



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

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

The transmission of this notification to Congress on August 26, 2022, affirms that the Malawi Compact may be signed and the funds obligated on or after 15 days from the date of this notice. Please find enclosed the notification with supplemental information regarding the compact.

If you require a meeting to discuss the compact with the Government of Malawi, or MCC at large, 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**

August 26, 2022

PROGRAM: Eligible Countries

APPROPRIATIONS CATEGORY: Fiscal Years 2020, 2021, and 2022 Program Funds

OBLIGATION AMOUNT: \$350,000,000

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 of the Millennium Challenge Act of 2003, as amended (the “Act”), the Millennium Challenge Corporation (“MCC”) is notifying Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Malawi, through which MCC will grant an amount not to exceed \$350,000,000 to the Government of Malawi under the Act. To facilitate implementation of the Compact, MCC intends to obligate up to \$21,103,750 (“Compact Facilitation Funding”) of the overall grant under section 609(g) of the Act, using fiscal year 2021 funds, when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$328,896,250 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to facilitate implementation of the Compact may be de-obligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding.

The 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 Compact will include three key projects: (1) the Accelerated Growth Corridors Project; (2) the Increased Land Productivity Project and (3) the American Catalyst Facility for Development Project.

Economic Justification

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. In addition, ensuring women's safety in transport and agricultural marketing are assumed to complement and sustain the benefits of the physical road works. Technical assistance to the Roads Authority to improve road maintenance and planning, 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 design and feasibility study delayed by the COVID-19 pandemic. However, the preliminary Accelerated Growth Corridors Project estimated economic rate of return ("ERR") range is already between 8.0–10.0 percent even without the full benefits estimated. 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 yet to be incorporated benefits associated with these sub-activities are expected to target structurally excluded and vulnerable groups. MCC bases this judgement on the likely future benefits on data from similar rural roads interventions in sub-Saharan Africa. It is estimated that the Accelerated Growth Corridors Project will have both partial and direct benefits from the corridor road improvements. MCC estimates at least 268,000 new and existing users of the corridor roads improvements will benefit from the Accelerated Growth Corridors Project. Additionally, the families that directly benefit from the project average 4.4 members per household, which translates to another 1.179 million people who could benefit.

Land Management. The objective of the **Increased Land Productivity Project** is to sustainably improve how land is used and managed, including: the coordination of land planning, production, and land services—which should benefit businesses, including those in the agriculture sector. The project's activities will improve the function of land markets in order to achieve outcomes that improve land's overall value. The Increased Land Productivity Project includes policy and institutional reform interventions. These reforms aim to generate better informed decision-making around investments in infrastructure, including investing in national land institutions and improvements in the functioning of land markets at a national level, that should lead to more private investment. For example, in cities, the project anticipates improved provision of city services, which would lead to improved land values. MCC estimates the number of those benefiting from this project includes the entire populations of the affected cities and the owners and employees of firms seeking to purchase land (totaling about 4.2 million people). The estimated ERR is 12.8 percent.

Innovative and Blended Finance. The **American Catalyst Facility for Development ("ACFD") Project** will be utilized to facilitate private sector investment in programs with high development impact potential in MCC partner countries. This will increase the scale and sustainability of the MCC investment by catalyzing private sector-led economic growth that is consistent with compact objectives. MCC is coordinating with the U.S. International Development Finance Corporation ("DFC") to identify impact investments in Malawi that the ACFD Project could support. Initial analysis carried out by MCC indicates that there are several potential opportunities that align with DFC historical interventions in Malawi and that are

consistent with the missions and statutory requirements of both MCC and DFC. The beneficiaries of the ACFD Project will be identified as specific investments are identified.

Overall MCC initial estimates for the Malawi Compact ERR is 8.2–10.0 percent, which is expected to increase following incorporation of outstanding benefits from the delayed design and feasibility study referenced above. The estimated number of people benefiting from the Compact is 5,394,000 people.

SUPPLEMENTAL INFORMATION

Overview of MCC Malawi Compact

In August 2022, MCC’s Board of Directors (“Board”) approved the five-year, \$350,000,000 Compact with the Government of Malawi aimed at reducing poverty through economic growth, following completion of successful Compact negotiations in June 2022.

The Compact seeks to increase competitiveness in the transport and agriculture sectors by increasing land efficiency and production. MCC aims to foster 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 road infrastructure across prime agricultural areas and with strategic 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 over-reliance 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, better plan around land-use and productivity, and interrogate ways to 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).

Selection and Eligibility

Malawi continues to be one of the best performers on the MCC scorecard, passing 17 of 20 indicators in fiscal year 2022, with strong performance on both the Democratic Rights and Control of Corruption hard hurdles. This reflects the country’s sustained commitment to the core principles that underpin MCC’s eligibility criteria and the independence of its institutions, as seen during the contested elections of 2019 and 2020. Malawi’s selection by the Board for this compact in December 2018 followed MCC’s successful prior partnerships with Malawi, first on a \$20.9 million threshold program from 2005 to 2008, and then on the \$350.7 million energy-focused compact that entered-into-force in September 2013 and concluded in September 2018.

Compact Overview and Budget

The Compact program is summarized in the budget table below. The 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
Accelerated Growth Corridors Project	\$244,950,000
Road Corridor Improvement	\$228,998,000
Policy and Institutional Reform and Capacity Building	\$15,952,000
Increased Land Productivity Project	\$44,107,000
Land Administration Resourcing and Institutions	\$20,034,685
City Council Land-Based Revenue Modernization	\$24,072,315
American Catalyst Facility for Development Project	\$8,500,000
Monitoring and Evaluation	\$3,000,000
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

Statutory Reference Requiring Congressional Notification	Program Funding under Section 605 of the Act (up to)	Compact Facilitation Funding under Section 609(g) of the Act (up to)
Division G, Title III under the heading “Millennium Challenge Corporation” of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94)	\$27,000,000	
Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021 (P.L. 116-260)	\$221,896,250	\$21,103,750
Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103)	\$80,000,000	
Total	\$328,896,250	\$21,103,750

Project Summaries

The projects and activities to be completed are:

1. Accelerated Growth Corridors Project

The objective of the Accelerated Growth Corridors 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 Accelerated Growth Corridors is well-maintained and managed.

2. Increased Land Productivity Project

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.

3. American Catalyst Facility for Development Project

The objective of the American Catalyst Facility for Development Project is to facilitate private sector investment in Malawi's more challenging but highly developmental sectors, 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 Accelerated Growth Corridors Project's reform conditions are related to levels of road maintenance funding, governmental road maintenance staffing, and increasing competition in the transport sector. This 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 the Accelerated Growth Corridors Project, the Compact includes (land) covenants relating to the implementation of these critical reforms that will require action by the National Assembly of Malawi.

Given Malawi's resource and institutional capacity limitations, better functioning land markets and land sector investment 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 in 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 in adopting 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 prior 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:

- **Energy Transmission.** 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.
- **Energy Regulation and Reform.** 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.
- **Natural Resource Management.** 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 compact as part of its ongoing 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 compact.