



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to negotiate a Millennium Challenge Compact with the Government of Malawi.

The transmission of this notification to Congress on June 8, 2022, affirms negotiations concerning the proposed Malawi Compact may begin on or after 15 days from the date of this notice.

Please find enclosed the notification along with supplemental information regarding the proposed compact.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Malawi, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

June 8, 2022

Pursuant to Division G, Title III under the heading “Millennium Challenge Corporation” of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94); Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021 (P.L. 116- 260); Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103); and section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (“MCC”) intends to start negotiations with the Government of Malawi for a Millennium Challenge Compact and (2) to initiate Congressional consultation before the start of negotiations.

The proposed compact seeks to assist the Government of Malawi in addressing the root causes of constraints to economic growth, including: 1) the high price of road freight transport service and barriers to linking farms to markets in rural areas; and 2) difficulties with access to land for investment due to mismanagement of the estate sector and ambiguity on property and land rights, particularly for women smallholder farmers. The proposed compact will include three key projects: (1) the Accelerated Growth Corridors Project (the “AGC Project”); (2) the Increased Land Productivity Project and (3) the American Catalyst Facility for Development Project (the “ACFD Project”).

Projected Economic Justification for the Compact

While the compact contains three separate projects that stand on their own, the constraints underpinning each are linked in the medium and long term. Therefore, the compact addresses an identified need for greater coordination of policy and planning across key sectors in Malawi, with a particular focus on investments and initiatives in the transport and land sectors.

The objective of the AGC Project is to reduce costs of transport in targeted rural areas. A secondary goal is to indirectly support commercial agricultural value chains by reducing the costs of doing business for firms and farmers along the corridors.

The objective of the Increased Land Productivity Project is to sustainably improve land services—which should benefit businesses, including those in the agriculture sector—by providing land-sector institutions with methods to record and collect revenues collected as needed to build the capacity of the national government and Malawi’s four largest cities management systems. These national and sub-national institutions are expected to use additional funds to revitalize Malawi’s land markets and to fund needed urban infrastructure.

Transportation. The **Accelerated Growth Corridors Project** is designed to address the root causes of the binding constraint of high price of road freight transport service and barriers to linking farms to markets in rural areas—specifically, poor rural infrastructure and policy, institutional, and regulatory issues affecting the transport sector. Reductions in travel time and vehicle operating costs due to improved road conditions and more efficient routes that feed into a broader transport network in Malawi are expected to reduce costs to existing roads users and to

spur additional (generated) traffic along the investment corridors. Technical assistance to the Roads Authority to improve road maintenance, establishment of and technical assistance for a road transport unit within the Competition and Fair-Trade Commission, and other capacity building and reform efforts will be implemented to improve oversight and management of road maintenance and district level road management.

At this time, MCC has only partial results from a key AGC Design and Feasibility Study delayed by COVID-19. Thus, MCC presents a preliminary AGC Project estimated economic rate of return (“ERR”) range of 8.0–10 percent. MCC expects that after incorporating outstanding but not yet accounted for benefits from the sub-activities for link roads and first mile connections the ERR will increase. It is important to note that the benefits associated with these sub-activities are also expected to target structurally excluded groups. MCC bases this judgement on the likely future benefits on data from similar rural roads interventions in sub-Saharan Africa. The beneficiary estimate for the AGC Project is partial in that it includes only those who benefit from the corridor road improvements for which detailed feasibility study analysis has been completed. Direct beneficiaries of this component—new and existing users of corridor roads that will be improved by the AGC Project—are estimated at 268,000. Including the families of direct beneficiaries and assuming an average of 4.4 members per household, the total number of beneficiaries is estimated at 1.179 million.

Land and Resource Management. The **Increased Land Productivity Project** includes a range of interventions whose common goal is to improve the functioning of land markets. The project’s activities each seek to achieve these outcomes in different ways, reflecting distinct root causes of the underlying constraint. The Increased Land Productivity Project includes policy and institutional reform interventions. Investing in national land institutions, the project anticipates improvements in the functioning of land markets at a national level, leading eventually to private investment. In cities, the project anticipates improved provision of city services, including new infrastructure development, leading to improved land values. The model estimates the number of beneficiaries as the entire populations of the affected cities (2.894 million people) and the owners and employees of firms seeking to purchase land (including families, we estimate about 2.566 million people). The estimated ERR is 12.8 percent.

Catalyzing the Private Sector. The goal of the **American Catalyst Facility for Development (ACFD) Project** is to facilitate private sector investment in MCC partner countries in collaboration with the United States International Development Finance Corporation (“DFC”) in order to promote private sector-led economic growth, consistent with compact objectives, and thereby increase the scale and impact of the compact. While specific ACFD investments have not yet been identified, MCC’s country team has been coordinating with DFC and identifying preliminary investments in Malawi that the ACFD Project could support. Initial analysis indicates that there are potential opportunities that align with historical DFC interventions in Malawi. The beneficiaries of the ACFD Project will be identified as specific investments are identified.

The estimated overall compact ERR is 8.2–10 percent, which is expected to increase following incorporation of outstanding benefits from the delayed AGC Design and Feasibility Study. The total number of beneficiaries estimated compact wide is 5.394 million people.

SUPPLEMENTAL INFORMATION

Overview

The proposed compact seeks to increase competitiveness in the transport and agriculture sectors and to increase land efficiency as a critical production input for economic growth. MCC aims to create an environment that focuses on creating a globally competitive business mindset that not only benefits the macroeconomic situation in Malawi, but ensures the poorest, including smallholder farmers, are part of the conversation. The compact includes investments in roads in prime agricultural areas and land administration.

Background and Context

Malawi is one of the poorest countries in the world, with stagnant growth and a high and persistent poverty rate. Per capita gross national income (GNI) was \$580 in 2020, and between 1995 and 2015, growth in per capita income was just 1.5 percent, with a poverty headcount above 70 percent. Real per capita income growth episodes have been only sporadic since 1970, and most occurred prior to 1995. Recent growth has not been widely shared, with income inequality on the rise since 2004 and a current Gini coefficient of 0.42. Despite some progress on human development indicators in the last few decades, food insecurity remains very high, and Malawi ranks near the bottom of the United Nations Development Program Gender Inequality Index. Malawi also has one of the highest rates of child marriage in the world. The country is heavily reliant on donor assistance, with official development assistance accounting for more than 10 percent of GNI per capita in 2019.

A key feature of Malawi's economy is monoculture—its reliance on a single crop, maize, for subsistence farming—and the lack of trade in that crop or any other crops that could generate more income, with the exception of tobacco (Malawi's main export crop). While 96 percent of farmers grow maize, only 14 percent sell any of it. Malawi's exceptionally high freight costs are a key barrier between farms and markets, a problem driven by empty backhauls (themselves a result of low volumes of trade and a lack of aggregation among many small-scale producers), poor road conditions, and market structure.

Malawi's overreliance on maize and tobacco has worsened macroeconomic volatility and made the country vulnerable to the ongoing decrease in global tobacco prices. Uncertainty about the future macroeconomic environment continues to plague the investment climate and hamper diversification efforts, particularly given the impacts of COVID-19 and the Russia-Ukraine conflict. With almost three out of four Malawians working in the agricultural sector, further efforts to transform and diversify the economy and reduce poverty—particularly related to agriculture and agro-processing—are critical to put the economy on a higher growth trajectory.

Malawi is politically stable and has experienced peaceful transitions since independence in 1964. In 2020, a lengthy court battle named Lazarus Chakwera winner of the hotly contested 2019 Presidential election. His administration has made some promising moves, including a January Anti-Corruption Bureau finding against several former and current Ministers and officials, followed by a Cabinet dissolution (and quick reconstitution, minus accused members, with strong rhetorical claims about intolerance for corruption).

Compact Proposal Overview and Budget

The proposed compact program is summarized in the budget table below. The anticipated budget of the compact is approximately \$376.25 million, which includes up to \$350 million funded by MCC and a Government of Malawi (Government) contribution of at least \$26.25 million.

Malawi Compact Budget

Component	Amount
1. Accelerated Growth Corridors Project	\$244,950,000
Activity 1: Road Corridor Improvement	\$228,998,000
Activity 2: Policy and Institutional Reform and Capacity Building	\$15,952,000
2. Increased Land Productivity Project	\$44,107,000
Activity 1: Land Administration Resourcing and Institutions	\$20,034,685
Activity 2: City Council Land-Based Revenue Modernization	\$24,072,315
3. American Catalyst Facility for Development Project	\$8,500,000
4. Monitoring and Evaluation	\$3,000,000
5. Program Management and Administration	\$49,443,000
Total MCC Funding	\$350,000,000

Total Compact Program Funding	Amount
Total MCC Funding	\$350,000,000
Government of Malawi Contribution	\$26,250,000
Total Compact	\$376,250,000

Proposed Projects

The proposed compact's three projects are described below:

The objective of the **Accelerated Growth Corridors (AGC) Project** is to reduce costs of transport in targeted rural areas. The project includes two activities:

- *Road Corridor Improvement Activity* – This activity will target investment in physical upgrades and improvements across different classes of roads within four selected Accelerated Growth Corridors to improve rural access by addressing road conditions and reducing transport costs.
- *Policy and Institutional Reform and Capacity Building Activity* – This activity will focus on assistance to the Government to address policy, legislative, institutional, and funding issues to ensure that road transport in AGC areas is well-maintained and managed.

The objective of the **Increased Land Productivity Project** is to improve land services. This project is organized into two activities:

- *Land Administration Resourcing and Institutions Activity* – This activity supports development, adoption, and implementation of reforms to expand national land-based revenues and address institutional change.
- *City Council Land-Based Revenue Modernization Activity* – This activity expands coverage and collection of land-based revenues in Malawi’s four largest cities, to increase resources for key services and increase investment in land.

The proposed compact program also includes an allocation for an **American Catalyst Facility for Development (ACFD) Project**. The objective of the ACFD Project is to facilitate DFC investment in Malawi in an effort to catalyze increased private investment consistent with compact objectives and increase the scale and impact of the compact.

Policy Reform and the Compact

The AGC Project’s reform conditions are related to levels of road maintenance funding, governmental road maintenance staffing, and increasing competition in the transport sector. The AGC Project includes a number of measures designed to strengthen the policy framework and institutional capacity associated with project objectives across four main areas: i) facilitation of competitiveness in transport service provision; ii) efficient allocation of resources for effective road maintenance; iii) improvement in the capacity and implementation of roads management and maintenance at the district level; and iv) regulation of public gender-based violence in transport services and corridor-adjacent markets. These four areas align with the critical requirements for project success and long-term sustainability.

MCC identified several agricultural policy issues that weaken performance of Malawi’s agricultural economy and put MCC’s investments in the transport sectors at significant risk if not addressed. More specifically, the continuing use of poor performing seeds along with low fertilizer use reduces yields and incomes and increases poverty. In addition, Malawi’s export mandate regime lacks transparency and predictability, thereby increasing transaction costs and undermining the ability to market export-oriented products. This results in increased market risks and reduced farmgate prices and incomes. Given the centrality of these challenges and importance to the performance of both AGC Project investments, MCC has proposed that the compact include conditions precedent related to implementation of these critical reforms prior to first disbursement of compact funding including that the National Assembly of Malawi pass the (i) Draft 2018 Seed Bill without modifications that change the current intent of the legislation (the Seed Bill was passed on April 4, 2022) and (ii) Draft 2020 Fertilizer Bill along with updating associated regulations and updating the responsibilities of regulatory bodies regarding the role of inspectors, alternative dispute resolution, and fertilizer pricing.

Given Malawi’s resource and institutional capacity limitations, better functioning land markets and land sector investment impact requires reform. The Land Administration Resourcing and Institutions Activity addresses the most significant and challenging reforms. These include: 1) allowing the Ministry of Land to retain a share of the ground rent they collect; 2) bringing ground rent rates into line with market values over time, and legally mandating periodic rate

review; 3) refining plans to devolve land functions to the district level to ensure that operating more institutions is in fact affordable to the Government over the long term; and 4) establishing a Land Authority, if the Government chooses, to take over registration and other day-to-day land administration functions from the Ministry of Land. The City Council Land-Based Revenue Modernization Activity will support participating city council governments to adopt the bylaws and procedures necessary to fully sustain new, more cost-effective methods for property valuation, the high cost of which is a main obstacle to more complete and more up-to-date tax rolls.

Update and Sustainability of the First 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, entered into force in September 2013, and concluded in September 2018. This compact had three projects:

- 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.
- 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.
- The Environment and Natural Resource Management Project sought to 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.

MCC continues to monitor the success and sustainability of the first compact as part of its continued engagement with Malawi. As intended, the infrastructure investments combined with reforms have led and continue to lead to tangible energy sector benefits. Malawi's first utility-scale solar photovoltaic plant, the 60MW Salima Solar project, was commissioned in November 2021 and a second 20MW solar plant is planned to produce power in 2022. Also, the World Bank and a consortium of donors have financed and commenced works for the Mozambique interconnector that will link Malawi's power grid to the Southern African Power Pool at the 400kV substation at Phombeya constructed as part of the first compact.

