



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended, this Congressional Notification affirms that the United States of America entered into a Millennium Challenge Compact with the Republic of Zambia on October 17, 2024 (the “Compact”). We have included a detailed summary of the Compact.

We will identify a link to the Compact and a summary of it in the Federal Register and on MCC’s website.

The attached notification is being sent to Congress on October 22, 2024.

If you require a meeting to discuss the Compact with the Republic of Zambia, or MCC at large, please contact Brian Forni at [ForniBJ@mcc.gov](mailto:ForniBJ@mcc.gov).

Sincerely,

/s/  
Aysha House  
Vice President  
Congressional and Public Affairs

Enclosure as stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

October 22, 2024

In accordance with section 610(b)(2) of the Millennium Challenge Act of 2003, as amended (22 U.S.C. 7701 et seq.) (the “Act”), this notification is to advise that the United States of America entered into a Millennium Challenge Compact with the Republic of Zambia under section 605 of the Act on October 17, 2024 (the “Compact”).

A detailed summary of the Compact follows and the text of the Compact is available on the MCC website.

## SUMMARY OF ZAMBIA FARM TO MARKET COMPACT

### **Overview of the MCC Zambia Farm to Market Compact**

On October 17, 2024, MCC signed a five-year, \$458,000,000 Compact with the Republic of Zambia aimed at reducing poverty through economic growth. The Compact seeks to assist the Government of the Republic of Zambia (GRZ) in addressing three major constraints to economic growth: (1) poor roads and transport that reduce market access; (2) inadequate private investment in capital inputs needed to boost agricultural production; and (3) an uncertain policy environment for inputs, outputs, and exports. The Compact addresses this through four projects: the *Roads and Access Project*; the *Asset Finance Project*; the *Agriculture Policy Reform and Institutional Strengthening Project*; and the *American Catalyst Facility for Development Project*.

### **Background and Context**

The Republic of Zambia, a landlocked country of twenty million people and 72 ethnic groups, stretches across southern Africa's central plateau, occupying an area slightly larger than the state of Texas. Categorized as a low-income country with gross domestic product (GDP) per capita at around US \$1,300, Zambia's annual economic growth averaged 3.7 percent over the period 2011 to 2021. This growth has been inconsistent, however, primarily due to Zambia's dependence on exporting copper, a commodity known for its international price volatility. Other vulnerabilities hampering Zambia's growth include reoccurring drought shocks that harm its agriculture and energy sectors. Further, Zambia's extensive public borrowing in the recent past pushed its debt-to-GDP levels above one hundred and twenty (120) percent, overwhelming the country's ability to deliver public services and finance future investments. Meanwhile, the bulk of the country's labor force remains engaged in low-productivity agriculture and informal services, resulting in over half of the population living below the poverty line and income inequality levels among the world's worst. According to the World Bank, agriculture contributes to approximately three (3) percent of Zambia's GDP yet employs over half of its labor force.

Following the election of President Hakainde Hichilema in August 2021, the GRZ prioritized private sector-led growth, more market-friendly policies, and a decentralization of authority and budgets to local authorities. Parallel to this, as part of a larger debt restructuring package with the International Monetary Fund (IMF), the GRZ initiated fiscal reforms that aim to better balance the national budget, reduce public borrowing, and free more credit to the private sector. In a complementary vein, the GRZ also signaled, in its national development plan, a renewed emphasis on economic diversification led by investments in the country's underperforming agriculture and agro-processing sectors. The government's focus on the agriculture and agro-processing economy acknowledges the prevalence of Zambia's poverty among its majority rural population and the sectors' potential for kickstarting inclusive economic growth.

### *Selection and Ongoing Eligibility*

In December 2021, MCC's Board of Directors selected Zambia as eligible to develop a compact in recognition of its consistent passage of the MCC scorecard and the GRZ's commitment and action to sustain investments made under the prior Zambia compact, which closed in 2018.

Zambia's peaceful transition following the 2021 elections, and the incoming Hichilema administration's commitment to strengthening economic and democratic governance were important factors in the country's selection. In Fiscal Year 2024, Zambia continues to pass the MCC scorecard, passing 17 of 20 indicators overall, including the Control of Corruption and Democratic Rights hard hurdles. As with all country partners, MCC will continue to monitor Zambia's commitment to the principles of inclusive democratic governance that underpins its eligibility criteria and will encourage the GRZ to undertake democratic rights reforms.

### **Project Summaries**

The four projects and their respective activities:

The **Roads and Access Project (\$315,000,000)** is designed to decrease transportation costs in prioritized agriculture corridors by improving approximately 338 kilometers (210 miles) of road and transportation infrastructure, increasing rural population access to markets and services, and strengthening Zambian road asset management. The project includes upgrading road segments based on updated weather projections, reducing the number of days a road would be impassible due to flooding or the risk of washouts. The construction of trail bridges, pedestrian amenities, and other physical infrastructure paired with the application of an established social behavior change system (Gender Action Learning System) will reduce barriers to markets for rural communities, especially women and youth. In addition, this project will include technical assistance and capacity building to ensure the sustainability of these investments through better road asset management.

The **Asset Finance Project (\$45,000,000)** aims to increase access to finance for investments in electricity, irrigation, logistics and processing (EILP) equipment and infrastructure for both men and women-owned agricultural small and medium enterprises and project developers across agriculture value chains. These investments will contribute to Zambia's national development plan by increasing the adoption of irrigation, agro-processing and value addition, grain and produce storage facilities, and investments in energy sources. The project addresses the affordability of financing for EILP equipment through performance-based grants to financial service providers and equipment providers to incentivize increased lending and financing to the agriculture sector for EILP equipment and catalyzing impact investment for agri-enterprises. The project will also include capacity building and technical assistance to public and private project developers to increase the number of EILP infrastructure investments in the agriculture value chain that reach financial close.

The **Agriculture Policy Reform and Institutional Strengthening Project (\$25,000,000)** is designed to improve institutional capacity to facilitate private sector production and trade in grains. The Compact, and its associated reforms, will contribute to creating a private sector-driven agriculture and agro-processing market and support broader efforts by the GRZ and other donors to address key policy challenges constraining private sector production and trade in grain markets. To this end, the project will strengthen the Ministry of Agriculture's capacity to develop and implement reforms as well as improve the Food Reserve Agency's capacity to carry out its core functions efficiently, including managing the strategic grain reserves, encouraging private sector

involvement in grain trading, making timely payment for purchases, and providing appropriate price stabilization. It will also build the Food Reserve Agency's capacity for assessing, monitoring, and analyzing the impact of its policies and practices on food security, poverty, and vulnerability, and strengthen its vulnerability response and mitigation functions. Finally, this project aims to build transparency and trust among market players by establishing an independent market observatory that collects timely and accurate data on stocks and prices and conducts relevant market analyses for the benefit of public sector policy makers and private sector economic actors, and by supporting a commodity exchange.

The **American Catalyst Facility for Development (ACFD) Project (\$8,000,000)** is designed to facilitate the U.S. Development Finance Corporation's (USDFC) investments in Zambia in the sectors identified as constraints to Zambia's economic growth by MCC. DFC's current transaction pipeline in Zambia, for example, includes several projects that are not viable without additional de-risking. ACFD grant funding will enable DFC-led projects like these, that would not otherwise be viable, to reach financial close.

### **Policy Reform and the Compact**

The Compact promotes a set of policy reforms that will unlock sustainable and inclusive economic growth in the transport, agriculture and agro-processing sectors that reinforce, amplify and sustain the Compact's other investments.

Key policy reforms of the Roads and Access Project include technical assistance, capacity building, and policy and institutional reforms to improve road asset management through the improvement of the planning, prioritization, and execution of road maintenance. MCC has a valuable opportunity to improve road asset management for the sustainability of MCC road investments and other roads across Zambia. Reforms and technical assistance targeting national and local road sector actors will improve road asset management through institutional capacity building and improved budgeting and planning.

Key policy reforms of the Agriculture Policy Reform and Institutional Strengthening Project include three inter-related agricultural laws that are inconsistent and inadvertently hinder private sector operations in the agricultural market. The GRZ has prioritized consistent and evidence-based trade policy and laws, a reduction in the Food Reserve Agency's market interference in grain markets, and improvements in the transparency and efficiency of the grain trade permitting system in order to enhance private sector investment in the sector, create jobs, increase incomes, and ultimately lead to sustainable sector growth. Addressing these concerns hinges on the following interrelated laws, namely (1) the Food Reserve Act; (2) the Agricultural Credits Act; and (3) the draft Agricultural Marketing Bill. If reformed and harmonized, these laws are expected to help enhance private sector investments in agricultural production, marketing, and trade that ultimately result in sector growth.

### **Compact Overview and Budget**

The anticipated budget for the overall program totals \$491,750,000, with Compact funding of up to \$458,000,000 and a GRZ contribution of at least \$33,750,000 (required minimum of 7.5 percent,

excluding ACFD). The following table presents an approximate budget for the proposed Compact based on initial due diligence and appraisal.

**Table 1: Zambia Compact Program Budget (million in US\$)**

<b>Project/Activity</b>	<b>Total Funding</b>
<b>1. Roads and Access Project</b>	<b>\$315,000,000</b>
<b>1.1 Improving Roads Activity</b>	\$285,000,000
<b>1.2 Improving Access Activity</b>	\$12,000,000
<b>1.3 Strengthening Zambian Road Management Activity</b>	\$18,000,000
<b>2. Asset Finance Project</b>	<b>\$45,000,000</b>
<b>2.1 Agri-SME Asset Financing Activity</b>	\$23,000,000
<b>2.2 ZAMPPF Activity</b>	\$22,000,000
<b>3. Agriculture Policy and Institutional Strengthening Project</b>	<b>\$25,000,000</b>
<b>3.1 MoA Institutional Strengthening Activity</b>	\$13,300,000
<b>3.2 FRA Institutional Capacity Strengthening Activity</b>	\$7,950,000
<b>3.3 Establishment and Strengthening of Ancillary Agricultural Market Support Institutions Activity</b>	\$3,750,000
<b>4. American Catalyst Facility for Development (ACFD)</b>	<b>\$8,000,000</b>
<b>5. Monitoring and Evaluation</b>	<b>\$3,000,000</b>
<b>6. Program Administration and Control</b>	<b>\$62,000,000</b>
<b>Total MCC Funding</b>	<b>\$458,000,000</b>
<b>Government of the Republic of Zambia Contribution</b>	<b>\$33,750,000</b>
<b>Total Program</b>	<b>\$491,750,000</b>

**Zambia CN History:**

<b>CN Type</b>	<b>Date Submitted to Congress</b>	<b>Date Cleared by Congress</b>
Compact Development Funds	9.12.2022	9.26.2022
Intent to Negotiate	6.27.2024	7.11.2024
Intent to Sign	9.26.2024	10.10.2024
Post-Signing	10.24.2024	TBD