



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to increase and extend assistance under the Millennium Challenge Compact with the Government of Benin. The increase and extension are needed to account for delays related to COVID-19.

We have also attached a report and justification that contains a detailed summary of the proposed increase in assistance under the Compact and a copy of the full text of the amendment to the Compact. In addition, we will publish a detailed summary, full text, and justification of the proposed increase in assistance under the Compact in the Federal Register and on MCC's website.

If you or your staff would like to arrange a meeting to discuss the increase in assistance, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being sent to the Congress on August 11, 2021. The assistance may be increased on or after 15 days from the date of this notification.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

August 11, 2021

PROGRAM: Eligible Countries
APPROPRIATIONS CATEGORY: Fiscal Year 2006 & 2010 Program Funds
OBLIGATION AMOUNT: \$16,000,000

Pursuant to Division K, Title VII, section 9003 of the Consolidated Appropriations Act, 2021, section 515 of the Foreign Operations, Export Financing, and Related Programs Act, 2006, section 7015 of the Department of State, Foreign Operations and Related Appropriations Act, 2010, and section 609(i) of the Millennium Challenge Act of 2003, as amended (the “Act”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to extend for a period of one year the Millennium Challenge Compact with the Government of Benin that was in effect as of January 29, 2020 (the “Compact”) and to amend the Compact to obligate an additional amount not to exceed \$16,000,000 under section 605 of the Act. The planned extension and increase are for the purpose of accounting for Compact delays related to COVID-19. The Compact would otherwise terminate in accordance with its original terms on June 22, 2022, but will be extended to June 22, 2023.

REPORT AND JUSTIFICATION OF THE PROPOSED EXTENSION OF AND INCREASE IN ASSISTANCE OF THE BENIN COMPACT DUE TO COVID-19

Background

The Millennium Challenge Corporation's (MCC) \$375 million compact with the Government of Benin (Compact) seeks to unlock private investment by supporting policy reforms and investing in electricity generation, distribution, and off-grid electrification to increase business and household access to reliable electricity. The Compact entered into force on June 22, 2017 and over a twenty-year period, an estimated 10.6 million people are expected to benefit from the Compact's investments.

Justification of Assistance and Impact of COVID-19 on the Benin Compact

In March 2020, Benin registered its first COVID-19 case, and within a week, the Government of Benin imposed compulsory 14-day quarantine requirements for air travelers, closed land borders to all but emergency travel, restricted visa issuance, and limited movement outside of the major population centers in southern Benin, cutting off access to the economic and political capitals from the rest of the country.

Contractors for the six major construction works packages that comprise nearly half of the Compact budget rapidly imposed telework requirements and restrictions on staff travel, and shortly thereafter commercial airlines stopped servicing Benin. While contractors attempted to mitigate the impact of international travel restrictions by using local hires and consultants, domestic travel restrictions effectively prevented travel to 97 percent of the nation's territory. The net effect of these developments was to hinder mobilization of contractor key staff to Benin and deployment of field staff to work sites, resulting in delays in field surveys, equipment imports, hiring of sub-contractors, and setting up offices and construction material warehouses. These mobilization delays in turn had a knock-on effect on the completion of final construction designs, field surveys, drawings, and management plans, and subsequent start of civil works.

Outside of Benin, imposition of COVID-19 mitigation measures led to equipment manufacturing and shipping delays, thereby slowing contractor procurements, factory testing and acceptance of key substation components, the delivery of materials to site, and equipment installation at project work sites.

To date, Benin's accountable entity has reported nearly 80 COVID-19 positive cases across its contractor workforce of approximately 600 in-country personnel. While most cases have been asymptomatic, each positive case requires closure of worksites and/or offices, contact tracing, testing, disinfection of equipment and workspaces, and receipt of negative test results to re-start operations. Further, contractor key staff have been evacuated out of Benin for COVID-19 treatment, and some key staff have resigned to avoid exposure to the disease in a country where

treatment capacity is limited to a small number of beds equipped to care for patients in critical condition (oxygen, ventilation, intubation, anesthesia, vital sign monitoring).

Major works contractors have issued multiple notices of force majeure because of the pandemic, three have requested additional funding for the implementation of COVID-19 mitigation plans required by MCC, and one has requested an extension of time. All contractors have COVID-19 mitigation plans in place and have adopted new worksite safety protocols.

The pandemic continues to have adverse impacts on equipment manufacturing, maritime shipping, works execution, international air travel, and staff availability and turnover. COVID-19-related delays are expected to continue, particularly as Benin registered its largest increase in new cases in early 2021, likely due to the presence of more transmissible COVID-19 variants.

New positive cases remain prevalent in the more densely populated administrative regions in the south, where most of the MCC-funded works are located. While vaccines have been available since March 2021, demand remains low with less than 0.25 percent of the population vaccinated.

The following projects were directly impacted and delayed by the COVID-19 pandemic and MCC needs additional funding for oversight of the completion of the works:

- *Installation of eighteen substations in Cotonou and northern Benin* – Distribution project investments in substations, lines, and supervisory control and data acquisition are interrelated; if one line segment is incomplete, the substation it connects to the network will be rendered useless or functionally limited. Substations in this particular works package are estimated to be delivered in late 2022, including one strategic substation that must be completed prior to energizing \$110 million in Compact-funded lines and substations in greater Cotonou.
- *Construction and equipping of the National Dispatch and Control Center* – This project will provide Benin with the capability for supervisory control and data acquisition and a distribution management system, which will allow the national distribution utility to monitor the major equipment on its grid in real-time, isolate faults, and minimize service disruptions. Completion of the dispatch center is critical because full functionality of the interrelated system depends on linking together more than 50 substations nationwide (both existing and new, including those being funded under the Compact).
- *Completion of the Off-Grid Clean Energy Facility infrastructure* – The project is expanding off-grid electricity access through public-private partnerships that could attract more than \$46 million in private investment, and is expected to give nearly 630,000 people in the poorest areas of Benin electricity for the first time. Timelines for the facility are behind schedule due to supply-chain and importation disruptions, international and domestic travel restrictions, and decreased risk tolerance among lenders, with completion of most investments anticipated in early to mid-2023.

To date, the Government of Benin has exceeded its required financial contribution of \$28 million by approximately \$3 million to ensure the completion of project activities.

The Compact includes the following four projects:

- The **Policy Reform and Institutional Strengthening Project** is contributing to the sustainability of Benin’s electric power sector through the introduction of professional regulation, stronger utility management and operations, and private sector participation in power generation. The project is supporting the implementation of cost-reflective tariff reforms and a framework for independent power producers and is funding a management contract that aims to improve the national electricity distribution utility’s operational performance, reduce losses and build management capacity.
- The **Electricity Generation Project** is attracting private sector investment by financing an independent power producer transaction that will increase Benin’s domestic generation capacity by up to 50 megawatts through solar photovoltaic generation. MCC is supporting the transaction by funding feasibility and technical studies, environmental impact assessments, transaction advisory fees, site acquisition, and resettlement compensation across four locations in central and northern Benin.
- The **Electricity Distribution Project** is modernizing the electricity grid to expand capacity and accommodate future demand growth, improve the reliability of electricity service, and reduce technical losses and power outages. The project will upgrade the power grid serving Cotonou – Benin’s center of commerce and government – in addition to select regional networks in central and northern Benin as a complement to independent power producer investments. It is also funding the construction and equipping of a national electricity dispatch and control center to effectively manage Benin’s medium voltage distribution grid.
- The **Off-Grid Electricity Access Project** is helping address the gap in access to electricity for two-thirds of Benin’s population through policy reforms, infrastructure financing, and public-private partnerships. The project supported Benin’s adoption of a policy, strategy, master plan, and regulatory framework for off-grid electrification intended to facilitate private sector investment. It is also funding a results-based leveraged grant facility that encourages investment in critical public infrastructure, mini-grid electrification, household and micro-business electrification systems, and energy efficiency measures that will benefit poor households in rural Benin.

The additional MCC funding will be used to support oversight and other administrative functions during the additional twelve months of the Compact term. This extension will be reflected in an adjustment to the timing of performance benchmarks, and there is no expected change in the scope of targeted results.

As COVID-19 has disrupted program activities and timelines, this additional funding will maximize long-term results and the return on investment, by enabling MCC and the accountable entity in Benin to complete and hand over all ongoing projects to the beneficiary institutions

without compromising health, safety, or environmental standards, and will reduce sustainability risks through the necessary attention to testing, commissioning, training of utility operators and technicians, and additional oversight.

Achievements to Date

Policy Reform and Institutional Strengthening – In January 2021, Benin’s national electricity distribution utility announced a tariff increase averaging 15 percent – the first such increase since 2010 – that was the culmination of MCC’s multi-year effort to strengthen the utility’s financial viability. The MCC-funded management services contractor is in its second of four years of utility operations and is implementing a top-to-bottom utility corporate restructuring plan. Reforms are intended to re-focus the utility on customer service and technical delivery by devolving authority to regional managers, modernizing business processes, and undertaking a nearly half-billion-dollar investment in grid modernization and utility operations.

To reduce electricity consumption nationwide, MCC supported Benin’s adoption of energy efficiency technical standards and labeling for air conditioners and light bulbs, which entered into force in June 2020 following a multi-month, multi-media public communications campaign. MCC also funded a Women’s Energy Entrepreneurship initiative that provided up to a year of business training and mentoring for 25 Beninese companies, which were either women-owned or had women in prominent management positions, to grow their business and improve their energy use.

Electricity Generation Project – Following the 2019 adoption of an MCC-supported institutional framework for independent power producer transactions, the Government of Benin launched a competitive tender for four solar photovoltaic power plants totaling 50 megawatts. Pre-qualified firms were given access to MCC-funded feasibility and initial designs, technical studies, and environmental and social impact assessments to accelerate bid preparation. Benin’s accountable entity has started making resettlement compensation payments to affected parties in anticipation of the transaction’s commercial close with the presumptive winning bidder. If financial close is attained, this would be Benin’s first successful IPP transaction and could leverage \$50-60 million in private investment.

Electricity Distribution Project - All major procurements for consultancies and construction works have been awarded. Benin’s accountable entity is overseeing the construction and/or extension of 18 substations, more than 50 miles of underground cabling and 500 miles of overhead power lines. Substation transformers and switchgears are in the final stages of factory acceptance testing and equipment shipments to Benin have commenced. When completed, the six largest works contracts totaling more than \$200 million of Compact funding will quintuple Benin’s total

grid capacity, increase power reliability and reduce the frequency and duration of power outages across the country.

Off-Grid Electricity Access Project - In 2020, Benin’s accountable entity signed off-grid clean energy co-financing agreements worth \$78 million in public-private investment with 16 renewable energy firms. Despite COVID-19 delays, companies investing in solar home systems have thus far employed over 650 people and sold more than 6,000 solar home systems to rural off-grid customers, while critical public infrastructure firms began receiving shipments for solar water pumps, street lighting, and solar refrigerators. Developers of mini-grid investments – which account for 80 percent of the public-private funding and half of the anticipated beneficiaries – have been the most affected by COVID-19 and are awaiting regulatory approvals prior to placing equipment orders and launching works.

FULL TEXT OF THE PROPOSED AMENDMENT TO THE COMPACT