MILLENNIUM CHALLENGE CORPORATION
POVERTY THROUGH GROWTH

FRANCES C. MCNAUGHT
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to US$506,924,053 for a Millennium Challenge Compact with Mozambique.

Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. MCC intends to obligate pursuant to Section 605 of the Millennium Challenge Act of 2003 (the "Act") up to US$481,577,853 when the Compact enters into force. These funds will be disbursed on a periodic basis over the course of the Compact subject to satisfaction of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC will obligate up to US$25,346,200 of the total amount when the Compact is signed, pursuant to 609(g) of the Act.

The attached notification is being sent to Congress on June 27, 2007.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated

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CONGRESSIONAL NOTIFICATION
June 27, 2007

Pursuant to the Continuing Resolution of 2007 (P.L. 109-3833) the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to enter into a Millennium Challenge Compact ("Compact") with the Government of Mozambique ("GoM") through which MCC will grant up to US$506,924,053 of FY 2007 Millennium Challenge Account ("MCA") funds. MCC intends to obligate up to US$481,577,853 under Section 605 of the Millennium Challenge Act of 2003 (the "Act") when the Compact enters into force. These funds will be disbursed on a periodic basis over the course of the Compact subject to satisfaction of relevant conditions precedent. In order to accelerate implementation of the Compact, MCC will obligate up to US$25,346,200 of the total amount ("Compact Implementation Funding") when the Compact is signed, under Section 609(g) of the Act.

The Compact Implementation Funding is included in the total amount of MCA funds under the Compact and will not increase overall MCA funding commitment to Mozambique. These funds will support:

1. fiscal and procurement administration activities;
2. administrative activities including start-up costs such as staff salaries and administrative support expenses such as rent, computers and other information technology or capital equipment;
3. baseline surveys for monitoring and evaluation;
4. additional work for feasibility studies and development of technical scopes and;
5. other Compact implementation activities approved by MCC.

Under Section 610(a) of the Act, the appropriate Congressional committees were notified on April 5, 2007 of MCC's intent to commence negotiations with Mozambique. Key elements of the Compact are set forth in the accompanying summary. MCC will provide final text no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION AND THE GOVERNMENT OF MOZAMBIQUE.
June 27, 2007

The Board of the Millennium Challenge Corporation has approved a five-year, $506.9 million Millennium Challenge Compact to reduce poverty and increase economic growth in the Republic of Mozambique. The Program's goal is to increase the productive capacity of the population in selected districts, with the intended impact of reducing the poverty rate, increasing household income and employment, and reducing chronic malnutrition in the targeted districts. The various interventions are designed to foster investment and increase economic opportunities for Mozambicans living in the North.

Background

Since emerging in 1992 from three decades of almost constant conflict, Mozambique has experienced one of the fastest growth rates in Africa, averaging eight percent per year over the last decade. To sustain this growth, it is necessary to unlock the potential of the economically lagging Northern provinces, which are home to approximately 10 million people. Moreover, given Mozambique's rapid urbanization, its next stage of economic recovery, cannot succeed without well-functioning public services in its cities, where coverage levels for water and sanitation are declining.

Water and Sanitation Project ($203.6 million)

The largest of the components in the Compact, the Water Supply and Sanitation Project will increase access to safe, reliable water supply and sanitation services, thereby increasing productivity and reducing water-borne diseases -- one of the leading causes of death in children under five. It involves water supply and sanitation services in six cities in the provinces of Zambézia, Nampula and Cabo Delgado; water supply in two mid-sized towns in Nampula and Cabo Delgado provinces; rural water supply services covering 600 water points in the Nampula and Cabo Delgado provinces; and capacity building of local institutions and policy development.

Transportation Project ($176.3 million)

The Compact also includes a Transportation Project that will improve access to markets, resources, and services; reduce transport costs for the private sector to facilitate investment and commercial traffic; expand connectivity across the Northern region and down towards the southern half of the country; and increase public transport access for individuals to take advantage of job and other economic opportunities. Specifically, MCC funding will rehabilitate 491 km of key segments of the National Route 1, which forms the backbone of country's transportation network.

Land Tenure Services Project ($39.1 million)

The objective of the Land Tenure Services Project is to establish more efficient and secure access to land by improving the policy framework, upgrading land information systems and services, and helping beneficiaries meet immediate needs for registered land rights and better access to land for investment. This project is comprised of three mutually reinforcing activity areas:

- Policy Monitoring Pillar: to help improve the policy environment by addressing implementation problems with the existing land law, conducting regulatory reviews to improve upon it, and supporting training for predictable, speedy resolution of disputes;
- Capacity Building Pillar: to build the institutional capacity to implement policies and provide quality public land-related services by investing in human and information resources; and
- Site-specific Pillar: to facilitate access to land use by helping people and business with clear information on land rights and access and with registering their grants-of-land use.

Farmer Income Support Project ($17.4 million)

Coconuts and coconut products form an important part of the economy in Northern Mozambique. However, outbreaks of Coconut Lethal Yellowing Disease (CLYD) now threaten the industry and the livelihood of over 1.7 million people in Zambézia and Nampula Provinces. At the present rate of spread, more than 50 percent of the coconut area is likely to be lost over the next nine years. Affected trees cease producing and threaten healthy trees' productivity; therefore, they must be removed and replaced.

The objective of the Farmer Income Support Project is to reduce the spread of CLYD, and to improve productivity of coconut products and encourage diversification into other cash-crop production. This project will eliminate biological and technical barriers that hinder economic growth among farms and targeted enterprises while supporting diversification into other cash crops and improved farming practices to assist smallholders and producers recover lost income. In conjunction with tree removal and replacement, this activity will assist farmers in adopting new cropping systems and developing alternative sources of cash income during the time required for new coconut trees to reach productive age. This component will also provide technical support to introduce better practices aimed at increasing crop yields.

The Compact also includes $70.5 million for program management, oversight, fiscal accountability, monitoring and evaluation. In addition, the Compact budget contains $40 million of funding for capacity building and technical assistance to strengthen local institutions.

Expected Results

The Program is expected to reduce the projected poverty rate by over seven percent by 2015 and by over 16 percent by 2025. As a result of Program implementation, nearly 270,000 Mozambicans will be lifted out of poverty by 2015 and 440,000 by 2025. Individually:

- The Water Supply and Sanitation Project is expected to assist some 1.9 million Mozambicans by 2015 through improved water systems, wastewater disposal, and storm water drainage.
- The Transportation Project is expected to improve access to markets and services for nearly 2.3 million Mozambicans by 2015.

- The Land Tenure Services Project will create improved land tenure services and will benefit 1.9 million Mozambicans by 2015, the first year after the end of the Compact, and 2.6 million 15 years after the end of the Compact.
- The Farmer Income Support Project will benefit 1.7 million smallholders as well as workers on coconut estates, which employ some 5,000 people.

Overall, the Program is expected to reach a total of five million people, many of whom will benefit from multiple projects.