



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform Congress of our intent to provide funding in an amount not to exceed \$375,000,000 under a Millennium Challenge Compact with the Republic of Benin.

This notification is being sent on June 17, 2015.

Obligation of funds may be incurred on or after 15 days from the date of this notification.

An attached summary describes the project and other key elements of the planned Compact. If you or your staff would like to arrange a meeting to discuss the Compact, please contact me or Jim Mazzarella, Managing Director of Congressional Affairs, at (202) 521-3850.

Sincerely,

/s/

Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

June 17, 2015

PROGRAM:	Eligible Countries
APPROPRIATIONS	Fiscal Years 2013 and 2015 Program Funds
CATEGORY: AMOUNT:	Obligation
	\$375,000,000

Pursuant to (i) section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, as carried forward by Title VII of Division F of the Consolidated and Further Continuing Appropriations Act, 2013, and (ii) section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the "Compact") with the Republic of Benin, through which MCC will grant an amount not to exceed \$375,000,000 to the Republic of Benin under the Millennium Challenge Act of 2003, as amended (the "Act"). To accelerate implementation of the Compact, MCC intends to obligate up to \$18,000,000 ("Compact Implementation Funding") of the overall grant under section 609(g) of the Act, using fiscal year 2013 funds, when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$189,000,000 using fiscal year 2013 funds and \$168,000,000 using fiscal year 2015 funds when the Compact enters into force. After the Compact enters into force, Compact Implementation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding.

Compact funding will support economic growth in Benin through investments in electric power sector policy reform and institutional strengthening, power generation, power distribution, and off-grid electrification. The Compact is expected to benefit 9.8 million people over a twenty-year period.

SUPPLEMENTAL INFORMATION:

Overview of MCC Benin Power Compact

MCC's Board of Directors has approved a five-year, \$375 million compact with the Republic of Benin aimed at reducing poverty and accelerating economic growth. The compact seeks to remedy the lack of electricity infrastructure in Benin, a binding constraint to economic growth, through strategic investments in policy and institutional reform, power generation and distribution, and off-grid electrification.

Compact Overview and Budget

Benin was selected as eligible to develop this compact in fiscal year ("FY") 2012 after successful completion of a previous \$307 million compact in October 2011. An analysis by the Government of Benin ("GoB") and MCC completed in October 2012 found that poor electricity infrastructure and an inadequate business environment are binding constraints to growth in Benin.

Insufficient electricity in Benin has a nationwide impact by reducing business productivity, output, and investment, weakening public and social service delivery, and diminishing household well-being and economic opportunity. The root causes of this constraint to growth are multiple and include lack of financial, technical, and human resources, weak institutional capacity, political intervention in technical decision-making, and poor planning. The compact tackles these root causes through the following investments in wide-ranging policy reforms, institutional strengthening, and infrastructure:

- Policy and institutional support needed to spur private investment in power generation and ensure a sustainable and financially viable electricity sector;
- Up to 78 megawatts ("MW") of new or rehabilitated electric generation capacity, including MCC's largest investment in on-grid solar power to date;
- Improved electricity distribution infrastructure to improve capacity, reliability, efficiency, and reduce losses; and
- Off-grid electrification effort to increase access to electricity for poor households.

The budget for the compact is \$375 million, not including a required contribution by the GoB of approximately \$28.1 million or 7.5 percent of the U.S. contribution.

The budget of the compact is allocated as follows (all figures are approximate due to rounding):

Benin Power Compact Budget (\$ millions)

POLICY REFORM & INSTITUTIONAL STRENGTHENING PROJECT	41.2
ELECTRICITY GENERATION PROJECT	135.9
ELECTRICITY DISTRIBUTION PROJECT	109.7
OFF-GRID ELECTRICITY ACCESS PROJECT	45.9
ADMINISTRATION/MONITORING & EVALUATION	42.3
TOTAL COMPACT BUDGET	375.0
COUNTRY CONTRIBUTION	28.0
TOTAL PROGRAM BUDGET	403.0

The compact budget comprises an integrated set of activities that are expected to lead to far-reaching reforms to Benin’s electricity sector and result in expanded power availability that will spur production and productivity by businesses, greater economic opportunities for poor households, and improved quality and reliability of public and social services. These outcomes drive the program logic and underpin the compact’s economic model.

In order to better understand electricity markets in Benin, MCC conducted a first of its kind survey targeting more than 5,700 households and business in partnership with Benin’s national statistics institute. The nationally representative survey assessed the willingness to pay for electricity by households and businesses, along with their behavior towards and perceptions regarding electricity.

Economic Rates of Return

The data from the survey forms the backbone of the compact’s economic model, which utilizes a consumer surplus approach to assessing the potential benefits of the compact. The data also helped the team to understand consumer behavior within electricity markets, including the presence of large secondary markets accounting for nearly one-third of all household connections nationwide, in which neighbors sell to neighbors at – in some cases – twice the price charged by the utility. The large secondary market is a function of the high cost of and delays in connecting to the grid.

Informed by the survey, the program logic, and MCC’s technical analysis, the estimated economic rate of return (“ERR”) for the compact is 12 percent. Given that the program will fund an interdependent network in a single sector, the economic model produces an estimated ERR for the entire program, rather than for individual projects.

Below is a description of each of the compact projects and activities.

Policy Reform and Institutional Strengthening Project (\$41.2 million)

This project will support key reforms needed to ensure the sustainability of Benin’s electric power sector, including professional regulation, stronger utility operations, and private sector participation in power generation.

Policy, Regulation, and Institutional Support Activity: This activity will strengthen Benin’s new electricity regulatory body, support tariff reforms, advance energy efficiency measures in the public sector and private marketplace, and establish a framework for private sector participation in power generation.

Utility Strengthening Activity: This activity will strengthen governance and management of Benin’s national utility (*Société Béninoise d’Énergie Électrique*, or “SBEE”) and improve its core business functions (especially maintenance) so as to become more financially viable and better able to serve its customers.

Public Information and Education Activity: This activity will inform the public about energy sector policy reforms and seek to change energy use behavior through consumer education about energy efficiency, renewable electricity sources, and related topics.

Electricity Generation Project (\$135.9 million)

This project will increase Benin’s domestic generation capacity by up to 78 MW while decreasing the country’s dependence on unreliable external energy sources through investments in a combination of solar, thermal, and hydroelectric power sources.

Photovoltaic Generation Activity: This activity will fund 45 MW of photovoltaic power across four sites in Benin. As noted above, this will be MCC’s largest investment in solar power to date, and one of the largest utility-scale solar installations in West Africa. The investment will help Benin to become more energy independent and will include:

- Project preparation, including site acquisition, permitting, environmental mitigation and resettlement compensation as necessary;
- Acquisition, installation and commissioning of photovoltaic panels, mounting system, inverters, monitoring system, and grid connections;
- Associated civil, mechanical and electrical construction works; and
- Engineering design, supervision, and warranties.

Several other elements of the compact complement and support this \$122 million investment, including the rehabilitation of existing thermal and hydroelectric assets, distribution system upgrades, and installation of a national electricity dispatch center, a requirement for intermittent sources of power such as solar.

As noted above, policy conditions related to tariff reforms, payments of arrears owed to the utility, and reforms to enable private sector participation in power generation are critical to the success of this activity. Accordingly, the release of MCC funding for construction of works at two of the solar sites is subject to the GoB’s fulfillment of these conditions.

Thermal Generation Activity: This activity will rehabilitate thermal generation units totaling 32 MW, and as noted above will complement the solar investment by providing nighttime peak power in three separate locations. Funding for this activity will be conditioned upon the adoption of a comprehensive maintenance management system by the GoB.

Hydroelectric Generation Activity: This activity will rehabilitate and expand the capacity of a small, run-of-river hydropower plant in one of the poorest areas of Benin. The plant will complement planned solar investments by providing power at night.

Electricity Distribution Project (\$109.7 million)

Benin's electricity distribution infrastructure must be expanded and modernized to accommodate growing consumer demand, improve reliability, reduce losses and outages, and incorporate renewable sources of electricity. The project will improve the nationwide grid by building a modern distribution dispatch and control center, as well as the grid in Cotonou, Benin's largest city and load center and selected regional networks as a complement to the solar investments.

Regional Grid Strengthening Activity: This activity will support the upgrading of lines and substations as well as the installation of new switchgear connections and building of new substations to support the compact's solar investments, meet demand growth and reduce technical losses. This activity will also upgrade the capacity of one of the country's main distribution lines extending from Benin's political capital, Porto Novo to Cotonou.

Cotonou Grid Strengthening Activity: This activity will increase the capacity of Cotonou's grid and improve reliability through the installation of new lines, switchgears, substations, and up to 10,000 new household connections.

National Electricity Dispatch Activity: A national distribution control center is a necessary requirement to accommodate planned photovoltaic generation and to provide real-time network monitoring, control, and data collection. This activity will support the acquisition and installation of relevant hardware, software and related services; supervisory control and data acquisition equipment at substations; telecommunication system equipment and installation; a new building for the national control center; and spare parts, tools and training.

Off-grid Electricity Access Project (\$45.9 million)

Two-thirds of Benin's population does not have access to electricity and most people without power live in rural areas where expansion of the existing grid is unlikely in the near- or medium-term. This project is MCC's largest off-grid electrification effort to date and will support policy and institutional reforms as well as infrastructure financing.

Enabling Environment for Off-Grid Electricity Activity: To accelerate the rate of electrification, an enabling environment for off-grid electricity is essential. This activity will support the design and implementation of a national off-grid electrification framework, including regulations, licensing, tariffs, and technical standards. This activity will also support market development for off-grid electrification.

Off-Grid Clean Energy Facility Activity: This activity will provide grants and leverage complementary private and public capital for off-grid electrification in four areas: critical public infrastructure (*e.g.*, water plants, clinics, schools); electricity generation and distribution for communities (mini-grids); household-level generation and storage; and energy efficiency measures for the public sector. It is anticipated that most if not all of the generation sources to be funded under the facility will be renewable.

As noted above, policy conditions related to off-grid generation and distribution are critical to the success of this activity. Accordingly, the release of MCC funding for grants for mini-grid projects is subject to the GoB's fulfillment of these conditions.

Update on Benin 2006 Compact

Benin successfully implemented a \$307 million compact from 2006 to 2011 through the following four projects:

1. **The Access to Markets Project** expanded the Port of Cotonou, a key transit point for Benin, Burkina Faso, Niger and Nigeria. MCC's investment was conditioned on the GoB competitively awarding the management of a new wharf funded by the compact to a private operator, which ultimately resulted in a 25-year concession that is expected to generate \$1.5 billion for the country. The IFC and Infrastructure Journal recognized the wharf concession as a "top 40 public-private partnership" and with a "bronze" award among sub-Saharan African projects. The port was also awarded the gold prize of the International Association of Ports and Harbors Information Technology Award 2013 for systems modernization financed by the compact.
2. **The Access to Land Project** had mixed results. While certificates of rural landholding and title numbers fell significantly short of compact targets, the GoB continued titling after the compact ended, made significant titling progress in rural areas and passed a land code supported by the compact in January 2013, along with all necessary implementing decrees.
3. **The Access to Financial Services Project** finished in a largely satisfactory manner, including strengthening supervision of microfinance institutions and providing cost-sharing grants to support microfinance and entrepreneurship.
4. **The Access to Justice Project** made improvements to Benin's legal and judicial environment through reformed court processes and a new code of administrative procedure, the construction of five courts, training of judges and clerks, the establishment of a public legal information center, and the establishment of additional one-stop shops for business registration. Business registration efforts significantly reduced the number of days needed to register a business, while commercial dispute resolution efforts were less successful.

The GoB has continued to pursue reforms begun during the first compact, and has dedicated \$4 million of country budget resources to fund a unit responsible for coordinating those reforms and developing the second compact.