MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to $2,800,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Liberia.

The attached notification is being sent to Congress on December 2, 2014. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

Paul Weinberger
Vice President
Congressional and Public Affairs

Enclosure:
As stated

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION

December 2, 2014

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2014 Program Funds
OBLIGATION AMOUNT:	$2,800,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014, this is to advise that the Millennium Challenge Corporation ("MCC") intends to obligate up to $2,800,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact ("Compact") with the Government of Liberia.

It is planned that the funds will be used to finance the recurring costs associated with the engagement of the Government of Liberia's counterpart team and to finance select technical studies and other activities that will assist MCC in the design of Compact activities.

MCC anticipates obligating additional funding, subject to congressional notification, at a future date when health conditions in the country permit, for the purpose of further facilitating the development and implementation of a Compact with the Government of Liberia.

SUPPLEMENTAL INFORMATION

MCC 609(g) Activities for Liberia

<u>Background</u>

More than a decade after civil war, Liberia is making a concerted effort to rebuild and invest in order to position itself for sustainable economic growth and inclusive economic development. Presently, however, the stability and growth seen in Liberia since the 2005 election of President Ellen Johnson Sirleaf are threatened by the outbreak of Ebola virus disease ("EVD") in West Africa.

The relatively small first tranche of 609(g) funding reflects the breadth and severity of EVD, since it is unclear how much time will be required for Liberia to effectively control the situation and for the resumption of "normal" business and substantive bilateral engagement. The consequences of EVD on Liberia's economy are, however, significant and underscore the importance of MCC's continued engagement with the Government of Liberia ("GOL") and the value of an MCC Compact, once the crisis subsides, as an important U.S. Government tool for economic recovery and growth. MCC expects to obligate additional funds to complete 609(g) activities when the situation on the ground allows for the effective use of such funds.

As measured by the World Bank, IMF and other international stakeholders, economic growth in Liberia has been devastated by EVD. As a "high-Ebola" scenario (defined by the World Bank as slow containment through 2014 in Guinea, Sierra Leone and Liberia) appears likely, the economic loss to Liberia in 2015 is expected to be the equivalent of 12 percent of GDP. Liberia's core industries – extractives (gold and iron ore) and agriculture (rubber and palm oil) – have dramatically scaled back or shuttered operations entirely until EVD is brought under control, leading to a dramatic decline in expected 2015 revenues. Many critical civil works projects, including the rehabilitation of the country's primary hydroelectric facility and the expansion of its primary road network, have been suspended until a workforce can again be deployed safely and effectively.

While MCC is not directly involved in responding to the immediate EVD public-health crisis, approving a Compact as quickly as possible after the situation begins to normalize that addresses critical economic growth opportunities can serve as a vital contribution to medium and longer-term stabilization and economic recovery following the control of EVD, and as a key component of the broader U.S. Government commitment to Liberia. To position MCC for such a Compact, MCC needs to undertake enabling work to advance MCC's understanding of the constraints and opportunities for investment in both the roads and energy sectors, as further described below. The work envisioned under both this and a subsequent tranche of 609(g) funding includes continued counterpart engagement, continuing with study preparation in so far as possible, and sector analysis, will best position MCC and the GOL for a rapid and efficient start to a Compact, with the expectation that much of the administrative and project preparatory activities can be concluded prior to the Compact's inception.

Threshold Program, Compact Eligibility and Constraints Analysis

In 2013 Liberia completed a threshold program focusing on improving girls' access to education, strengthening land rights and access, and improving trade freedom. In fiscal year 2013, Liberia was named eligible for a Compact by MCC's Board of Directors.

The GOL completed a comprehensive constraints analysis in November 2013, which identified an insufficient and poor quality road network and lack of access to reliable and affordable electricity as primary constraints to economic growth. Since the GOL's submission to MCC of concept notes in November 2013, MCC and the GOL have worked collaboratively to explore options for MCC funding in the following areas:

a. **Electricity Generation, Transmission and Distribution.** In June 2014, MCC and the GOL agreed to investigate opportunities for investment in the electricity sector, with a principal focus on unmet transmission and distribution requirements. The GOL has submitted to MCC a matrix of unfunded opportunities in transmission and distribution, which serves as the basis for MCC's due diligence in the sector. This matrix is also the basis for the GOL's Energy Master Plan. In addition, MCC will consider opportunities to strengthen and modernize the national utility, the Liberia Electricity Corporation ("LEC"), and better position the sector in anticipation of eventually attracting private sector involvement.

b. **Road Maintenance.** The GOL has also asked MCC to support the development of a comprehensive road maintenance regime, currently absent in Liberia. With only approximately 6.9 percent of the Liberian road network paved, and extreme climactic conditions which cause rapid road deterioration, much of Liberia's road network is unpassable for close to half of the year. This request stems, in part, from a recognition that the drawdown of the approximately 7,000 United Nations peacekeeping troops positioned across the country (whose myriad peacekeeping responsibilities include road maintenance to ensure year-round country-wide access) could adversely impact trade and transport, as well as political stability. Furthermore, the GOL has a number of donor-funded road projects in progress, but without a maintenance scheme they are likely to deteriorate quickly.

Liberia also suffers from a shortfall of appropriately educated and trained professionals capable of managing institutions with authority over the road and electricity sectors. Accordingly, and in support of the two primary areas, MCC envisions training and institutional support to the government institutions (ministries, agencies and LEC) as well as to educational outlets (technical, vocational and potentially colleges/universities) to strengthen civil and electrical engineering curricula, enhance professional opportunities and develop, attract and retain a qualified Liberian workforce.

Finally, Liberia is a Power Africa focus-country, and there is a great deal of interest across the U.S. Government in investment and participation in this sector. At present, Liberia has one of the lowest rates of public access to electricity in the world. While the average rate of access to electricity in Sub-Saharan Africa is 28.5 percent (and in neighboring Sierra Leone and Cote d'Ivoire 6 percent and 43.7 percent, respectively), Liberia's rate of access to publicly provided electricity is only 2 percent. June 2014 reports from LEC indicate that only 25,000 customers are currently connected to the public grid. With the exception of a very limited municipal mini-grid in

Gbarnga, a city in central Liberia, no publicly-supplied electricity service is available outside of Monrovia.

Due to the reliance on diesel, the cost of the available electricity is also extraordinarily high. Today, the price of electricity from the grid is $0.57 per kilowatt-hour ("kWh"), the highest in Sub-Saharan Africa. People without access to public electricity pay even more: the use of dry-cell batteries cost $74.01/kWh, car batteries $8.43/kWh, candles $8.27/kWh, generators $3.96/kWh, and kerosene for lighting $1.53/kWh.

Although it receives considerable assistance from numerous development partners, including the European Union, the Government of Norway, the World Bank, the Government of Japan and USAID, MCC believes that targeted investment – principally in transmission and distribution – coupled with positive steps by the GOL to develop LEC into a commercially viable utility, could lead to dramatic improvements in access to and cost of reliable electricity. Within this context, there appears to be an opportunity to influence the nascent energy sector in Liberia to support private investment and increase economic activity.

Planned 609(g) Activities

In order to assist the GOL to develop the Compact investment, MCC intends to utilize an initial tranche of up to $2,800,000 to fund the following select preparatory activities:

1. **Salaries and administrative costs associated with the GOL's counterpart team (the "Core Team") during compact development.** Funds will cover the Core Team staff salaries and other recurring costs (*e.g.*, office rental, fuel, vehicle maintenance, electricity and internet/telephone access) to enable the Core Team and the MCC to jointly ensure the preparation of a quality concept paper, proposal and ultimately a well-designed Compact. Without this allocation, and as a result of the GOL's need to reallocate limited financial resources to EVD control and monitoring, MCC risks losing substantive bilateral engagement and re-starting the compact development process completely once the EVD crisis subsides. (Estimated $850,000)

2. **LEC Management Options Analysis.** To support the GOL in determining the best management option for LEC after the planned 2016 conclusion of a management contract, MCC will undertake a study to analyze all options, including options for private sector participation. The plan for this study is being developed in close coordination with the GOL and all international partners in the sector, including the World Bank, USAID, the Government of Norway and the European Union. It will consider a range of options, including, but not limited to a publicly managed option, management consultancy support, utility twinning arrangements, a management contract, lease/affermage, concession and privatization. It will consider these options within the context of the current capacity of LEC, the ambitious investment program being considered by the GOL which will be overseen by LEC, as well as lessons learned from other similar utilities in Africa. (Estimated $1,100,000)

3. **Comprehensive Electricity Demand and Willingness To Pay Study.** MCC, in consultation with other donors, believes a comprehensive demand and Willingness to Pay study is a critical planning tool and necessary complement to a recently completed (World Bank funded) Least Cost Development Plan (essentially a national master plan). While several energy demand studies have been completed, the most recent and most comprehensive does not account for projected demand from the numerous mining concessions (iron ore, gold and diamonds) and other large enterprises (palm and rubber production) that currently drive much of Liberia's economy. Given the constraints imposed by EVD, MCC anticipates a two-phased study (phase I desk work, phase II field work). (Estimated $850,000)

Anticipated Additional 609(g) Activities (Subject to further Congressional Notification)

In addition to the focused activities identified above, MCC expects to utilize a second tranche of 609(g) funding at a later date (to be determined by the spread or control of EVD), subject to congressional notification, to allow for in-depth analysis in both the energy and roads sectors. These studies will likely address cost of service and tariff issues, willingness and ability to pay, social and gender analysis, as well as institutional, legal and regulatory issues.

The additional 609(g) funds are also expected to cover full feasibility studies, detailed engineering designs, environmental impact assessments and resettlement action plans for a select group of electricity sector assets ultimately to be funded under the Compact, and to start up an accountable entity (MCA-Liberia) in anticipation of compact implementation.