MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of Liberia.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Liberia, please contact us at (202) 521-3850. This notification is being sent to the Congress on July 9, 2015 and negotiations with Liberia may be started on or after July 24, 2015.

Sincerely,

/s/

James A. Mazzarella
Vice President (acting)
Congressional and Public Affairs

Enclosure:

As stated

875 Fifteenth Street NW | Washington, DC | 20005-2221 | p: (202) 521-3600 | f: (202) 521-3700 | www.mcc.gov

MILLENNIUM CHALLENGE CORPORATION CONGRESSIONAL NOTIFICATION

July 9, 2015

Pursuant to the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, and section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (MCC) intends to start negotiations with the Government of Liberia for a Millennium Challenge Compact; and (2) to initiate Congressional consultation before the start of negotiations. In addition, we have included supplemental information regarding objectives and mechanisms to be used for negotiation of this Compact.

PROPOSED LIBERIA MCC COMPACT
SUPPLEMENTAL INFORMATION

Overview

The proposed compact seeks to assist the Government of Liberia (GOL) to increase economic growth by addressing the lack of reliable and affordable electricity and inadequate road infrastructure, both identified as binding constraints to economic growth, through strategic investments in power generation infrastructure and accompanying institutional strengthening activities and through the development of a sustainable road maintenance regime in the road sector.

Background

The Liberian proposal is designed to address two binding constraints to economic growth, identified in the September 2013 Constraints Analysis prepared by the GOL and MCC: lack of access to reliable and affordable electricity, and inadequate road infrastructure. The high cost and unreliability of publicly provided electricity (at $0.52 per kilowatt-hour, one of the world's highest electricity tariffs), coupled with limited electricity grid infrastructure means that less than two percent of Liberia's approximately four million citizens have access to the network, imposing a significant barrier to Liberia's long term-economic development. Similarly, inadequate capacity to plan for, finance and execute maintenance on the predominately unpaved road network, coupled with sustained rainfall for nearly half the year (which renders many of these roads impassable), undermines national and regional trade opportunities, threatens sustained political stability and severely constrains economic growth and social diversification.

In 2003, at the end of 14 years of conflict, Liberia's power sector was devastated including the decimation of Mt. Coffee Hydropower Plant (MCHPP) generating equipment – the country's primary electricity generation asset and single largest source of power – and Liberia's entire transmission and distribution network. Operation of the Liberia Electricity Corporation (LEC) ceased completely. Since 2005, with the support of international partners including the governments of Norway, Germany, Japan, and the United States, in addition to financing from the World Bank, the African Development Bank, and the European Union, Liberia has worked to reconstruct its power sector from the bottom up. At present, LEC has installed generating capacity of 22 megawatts from high-speed diesel facilities. Additional heavy fuel oil generating facilities funded by donors and the GOL totaling approximately 48 MW are expected to come on line in the next 12 months, and work is underway to rehabilitate the MCHPP. Significant transmission and distribution investments were either planned or in various stages of implementation when the Ebola Virus Disease outbreak occurred (March 2014 – April 2015). Much of this work restarted following the World Health Organization's "Ebola-free" declaration on May 9, 2015.

Critical Sector Reforms

MCC's engagement with Liberia in the electricity sector comes as the country seeks to transition from emergency management to sustainable growth, diversification and commercial orientation. LEC is a small, vertically integrated utility with a customer base of approximately 30,000 and a service area that extends only to parts of Monrovia and its immediate suburbs.

Furthermore, the high tariff and lack of generation infrastructure are recognized by the donor community as binding constraints, and the sector is poised to receive considerable investment in transmission and distribution infrastructure over the next 18-24 months to complement the planned generation infrastructure described above. Therefore, a number of important policy and institutional reforms will be required to modernize the sector and the government institutions. The compact aims to build upon a reform agenda already supported by a number of sector stakeholders including the Government of Norway, the WB, the EU, and USAID. Disbursement conditions tied to requisite reforms and management changes within the utility will be included in the compact to ensure MCC and other donor funded assets are managed sustainably. The GOL has already demonstrated its commitment to implementing important reforms in preparation for a possible compact with MCC, including:

- **The development and passage of a modernized electricity law.** MCC, along with other donors contributed to a bill that includes language calling for the phased introduction of an autonomous regulator over a three-year period. The draft has been reviewed by President Ellen Johnson Sirleaf and is expected to be introduced to the Liberian legislature this year.

- **The consideration of options for the management of LEC, including private sector participation.** President Sirleaf has repeatedly committed to a commercially-oriented utility. As part of MCC's upcoming compact due diligence, a study will be conducted to determine which model of management is most appropriate for the utility. The study will look at both public management and private sector participation options to determine which is most likely to lead to a financially sustainable utility that can contribute to reducing poverty through economic growth.

- **The strengthening of the project planning and execution functions of the Ministry of Lands, Mines and Energy (MLME).** The EU has proposed a staffing and capacity development plan for the Department of Energy, housed within the MLME, which may begin to address this initiative. MCC is collaborating with the EU and MLME to provide further support.

Program Overview and Budget

In the electricity sector, the proposed Liberia compact will support the rehabilitation of the MCHPP to provide Liberia with an additional 88 MW of new electric generation capacity. The compact also proposes support for training and workforce development and funding to stand up an independent regulator – both necessary investments to assist in the transition from emergency management to a modern, commercially-oriented sector.

In the roads sector, the $21 million of programming would, if approved, support and strengthen the country's road maintenance regime. The activities are designed to build a foundation for national road maintenance planning and execution, and, at the GOL's request, the US Department of Transportation will support the GOL in the execution of the road maintenance activities funded under the compact.

The anticipated budget for the compact is $257 million, inclusive of administration costs, as set out in the table below.

Table 1. Compact Budget Summary

Project/Activity	Budget
Energy Project	
Mt. Coffee Rehabilitation Activity	$146,800,000
Mt. Coffee Support Activity	$ 18,100,000
LEC Training Center Activity	$ 5,500,000
Energy Sector Reform Activity	$ 31,190,000
Energy Project Subtotal	**$201,590,000**
Roads Project	
National Maintenance Activity	$ 15,000,000
Roads Sector Reform Activity	$ 6,070,000
Roads Project Subtotal	**$ 21,070,000**
Monitoring and Evaluation Project	
Monitoring and Evaluation Activity	$ 5,500,000
Monitoring and Evaluation Project Subtotal	**$ 5,500,000**
Compact Administration	**$ 28,566,000**
Compact Grand Total	**$256,726,000**

The proposed compact budget comprises an integrated set of activities under the Energy Project designed to contribute to the modernization of Liberia's electricity sector and result in expanded power availability to 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. Similarly, activities under the Roads Project aim to build a sustainable foundation for the planning and execution of national road maintenance.

Anticipated Projects and Activities

The projects and activities to be negotiated are:

The Energy Project

The proposed $201 million Energy Project comprises four interconnected activities designed to provide additional generation capacity, strengthen the management, project planning, and project execution functions of LEC and the MLME, as well as support the development of an independent regulator for the sector. The four activities are as follows:

1. **Mt. Coffee Rehabilitation Activity.** If approved, MCC funding would cover: the expected cost of the fourth turbine, allowing the rehabilitated plant to generate up to 88 MW of power once operational; unfunded gaps between existing stakeholder commitments and a total cost to complete the project at $357 million (which includes contingencies to provide a 98 percent confidence level that the costs will not exceed that amount); the cost of a second 66 kV transmission line from Mt. Coffee to a substation at Paynesville; and the cost of rehabilitating a raw water intake located inside the reservoir. MCC's investment in the Mt. Coffee rehabilitation would take advantage of an existing project and financial management structure (the Project Implementation Unit or PIU) being used by the other international donors. Like an MCA, the PIU is a single-purpose Government of Liberia entity with the responsibility for managing and overseeing the rehabilitation of Mt. Coffee. The PIU is composed of Liberian and international experts and will remain subject to applicable MCC-mandated audits. MCC will be part of the PIU's donor oversight committee, and MCC funds will be isolated in a new, separate project bank account, to be established.

2. **Mt. Coffee Support Activity.** In its assessment of the rehabilitation of the facility, MCC concluded that additional areas of support would be required to better mitigate environmental and social risks and ensure long-term sustainability that could not be procured under the contract structures already in place. These include (i) the provision of small-scale community infrastructure (foot bridges, water points, pit latrines, etc.) for Project Affected Persons, (ii) additional human resources support to the activity's Project Implementation Unit to ensure timely and professional management, oversight and reporting, and (iii) a fisheries study and watershed management plan.

3. **LEC Training Center Activity.** The proposed LEC training center and technical and vocational education training centers will form the core base for training of technicians in the electricity sector. The training center will provide four areas of core training: (i) linesmen, (ii) electrical, (iii) mechanical, and (iv) hydropower plant operation and maintenance. The proposed training center will also provide training facilities for the commercial, administrative and financial staff of the company as well as provide occasional specialized training seminars.

4. **Energy Sector Reform Activity.** The Energy Sector Reform Activity aims to provide support to the key institutions responsible for policy making, investment planning, asset management, and environmental and social oversight – namely MLME, LEC and the Liberian Environmental Protection Agency. With considerable donor financing secured for new transmission, distribution and generation infrastructure as well as residential and commercial connections, the proposed activity and its components have been developed to complement support programmed by other sector stakeholders. The central component of this activity is the provision of support for the development of an independent regulator which is seen by all sector stakeholders as necessary within the next three to five years, given the levels of investment in the sector and the proposed expansion plans.

The Roads Project

The proposed $21 million Roads Project comprises two interconnected activities designed to strengthen the national road maintenance regime.

1. **National Maintenance Activity.** This activity will pilot up to five Regional Maintenance Centers (RCMs), including the construction of at least two RMCs, and match GOL contributions (up to $8 million dollars) into a Road Maintenance Fund (which will be managed by an agency known as "the Road Fund Administration"), which is considered critical for the sustainability of road maintenance. The Road Fund Administration is currently being created by the Government of Liberia and will exist as a stand-alone entity under the Ministry of Transport, with the primary responsibility of collecting, managing, and disbursing money in the Road Maintenance Fund. The fund will be supported by revenues from a fuel levy, vehicle licensing and registration fees. RMCs existed prior to the Liberian civil war and were responsible for providing routine and periodic maintenance under the auspices of the Ministry of Public Works (MPW), which owned the maintenance equipment and directly executed road works. In the post-conflict setting, the MPW has moved away from direct implementation of works to contracting maintenance work to the private sector, due to ongoing institutional reforms within the sector. The activity will include the construction of at least two regional RMCs located in the western region of Liberia, in Tubmanburg, Bomi County and the other in the Southeastern region, in River Gee County, each covering two additional counties. An RMC will include residential quarters for staff and resident engineers, technicians and operators. RMCs will not be fitted with equipment owned by the MPW; rather they will rely on private contractors to provide the equipment and implement works. In the ramp up to both decentralization and private participation, the two RMCs will serve as guideposts to the eventual and phased rollout of the five RMCs in all regions the country.

2. **Road Sector Reform Activity.** The activity provides for capacity building and technical assistance at the national and regional level. Training support ensures that RMC staff (at the regional level), MPW, MOT, and the Road Fund Administration are exposed to local, regional, and international training in transportation planning, policy, maintenance, and institutional systems. Data on Liberia's network is extremely sparse. For example, the most

comprehensive traffic count with the widest coverage is that conducted for the Transport Master Plan in 2010, but even this has significant gaps along vast stretches of the primary road network and little to no data for the secondary road network. Additionally, a network analysis along with continued support in data collection and utilization will be undertaken. If approved, MCC expects that the GOL will enter into an agreement with the US Department of Transportation's Volpe Systems Center to undertake many of the elements of this activity.

Economic Rates of Return

Demand for electricity and the provision of new connections to the grid drive MCC's economic model for the Energy Project. Using a "base case" scenario developed as part of Liberia's Electricity Sector Least Cost Development Plan (which assumes 90,000 new household connections and 1,450 new industrial connections by 2020), the project yields an economic rate of return (ERR) of 11 percent.

This figure is inclusive of all capacity building activities that support the Mt. Coffee Rehabilitation Activity (both operations and maintenance) and connecting new customers to the grid (e.g., the LEC Training Center Activity).

Economic analysis for the Roads Project is pending, but will be complete once designs and feasibility studies are complete. Road maintenance programs of this nature typically have strong economic rates of return and these projects will be subject to MCC's normal investment criteria.