



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended, we wish to inform you that the Millennium Challenge Corporation (MCC) entered into a Millennium Challenge Compact with the Republic of Malawi on April 7, 2011. We have included a detailed summary of the Compact and a copy of the text of the Compact.

We will publish the text of the Compact and the summary in the Federal Register and on MCC's website.

The attached notification is being sent to Congress on April 15, 2011.

Sincerely,

A handwritten signature in blue ink, which appears to read "T. Charles Cooper".

T. Charles Cooper  
Vice President  
Congressional and Public Affairs

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION  
April 15, 2011**

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended (22 U.S.C. 7701 *et seq.*) (the “**Act**”), this is to advise that the Millennium Challenge Corporation (“**MCC**”) entered into a Millennium Challenge Compact with the Republic of Malawi under sections 605 and 609(g) of the Act on April 7, 2011 (the “**Compact**”).

A detailed summary of the Compact and a copy of the text of the Compact follow.

## **SUMMARY OF MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE REPUBLIC OF MALAWI**

The five-year Millennium Challenge Compact with the Republic of Malawi will provide up to \$350.7 million to reduce poverty through economic growth (the “Compact”). The Compact focuses on revitalization of the Malawi power sector, and is intended to: (i) increase investment and employment income by raising the profitability and productivity of enterprises; (ii) expand access to electricity for the Malawian people and businesses; and (iii) improve delivery of social services.

### **I. Project Overview and Activity Descriptions**

To advance the Compact goal of reducing poverty through economic growth, the Compact will fund a Power Sector Revitalization Project (the “Project”) that aims to improve the availability, reliability, and quality of the power supply by: (i) increasing the throughput capacity and stability of the national electricity grid; (ii) increase efficiency of hydropower generation; and (iii) create an enabling environment for future expansion by strengthening sector institutions and enhancing regulation and governance of the sector. The Project consists of two activities (i) the Infrastructure Development Activity and (ii) the Power Sector Reform Activity (the “Activities”).

#### **A. Infrastructure Development Activity (\$283 million)**

The Infrastructure Development Activity focuses on the rehabilitation, upgrade and modernization of those generation, transmission and distribution assets of the Electricity Supply Corporation of Malawi (“ESCOM”) in most urgent need of repair, in order to improve the capability of the transmission system and increase the efficiency and sustainability of hydropower generation. Because maintaining the current generation assets and expanding generation capacity are necessary to ensure realization of the full benefits of the Infrastructure Development Activity, the GOM is committing to maintain current generation assets, and to invest in new generation by completing the construction of the 64 MW Kapichira II hydropower plant during the term of the Compact. By the end of the Compact term, MCC expects that the Infrastructure Development Activity will result in increases in generation capacity (from 286 MW to 356 MW), network throughput (from 260 MW to 410 MW) and distribution capability (from 868 megavolt amperes (MVA) to 1,118 MVA), as well as a reduction of technical losses of the power system (from 20-25% to 18%).

The Infrastructure Development Activity consists of the following four sub-activities:

(a) Nkula A Rehabilitation Sub-Activity: This sub-activity will provide funding to rehabilitate and modernize Malawi’s oldest major hydropower plant – Nkula A – at the Nkula Falls Hydroelectric plant. The objective of this proposed investment is to improve the availability of power in Malawi by reducing outages caused by the condition of assets, and

maximizing the power output of generators. The rehabilitation is necessary to assist ESCOM in avoiding the good probability that at least a portion, if not all, of the plant could fail by the end of the Compact without MCC's investment. Such a loss in generation output would have a significant adverse affect on the Malawi economy, and severely compromise the potential utilization and returns on MCC's investment in the transmission and distribution upgrade and rehabilitation.

(b) Transmission Network Upgrade Sub-Activity: This sub-activity will upgrade the backbone of the transmission network in order to: (i) improve the quality and reliability of supply in the northern, central and southern regions of the country; (ii) increase the capacity to move power from the south, where 98 percent of Malawi's power is generated, to the central and northern regions; (iii) reduce technical losses on transmission lines; and (iv) provide a secure transmission link between the southern and central regions.

(c) Transmission and Distribution Upgrade, Expansion, and Rehabilitation Sub-Activity: This sub-activity includes investments in the southern, central, and northern power systems of the Malawi power network in order to: (i) upgrade existing network connections (33-kilovolt (kV), 11kV); (ii) extend existing substations; (iii) upgrade transformers in existing substations; (iv) develop new substations; (v) install and/or repair improved protection systems; (vi) provide new network extensions and connections; and (vii) install a new system control and data acquisition system.

(d) Environment and Natural Resource Management (ENRM) Sub-Activity: The objective of the ENRM sub-activity is to help the GOM and other relevant stakeholders address the growing problems of aquatic weed infestation and excessive sedimentation in the Shire River, which cause costly disruptions to downstream power plant operations. The ENRM sub-activity intends to address these issues by: (i) mitigating the impact of the weeds and sedimentation by providing dredgers and weed-harvesting equipment for use at existing hydropower plants and the Liwonde Barrage, and expanding use of upstream biological control measures; and (ii) developing and implementing an Environmental and Natural Resource Management Action Plan (ENRMAP) that sets the course for an improved understanding and action on environmental, social (including gender), and economic factors that cause or contribute to weed infestation and sedimentation in the Shire River.

## **B. Power Sector Reform Activity (\$25.7 million)**

The Power Sector Reform Activity complements the Infrastructure Development Activity by providing support for the GOM's policy reform agenda, and aims to build capacity in pivotal sector institutions: ESCOM, the Malawi Energy Regulatory Authority (MERA), and the Ministry of Natural Resources Energy and Environment (MNREE). Currently, ESCOM suffers from significant financial, governance and operational challenges. In addition, inadequate GOM policies and sector governance continue to hinder development of the power sector. To address these challenges, MCC and the GOM have developed two sub-activities under the Power Sector Reform Activity: the ESCOM Turnaround sub-activity and the Regulatory Strengthening sub-activity.

(a) ESCOM Turnaround Sub-Activity. The objectives of this sub-activity are to restore ESCOM's financial health and rebuild ESCOM into a strong, well-managed company. MCC funding will support three main areas of the turnaround: finances, corporate governance and operations.

(i) *Finances*: MCC funding will support the provision of technical assistance and equipment to ESCOM, including: (1) development of a detailed financial plan for 2011-2016; (2) deployment of a "financial turnaround team"; (3) development of a loss reduction study; (4) assistance in rapid billings and collections improvements; (5) strengthening of internal controls; (6) rebuilding of the customer database; (7) pursuit of debt collection; (8) development of a new automated financial management system; and (9) assistance with tariff applications.

(ii) *Operations*: MCC funding will support change management efforts, designing human resources strategies, strengthen ESCOM's procurement division, and other operational assistance.

(iii) *Corporate Governance*: MCC funding will seek to improve corporate governance and support ESCOM's turnaround, including: (1) recruitment services; (2) twinning/mentoring arrangements or management contract support; (3) a performance management system; and (4) board strategic planning. MCC funding will provide technical assistance on corporate performance standards, including a study on best practices and benchmarks for corporate governance of electric utilities with regional, continental and international benchmarks and recommendations for ESCOM by the end of the second year of the Compact term.

(b) Regulatory Strengthening Sub-Activity. The objective of this sub-activity is to provide support for the GOM's policy reform agenda by building capacity in pivotal sector institutions such as MERA and MNREE, and to develop a regulatory environment, consistent with best practices in independent power utility regulation, which will promote potential private sector investment in generation and grid capacity at an affordable cost.

(i) *Tariff Reform*: MCC funding will support a cost of service study to determine appropriate tariff levels and schedules to achieve full cost recovery, more efficient utilization of electricity, and achievement of social objectives. Based on the results of this study, the GOM commits to a phased implementation of full-cost recovery tariffs and schedules to be completed by the end of year three of the Compact.

(ii) *MERA Capacity Building*: MCC funding will support capacity building at MERA to improve its regulatory oversight activities and operations including training and mentoring and development of peer relationships with other regulatory bodies.

(iii) *Enabling Environment for Public and Private Sector Investment*: MCC funding will support the GOM's efforts to implement a suitable market model which will include efforts to: (a) study and design a single buyer model to be implemented during the Compact; and (b) develop the building blocks of a bilateral power trade market.

## **II. Administration**

The Compact also includes program administration costs estimated at \$33 million over a five-year timeframe, including the costs of administration, management, auditing, and fiscal and procurement services. In addition, the cost of monitoring and evaluation of the Compact and integration of MCC's gender policy is budgeted at approximately \$9 million.

## **III. Economic and Beneficiary Analysis**

By reducing power outages and technical losses, enhancing the sustainability and efficiency of hydropower generation, and increasing the potential kilowatt hours (“*kWh*”) of throughput to electricity consumers, the Program will reduce energy costs to enterprises and households, improve productivity in agriculture, manufacturing, and service sectors, and support the preservation and creation of employment opportunities in the economy. MCC and the GOM expect the Program to result in the following benefits and distribution thereof:

- An estimated 5 million individuals will benefit by year 20 after the Compact term through reduced domestic and enterprise energy costs, increased employment income, and profits;
- An estimated US\$2.4 billion of income benefits to Malawi at the present discounted rate of 10 percent;
- An estimated 40 percent of beneficiaries are currently extremely poor, and 60 percent are poor<sup>1</sup>; and
- Extremely poor individuals will gain approximately US\$221 of benefits in PPP terms, and poor individuals will gain an average of US\$291 (estimates based on recent employment and electricity connection patterns, and incorporate effects of a modest rise in tariffs, to partly finance expanded access).

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<sup>1</sup> “Extremely poor” is defined as living on the equivalent amount in 2010 of less than US\$1.25 per day 2005 PPP adjusted dollars, and “poor” is defined as living on less than US\$2.00 per day 2005 PPP adjusted dollars.