2020. MCC is engaging with the new Chakwera administration to prioritize support for the development of Malawi's second compact and the sustainability of first compact investments.

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 chief executive officer (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) 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. After determining the constraints, MMD and MCC conducted a root cause analysis that led to MMD submitting two project proposals for further development.

### **Summary of Potential Compact Projects**

The proposed compact projects may focus on the following objectives:

- **Accelerated Growth Corridors** project aims to increase profits of smallholder farmers, women, micro, small, and medium enterprises, and agribusinesses through a more diverse and inclusive commercial agriculture sector and a transport sector characterized by increased competition. Project activities include the following:
  - targeted road civil works interventions in selected transport “corridors,” to improve road conditions and access to rural areas and facilitate greater flow of agricultural products from farmgate to regional and export markets,
  - increasing the volume and value of agricultural production, increase aggregation, and improve access to market information in rural areas, through a blended finance facility; and
  - selected capacity building and technical assistance on key issues constraining the enabling environment in the areas of agriculture, transport, women’s economic empowerment, and environmental data availability.
- **Increased Land Productivity** project aims to increase land efficiency as a critical production input for increased economic growth in Malawi. Project activities include the following:
  - renewing estate leaseholds or reallocating them for higher value use, while contributing to a strengthened system for administering the renewed state leaseholds in the future;
  - achieving more productive use of land through better funded land administration and improved land development controls; and
  - increasing land productivity on lands held under customary estates, including through the allocation of customary land for private sector investment and development.

### **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

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

- support the Government of Malawi’s transition from compact development to implementation, including setting up the accountable entity and hiring procurement and fiscal agents.

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 and entered into force in September 2013 and concluded in September 2018. In recent months, press and social media covered several successes of the first compact, including increased electricity generation thanks to Maryland-based Ellicott Dredge company dredging equipment provided by MCC, and an MCC blog post on the inspiring story of the work of Grace Ghambi, who received a scholarship from an institution supported by the first compact’s gender programming.

#### *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 World Bank and a consortium of mainly European donors have fully financed the Mozambique interconnector that will link Malawi’s power grid to the Southern African Power Pool at the 400 kV substation at Phombeya constructed as part of the first compact.

#### *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.

#### *Environment and Natural Resource Management Project*

The objective of this 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.