



MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

QUARTERLY STATUS REPORT



Malawi Compact

AS OF JUNE 2015

COMPACT GOAL

The Compact aims to revitalize Malawi's power sector by upgrading electricity infrastructure and improving the performance of key institutions responsible for the electrical power sector. The program is intended to reduce outages and system losses, improve efficiency of hydropower generation, improve service delivery to electricity consumers, and create an enabling environment for private sector investment and expansion of electrification. The Compact is expected to reduce energy costs to enterprises and households and enhance productivity and employment opportunities in key economic sectors.



COMPACT AT A GLANCE

Compact Signed	04-07-2011
Entry Into Force	09-20-2013
Compact End Date	09-20-2018
Compact Total	\$350,700,000
Amount Committed	\$51,817,125
Amount Expended	\$23,098,580
Estimated Program Beneficiaries	982,729
Estimated Increase in Household Income	\$567,200,000

% OF TOTAL COMPACT BUDGET (USD MILLIONS)

73%	Infrastructure Development Project	\$255.6
7%	Power Sector Reform Project	\$25.5
8%	Environmental and Natural Resource Management Project	\$28.0
10%	Program Administration	\$34.5
2%	Monitoring and Evaluation	\$6.9

■ Project Preparation ■ Project Implementation

Infrastructure Development Project	PROJECT COST	TOTAL CONTRACT COMMITMENTS	TOTAL PROJECT EXPENDITURES ¹																																				
	\$255,648,800	\$27,145,439	\$7,413,114																																				
<p>This project will improve the availability, reliability, and quality of the power supply by increasing the throughput capacity and stability of the national electricity grid and increasing efficiency of hydropower generation through investments in infrastructure development.</p> <p>Projected Long-Term Results (Up to 20 years)</p> <table border="0"> <tr> <td style="text-align: right;">ESTIMATED BENEFICIARIES</td> <td style="text-align: right;">ESTIMATED INCREASE IN HOUSEHOLD INCOME</td> </tr> <tr> <td style="text-align: right;">983,000</td> <td style="text-align: right;">\$567,200,000</td> </tr> <tr> <td></td> <td style="text-align: right;">Estimated Increase in Household Income and Beneficiaries is inclusive of all Projects</td> </tr> </table>	ESTIMATED BENEFICIARIES	ESTIMATED INCREASE IN HOUSEHOLD INCOME	983,000	\$567,200,000		Estimated Increase in Household Income and Beneficiaries is inclusive of all Projects	<table border="0"> <tr> <td></td> <td>YEAR 1</td> <td>YEAR 2</td> <td>YEAR 3</td> <td>YEAR 4</td> <td>YEAR 5</td> </tr> <tr> <td>Hydropower Plant Infrastructure</td> <td colspan="3" style="background-color: red;"></td> <td colspan="2" style="background-color: gray;"></td> </tr> <tr> <td>Transmission Network Upgrade</td> <td colspan="3" style="background-color: red;"></td> <td colspan="2" style="background-color: gray;"></td> </tr> <tr> <td>Distribution Rehab & Extension</td> <td colspan="3" style="background-color: red;"></td> <td colspan="2" style="background-color: gray;"></td> </tr> <tr> <td></td> <td colspan="5" style="text-align: center;">PRESENT</td> </tr> </table>				YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	Hydropower Plant Infrastructure						Transmission Network Upgrade						Distribution Rehab & Extension							PRESENT				
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	<p>PROJECTED RESULTS BY END OF COMPACT</p> <p>Increase the quantity of electricity consumed to 2.1 million MWh; reduce outages and load shedding; reduce system losses to 19.8%; improve electricity quality; increase substation MVA capacity by 734 MVA; increase plant availability and MW capacity.</p>	<p>PROGRESS TO DATE</p> <p>Invitations for bids launched for all 8 works packages: rehabilitation of Nkula A Hydropower Plant; construction of a 400 kV transmission line and substations, 132/66 kV transmission lines and substations, and new and up-graded distribution infrastructure; installation of SCADA technology to expand network coverage. All contracts expected to be signed by end of 2015. Resettlement work underway, with the first of 6 RAPs completed and approved.</p>	<p>PROJECT ACHIEVEMENTS</p> <p>Government of Malawi completed construction of 64 MW Kapichira II Hydropower Plant in December 2013, fulfilling a Compact condition precedent and adding much needed generation capacity to Malawi's grid. Design work complete and tenders issued for all works.</p>																																				

Power Sector Reform Project	PROJECT COST	TOTAL CONTRACT COMMITMENTS	TOTAL PROJECT EXPENDITURES [†]																		
	\$25,553,400	\$8,470,597	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5														
<p>This project will create an enabling environment for future expansion of the power sector by strengthening sector institutions and enhancing regulation and governance of the sector by rebuilding ESCOM into a financially strong, well-managed utility and developing a regulatory environment that supports public and private investment in generation capacity and expanded access.</p> <p>Projected Long-Term Results (Up to 20 years)</p> <table border="1"> <thead> <tr> <th>ESTIMATED BENEFICIARIES</th> <th>ESTIMATED INCREASE IN HOUSEHOLD INCOME</th> </tr> </thead> <tbody> <tr> <td>-</td> <td>-</td> </tr> </tbody> </table>	ESTIMATED BENEFICIARIES	ESTIMATED INCREASE IN HOUSEHOLD INCOME	-	-			<p>PROJECTED RESULTS BY END OF COMPACT</p> <p>Enable ESCOM, Malawi's electric utility, to recover costs and improve its operational and financial performance including 90% billing/collection efficiency, and reducing days to respond to forced outages. Develop a market structure, an independent regulatory environment and tariff framework that enables private investment.</p>					<p>PROGRESS TO DATE</p> <p>Compact-funded consultants providing support to strengthen ESCOM's financial and operational management including procurement, billing/collections, asset and inventory control, regulatory affairs, and corporate governance. Stakeholders considering analysis of options to restructure Malawi's power market to increase investment and introduce competition. Procurement underway for advisor to develop framework for private investment in power sector.</p>					<p>PROJECT ACHIEVEMENTS</p> <p>In support of ESCOM's financial turnaround, the Government of Malawi restructured all ESCOM debt to equity to fulfill a Compact condition precedent and the Compact funded the development of a financial model for ESCOM to improve tariff application and planning. Compact technical assistance for ESCOM and the regulatory authority MERA supported ESCOM's 2014 tariff application which resulted in more robust tariff review process.</p>				
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Environmental and Natural Resource Management Project	PROJECT COST	TOTAL CONTRACT COMMITMENTS	TOTAL PROJECT EXPENDITURES [†]																		
	\$28,026,000	\$1,588,057	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5														
<p>This project will mitigate the growing problems of aquatic weed infestation and excessive sedimentation in the Shire River Basin to reduce the costly disruptions to Malawi's hydropower generation by investing in weed and sediment management, and implementing better environmental and natural resource management in upstream areas.</p> <p>Projected Long-Term Results (Up to 20 years)</p> <table border="1"> <thead> <tr> <th>ESTIMATED BENEFICIARIES</th> <th>ESTIMATED INCREASE IN HOUSEHOLD INCOME</th> </tr> </thead> <tbody> <tr> <td>-</td> <td>-</td> </tr> </tbody> </table>	ESTIMATED BENEFICIARIES	ESTIMATED INCREASE IN HOUSEHOLD INCOME	-	-			<p>PROJECTED RESULTS BY END OF COMPACT</p> <p>Contribute to fewer outages at hydropower plants by reducing weed infestation and siltation in the Shire River Basin through improved land management practices in targeted catchments, with a focus on conservation agriculture, reforestation and soil stabilization activities.</p>					<p>PROGRESS TO DATE</p> <p>MCA-Malawi identified 10 organizations to receive funding from the Compact small grants facility which will fund activities to reduce soil erosion and related downstream power outages in Middle Shire River Basin and address gender and social disparities in target communities. The grants will be signed in the coming quarter. Design work is complete for weed and sediment management equipment for ESCOM with goal to launch tenders next quarter.</p>					<p>PROJECT ACHIEVEMENTS</p> <p>A consultant has completed a feasibility study outlining necessary steps to establish a trust that could fund natural resource management and sustainable land use activities in the Middle Shire River Basin following the end of the Compact, providing an approach to strengthening the sustainability of the Compact's ENRM Project. A Cooperative Agreement to form a partnership with an NGO to set-up and manage the trust will be released next quarter.</p>				
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The Malawi Compact was rescope in July 2013 from its original program to account for cost increases due to inflation resulting from delays caused by the Compact's operational hold and suspension and to respond to requests for new infrastructure sub-projects from the Government of Malawi. In addition, at that time MCC revised the Compact structure to improve fiscal control and results monitoring and reporting by elevating two Compact Activities and one Sub-Activity to the Project level.

[†]Expenditures are the sum of cash outlays and quarterly accruals for work completed but not yet paid or invoiced.