
MCC Compacts and the Power Sector

Context: The Millennium Challenge Corporation (MCC) is a small, focused US agency which provides assistance to countries that (a) promote economic freedom, (b) rule justly, and (c) invest in people. Its sole mandate is to pursue poverty reduction through economic growth, and its grant funding supports projects that will have measurable economic impact.

How MCC Works

- 1. Data-driven country selection.** Country eligibility is based on demonstrated commitment to good governance as measured by 20 independent policy indicators.
- 2. Constraints analysis.** Partner countries and MCC staff conduct joint analyses of the binding constraints to economic growth and then identify high-return investments.
- 3. Clear compacts.** Five-year compacts (and shorter threshold programs for countries that fall just short of selection) between the MCC and partner countries define mutual contributions and benchmarks.
- 4. Shared metrics.** Success is defined by both partners and assessed with publicly available monitoring data and rigorous impact evaluations.

High relevance of the power sector

Costly and unreliable electricity is [frequently identified as a major barrier to economic growth](#), so power infrastructure investments are a common MCC compact component.

- MCC has committed more than \$2 billion to power investments in recent compacts and threshold programs (see Table).
- Since MCC only provides grants, the agency has avoided crowding out private capital and focused its resources where grants are most appropriate. These include policy and institutional reforms that encourage private investment, as well as direct investments in transmission and distribution infrastructure.

Example from Malawi

- MCC's \$350 million compact with Malawi was a single sector program to improve the reliability and quality of the power supply by supporting hydropower, transmission & distribution infrastructure, and legal and regulatory changes.
- The compact included rehabilitation of the Nkula A hydropower plant, increasing capacity and reliability.
- The program is projected to deliver an 18.7% economic rate of return.

Conclusion: The MCC will likely remain an important source of finance for power infrastructure in eligible countries because of its unique model and sizeable grant window. The agency's use of data-based country selection, evidence-based investment choice, and a strong culture of rigorous evaluation can have positive influence beyond the compact itself.

Table: Recent MCC Engagements on Power

Country	Compact Status	Investment (\$ million)	Description
Indonesia	Closed April 2018	\$70	<ul style="list-style-type: none"> - Renewable energy investments under the “Green Prosperity Project” - Technical and financial assistance to renewable energy projects.
Malawi	Closed Sept 2018	\$283	<ul style="list-style-type: none"> - Hydropower reliability - Transmission capability & stability - Modernizing management and regulation of the power sector
Sierra Leone (threshold)	Began Feb 2016	\$23	<ul style="list-style-type: none"> - Sector restructuring - Systems planning
Liberia	Began Jan 2016	\$202	<ul style="list-style-type: none"> - Generation from Mt. Coffee hydropower plant - Systems planning - Develop independent regulator
Ghana	Began Sept 2016	\$450	<ul style="list-style-type: none"> - DisCo management and planning - Offset demand with efficiency - Planning and sector regulation
Benin	Began June 2017	\$333	<ul style="list-style-type: none"> - Modernize grid infrastructure - 45MW of solar generation via IPP - Support for off-grid and mini-grid - Sector governance
Kosovo (threshold)	Signed Sept 2017	\$32	<ul style="list-style-type: none"> - Reliability & household efficiency
Nepal	Signed Sept 2017	\$348	<ul style="list-style-type: none"> - Expand and strengthen transmission infrastructure
Senegal	In development, Eligible Dec 2016	TBD	TBD
Burkina Faso	In development, Eligible Dec 2017	TBD	TBD
The Gambia (threshold)	In development, Eligible Dec 2017	TBD	TBD

Note: The investment figures are MCC's share of the project costs, not including administration or monitoring and evaluation costs that are included in each compact or threshold program, nor including the country's counterpart contribution.