

MCC and Malawi: Creating Opportunities for Growth

Malawi's \$350.7 million Millennium Challenge Corporation (MCC) Compact is a single-sector program focusing on activities that aim to revitalize Malawi's power sector. By reducing power outages and technical losses, enhancing the sustainability and efficiency of hydropower generation, and improving service to electricity consumers, the compact intends to reduce energy costs to enterprises and households; improve productivity in the agriculture, manufacturing and services sectors; and support the preservation and creation of employment opportunities in the economy.

Power Sector Revitalization Project

The Power Sector Revitalization Project seeks to improve the availability, reliability, and quality of the power supply by increasing the capacity and stability of the national electricity grid and bolstering the efficiency and sustainability of hydropower generation. Project activities to strengthen sector institutions and enhance sector regulation and governance will support an enabling environment for future expansion.

Infrastructure Development Activity (approximately \$283 million)

The Infrastructure Development Activity focuses on the most urgent rehabilitation, upgrade, and modernization needs of the power system. The activity will preserve and stabilize existing generation capacity, improve the capacity of the transmission and distribution network, and increase the efficiency and sustainability of hydropower generation. The Malawian Government will commit to investing in additional generation capacity by completing the construction of new hydropower generation. The Infrastructure Development Activity also includes a sub-activity addressing environmental and social factors that negatively impact Malawi's hydropower plants.

Power Sector Reform Activity (approximately \$25.7 million)

The Power Sector Reform Activity complements the Infrastructure Development Activity by providing support for the Malawian Government's policy reform agenda and by building capacity in critical sector institutions. The activity will target entities such as the Electricity Supply Corporation of Malawi (ESCOM), the Malawi Energy

Regulatory Authority (MERA), and the Ministry of Natural Resources Energy and the Environment (MNREE) for capacity-building and technical assistance.

Administration

The compact includes approximately \$42 million for project support and administrative costs, including the cost of administration, management, auditing, fiscal and procurement agent services, environmental and social oversight, gender integration, and monitoring and evaluation.

Expected Results

MCC expects the compact to result in the following benefits:

- ★ An estimated 5.9 million individuals will benefit from the time the compact enters into force through 20 years after the compact term expires through reduced domestic and enterprise energy costs, increased profits, and increased employment income;
- ★ An estimated present value of \$3.1 billion in income benefits to Malawi over 25 years;
- ★ An estimated average economic benefit of \$248 in purchasing power parity terms to extremely poor beneficiaries, and of \$325 to poor beneficiaries. An estimated 40 percent of beneficiaries are currently extremely poor; 60 percent are poor.

These estimated income benefits do not include the full value of improvements to the delivery of health and education services resulting from the increased power supply, and these gains are likely to be important both economically and socially. All projected results depend on complementary investments in generation capacity, as well as the successful implementation of the infrastructure investments, the sustained turnaround of the Electricity Supply Corporation of Malawi, and the realization of power sector reforms.