

THE CHALLENGE



MCA-MALAWI QUARTERLY NEWSLETTER

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Foreword

Congratulations for signing the Malawi Compact

Welcome to the third issue of The Challenge! In this issue we celebrate the signing of the Malawi Compact .

The signing of the Compact on April 7, 2011 , is a historic moment that we all waited for, with bated breath.

This historic moment came after three years of preparation with various stakeholders. Studies and negotiations were also done in order to come up with the programme.

A hearty congratulation goes to officials of the Government of Malawi, the MCA– Malawi Core Team and the Millennium Challenge Corporation (MCC) who worked with partners in the private sector, the donor community and the civil society to lay the foundation and prepare the programme.

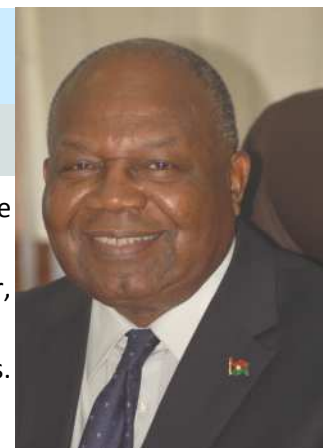
In the next few months, the Government of Malawi and the MCC will be working towards ensuring that all the conditions precedent for Entry Into Force (EIF) are met.

The Pre-EIF road map includes Government commitments, pre-implementation planning and the further detailed planning of the infrastructure development and the power sector reform activities.

Thank you all for your commitment in taking up the challenge to ensure that Malawi improves its power supply in order to unlock its development potential. We look forward to continuing our collaboration with you.

Sam Kakhobwe

MCA-Malawi National Coordinator and Point of Contact



Malawi Signs US\$ 350.7 Million Compact with MCC



MCC VP Patrick Fine and Minister of Finance Ken Kandodo sign the US\$ 350 million Compact, as the Chief Secretary Bright Msaka looks on

The Government of Malawi and the Millennium Challenge Corporation (MCC) finally signed the US\$ 350.7 million grant agreement on 7 April, 2011 in the capital city of Malawi, Lilongwe.

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Malawi Signs US\$350.7 million Compact with MCC



From left is Gomani, Banda and Kakhobwe and a cross section of the audience at the signing ceremony

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The Malawi leader, President Professor Bingu wa Mutharika witnessed the signing ceremony that was held at the New State House.

In his remarks, President Bingu wa Mutharika said he was pleased that the Compact was being signed after three years of thorough consultation, close collaboration and negotiations.

“This is a generous grant, what mark of friendship can exceed this!”



President Bingu wa Mutharika exchanges a gift with Patrick Fine during the signing ceremony in Lilongwe

President Mutharika said he was also pleased that the resource envelope had been increased from US\$300 million to US\$350 million which will enable Malawi to achieve more.

Approximately US\$283 million of the grant will be used to improve the infrastructure in the energy sector and will focus on rehabilitating, upgrading and modernising the transmission and distribution networks, as well as refurbishing the Nkula A hydro-power station.

“This is a generous grant, what mark of friendship can exceed this!” said President Mutharika.

The President further said the Compact would help stimulate further investment in power generation and will act as a backbone for the establishment of new power plants in the country.

The Malawi Compact has taken three years to develop and is a one sector programme that seeks to improve the availability, reliability and quality of power supply, increase the efficiency of hydro-power generation and create an enabling environment for future expansion in the energy sector.

In his remarks, MCC Vice

President for Compact Operations Patrick Fine said he is confident that Malawi will make great strides in removing one of the main barriers to economic growth through the implementation of the Compact.

“Today we look forward to a road that leads to a future of increased access to power for businesses and common people,” said Fine.

Fine said he has no doubt that any obstacles that would be countered on this road will be overcome.

The MCC Vice President for Compact Operations congratulated President Bingu wa Mutharika and the people of Malawi for signing the agreement.

Malawi Compact Facts

- **Malawi became eligible for the Compact programme in December 2007**
- **The MCC Board of Directors approved a US\$ 350.7 million compact for Malawi on January 5, 2011**
- **Malawi signed the US\$ 350.7 Million Compact with MCC on April 7, 2011**
- **The goal of the Compact is to reduce poverty through economic growth in Malawi**

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MCC and Government of Malawi step up pre-implementation Planning

From May 9 to 13, 2011, the Millennium Challenge Corporation (MCC) Deputy Vice President for Compact Operations in East and Southern Africa, Andrew Mayock, led a high-level mission from the MCC to Malawi.

The team was in the country to hold consultations that were aimed at providing an overview of the Malawi Compact implementation process, develop a common vision and to work through key immediate issues before the Malawi Compact enters into force (EIF).

The key issues discussed included the establishment of the MCA-Malawi Accountable Entity that will be responsible for the implementation of the Compact, the development of a detailed financial plan for turning around ESCOM and progress on other key pre-implementation activities.

During the mission, the MCC team held discussions with Government and ESCOM Officials, including the Minister of Finance, the Chief Secretary, Secretary to the Treasury and the Solicitor General.

Preparations to establish the Compact implementation framework began in September 2009 and have been running along-side the project development track.

The MCC and the Government of Malawi have been working together to set up the MCA-Malawi as an Accountable Entity which will be



Deputy Chief Secretary Necton Mhura (right), Andrew Mayock (middle) and Kyeh Kim during pre-implementation discussions on the Malawi Compact

established under the Trustees Incorporation Act. The trust will be a legal entity which will be administered and managed through a Board of Trustees, a Stakeholders' Committee and a Management Unit.

During the meetings, the Government of Malawi and the MCC discussed schedules for the setting up of the MCA-Malawi Board, stakeholder's committee and the accountable entity, recruitment of key staff for the management unit, the mobilisation of procurement and fiscal agents and the Infrastructure development activity.

Speaking at the closing of the consultations, the Deputy Chief Secretary Necton Mhura said a lot had been achieved during the consultations with the MCC team.

"We would like to see moving fast particularly the recruitment of the board of Trustees, the management team and also the appointment of a Chief Executive Officer for ESCOM," said Mhura.

Mhura said the two sides had agreed on certain steps that need to be undertaken in order to get the Compact to start running. These steps include the appointment of the board of trustees, the process of the recruitment of the management team of the local entity and specific things the Malawi Government agreed to undertake, before the Compact comes into force.

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Progress on Procurement of Staff Recruitment Services, Fiscal and Procurement Agent and Procurement Oversight and Advisory Services

Staff Recruitment Services

Procurement for staff recruitment services was done through Invitation to Quote (ITQ). Five firms were requested to quote but only three firms submitted proposals (quotations). Management Solutions Consulting (MSC) Malawi Limited emerged the successful bidder and was awarded a contract to recruit four key personnel of the MCA-Malawi within a period of four months.

On May 11, 2011, MSC started advertising for positions of Chief Executive Officer, Deputy Chief Executive Officer, Legal Advisor and Human Resources Officer. MSC has since submitted an inception report as requested in the contract.

Fiscal and Procurement Agents and Procurement Oversight and Advisory Services

Procurement mode used to solicit these services was Quality and Cost Based Selection (QCBS) and proposals were both opened on 18th October 2011. MCA-M in collaboration with MCC appointed members from different Ministries and departments to serve on Technical Evaluation Panels (TEPs).

Recommendations for award of contracts were both reviewed by MCA-Malawi and MCC. After approval from MCC, award announcements were made on 25th April, 2011 through UN-BOOnline, dgMarket, MCA-M Website and local newspapers.

MCA-M is now in the process of negotiating and signing contracts with Cardno Emerging Markets USA, as they were considered to be the lowest evaluated bidders on both procurements for Fiscal and for Procurement Agents and Procurement Oversight and Advisory Services. The contract duration period is 60 and 72 months respectively.

Management Solutions Consulting (Mw) Ltd was awarded a contract to recruit four key personnel for the MCA-Malawi Accountable Entity.

Process to develop ENRM baseline analysis for the Middle Shire Basin underway

A process to develop a baseline survey for the Middle Shire River has begun. The survey will examine environmental, economic and social issues affecting power generation in the middle Shire River basin. This is the area between Liwonde barrage in Machinga district and Kapichira hydropower station in Chikhwawa district.

The primary objective of the survey will be to identify specific priority intervention areas where MCC and other donors may implement

activities to promote sustainable land use and management practices in order to reduce environmental pressure on ESCOM Hydropower facilities and also promote other development initiatives in the areas.

On 20th May, 2011, the ENRMAP steering committee held a meeting to review the terms of reference for the baseline survey for the Middle Shire River basin.

The Millennium Challenge Corporation (MCC) will procure a consultant to do the baseline

survey for the Middle Shire Basin and the work is expected to start soon after the procurement of the consultant which is expected to be completed anytime after July 2011. The actual survey is expected to be completed within twelve months thereafter.

The MCC is funding the extended baseline survey using 609(g) funds and any investor shall be expected to develop site specific action plans within the Middle Shire Basin after the baseline analysis is completed.

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Searching for solutions to environment and natural resources management in the Shire River Basin

It is late in the afternoon and Esnati Molesi is still in her son's maize garden, helping with harvesting.

Born in Jolasi village in Traditional Authority Jalasi in Mangochi district, sixty year old Molesi has eight children and she has been farming for forty years.

On this late March afternoon, Molesi, her son and his family have moved from their home which is about four Kilometers away to a field to harvest maize.

The field like others in the area is located on a hilly slope overlooking the Shire River.

Molesi says her family has been using the hilly field to grow maize for more than four years now.

She says the family started using the hilly slope after noting that there was a reduction in yields in the garden they had been using over the last twenty years.

"In the past the family would get about forty bags from this field but the yields have decreased over the past four years even after using fertiliser," she said.

Molesi said the reduction in yields forced her family to look for better land and they settled for the hilly slope.



Decreasing soil fertility forces people to start farming on hilly slopes and this contributes to soil erosion and siltation in the Shire river

Molesi's family like many others in the Upper Shire River Basin use hilly slopes for farming. In most cases there are no proper contour ridges to control soil erosion in such areas. This results in the transportation of top soil in rivers which feed the Shire River and into downstream dams where Malawi generates 95% of its electricity.

In March, 2011, an environment, social and gender team from the MCC and MCA-Malawi visited some of the catchments and hydro-power stations located in the upper Shire. The purpose of the trip was to look at Environmental and Natural Resources Management (ENRM) and social and gender issues, for the planning and subsequent implementation of the interventions under the environment component of the Compact.

Specific ENRM activities to be undertaken during the implementation of the Compact include the procurement of silt dredgers and weed harvesters for the management of silt and aquatic weeds at ESCOM power stations and the Liwonde barrage.

Biological control measures to address weed infestation will also be used.

Other activities also include the establishment of an Environmental Trust for the Shire river basin to support the environment and natural resources management activities in the area.

The establishment of the Trust is a long term solution to environment and natural resources management in the Shire river basin.



The MCC and MCA-M team at Tedzani Hydro-power station

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What is in the Gender Integration Plan?

The process to develop a plan to integrate gender has been initiated. The process will be done in six steps:

- Understanding the legal and environmental situation of gender integration and its implications in the implementation of the Compact
- Determining what is already happening on the ground, what is workable and the challenges in addressing energy and environmental management issues
- Assessing the extent to which the compact processes did integrate gender i.e. consultation

- Determine the capacity gaps and needs of the accountable entity and key implementing stakeholders
- The development of the actual Gender integration management plan
- Development of capacity training manual for gender analysis and gender integration in energy, environment and natural resources

The plan will facilitate the compact to integrate gender at all levels during the implementation of the compact.

It is expected that by October 2011, a comprehensive gender integration plan

will be ready for implementation. The process is being initiated by MCA-Malawi with anticipated support by a consultant who will be procured in due course. In addition, the process will be supported by consultative discussions with relevant stakeholders including the Departments of Energy, Environment, Forestry and ESCOM.

Gender integration plan is the strategy for incorporating social and gender issues into the Compact activities, projects and processes so that men, women, boys and girls benefit.

First version of Renewable Energy Prospector for Malawi under review

The Idaho National Laboratories (INL) of the United States Department of Energy has released the first version of the Virtual Renewable Energy Prospector for Malawi (VREP-MW).

The application is temporarily accessible at: <http://arcserver.northwind-inc.com/vrepformalawi/>. The application will show the mapping of water, wind, solar, geo-thermal and bio-energy potential investment areas in Malawi when completed.

The VREP-MW has been developed with financing from the MCC pre-Compact financing. Project Manager for the VREP-MW Project Douglas Hall said the application contains much of the GIS data that was obtained during their visit in October 2010.

The team which was in the country

from 4-8 October, 2010 to start the process of developing a Virtual Renewable Energy Prospector (VREP) for Malawi, collected data from ESCOM, the Departments of Energy, Land Resources Conservation, Water Resources, Forestry, Meteorological Services and Climatic Change and Survey. The INL team also held discussions with the Polytechnic and Mzuzu University.

Douglas Hall says the application is still under review and comments are being invited to finalise the first version of the application.

According to Hall, the VREP-MW also contains wind and solar resource data that were purchased from a private company. It also contains additional tools - a Feasibility tool used to select resources meeting basic project feasibility criteria and a Line of Sight tool primarily used to determine

wind-radar issues when siting wind farms.

Hall also said the development of the application and working with the data obtained in Malawi made INL aware of needs for additional or more accurate GIS data, which they may request from various departments.

Once refined, the application will be posted on the web and will act as a guide for potential investors to be familiar with Malawi's investment opportunities in renewable energy.

It is expected that at the end of the project the Web prospector will be handed over to one of the organisations in Malawi for custody.