



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$6,325,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Senegal.

The attached notification is being sent to the Congress on May 5, 2017. 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,

James Mazarella
Vice President (Acting)
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2017 Program Funds
OBLIGATION AMOUNT:	\$6,325,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, as carried forward by the Continuing Appropriations Act, 2017, as amended, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$6,325,000 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 with the Government of Senegal.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed investments, further design activities and develop implementation strategies.

SUPPLEMENTAL INFORMATION - MCC 609(G) ACTIVITIES FOR SENEGAL

Background

A West African country of 14 million people, the Republic of Senegal offers a stable political environment, relatively solid infrastructure, generally strong democratic institutions and a favorable geographic position with growing opportunities for foreign investment. With relatively good transportation links, Senegal has ambitions to build on its position as a regional business hub, and become a regional center for logistics, services and industry. With its offshore oil and gas reserves, the country is also seeking to become an energy hub and an exporter of electricity in the region in upcoming years. However, Senegal's unfavorable investment climate and low access to affordable energy and electricity have prevented the private sector from realizing its full potential to contribute to the country's economic growth.

With 60 percent of Senegal's people under the age of 25, and a 2.8 percent growth rate, Senegal's population is young and rapidly growing. Despite large increases in real gross domestic product (GDP) per capita since 1994, economic growth is barely keeping up with population growth. As a result, real GDP per capita growth has averaged less than one percent during the last ten years.

MCC currently projects that the MCC Board of Directors will consider a compact program for Senegal in the second half of fiscal year 2018.

Compact Eligibility and Constraints Analysis

In December 2015, MCC's Board of Directors selected Senegal as eligible to develop a compact after Senegal met MCC's higher standard for subsequent compacts, including demonstrating improved scorecard policy performance, successfully implementing and sustaining its 2009 compact, and continuing its commitment to sectoral reforms. Senegal has passed 14 out of 20 indicators on its MCC scorecard, including both the Democratic Rights and Control of Corruption hard hurdles, and has shown continuous improvement on Control of Corruption for five straight years, FY2012 to FY2017, moving from the 66th to the 96th percentile over that time period.

Senegal continues to be a strong partner for MCC and has demonstrated an early commitment to an inclusive and transparent compact development process, committing over a million dollars to funding a professional compact development team. From June to November 2016, the Government of Senegal conducted a constraints analysis in order to identify the key factors inhibiting private sector-led investment and economic growth as well as to describe the relevant social dynamics that affect poverty and inequality in Senegal. That analysis identified two primary constraints: (i) the high cost of energy and (ii) complex and burdensome administrative, regulatory, and legal policies. In November 2016, MCC and the Government of Senegal initiated diagnostics to understand the root causes of both binding constraints. By February 2017, Senegal completed consultations with over 400 stakeholders, including the private sector and civil society in seven of the 14 regions of

Senegal. Together with MCC, the Government of Senegal has agreed to narrow the focus for potential compact investments to address root causes of the binding constraint related to the high cost of energy.

Summary of Proposed Project Interventions

Potential compact projects may focus on the following objectives:

- 1) *Diversification and efficiency optimization of Senegal's power generation mix.* If this project proves viable, MCC's investments would support infrastructure and policies that enable private investment in diversified and less costly generation sources, which may include gas.
- 2) *Policy, regulatory and institutional strengthening.* This project would focus on improving sector planning and regulation, providing institutional capacity development and improving coordination of various policy institutions.
- 3) *Utility strengthening and performance efficiency.* Depending on the outcome of a sector road map, the compact may provide targeted assistance to strengthen the performance of Senelec, the national electricity company, especially if unbundling of the sector is chosen as a preferred approach.
- 4) *Transmission and distribution network modernization.* This project would focus on strengthening the electricity network to ensure that additional sources of power can come online without degrading the network.
- 5) *Improvements to electricity access in rural and peri-urban areas.* This project would review strategies and coordinate efforts across key stakeholders in order to harmonize grid-expansion and off-grid electrification possibilities in a manner that is economically viable and reaches the highest number of consumers, value chains and/or productive sectors.

Assistance to Develop the Compact Proposal

In order to assist Senegal to further develop the proposed compact, MCC intends to fund preparatory and assessment activities for some or all of the projects listed above, to judge the expected impact of the proposed projects, further design activities, and develop implementation strategies.

Specifically, the funds are planned to be used to conduct key studies, including the creation of an energy road map, which will help MCC and the Government of Senegal prioritize and rationalize potential future investments in the sector, and identify requisite reform efforts, including institutional reorganization, capacity development and regulatory reforms necessary to sustain

proposed investments in the energy sector. Compact development funds are also expected to be used to conduct feasibility studies and analysis of engineering options for distribution, transmission and generation projects (including gas), and to collect data to support economic rate of return analyses, including a willingness to pay survey.

A rural energy economic and geo-spatial analysis of the rural and peri-urban markets is also planned to be conducted to consider how access to energy may support more employment and private enterprise development. The analysis will help MCC and the Government of Senegal prioritize where electricity investments should be made and what the most cost-effective technological solutions are for each community.

Funding these activities reflects MCC's commitment to prepare projects in a comprehensive manner prior to compact signing, increase confidence in the economic justification and technical feasibility of the proposed projects, and reduce implementation risk.

Update on and Sustainability of the 2009 Senegal Compact

In September 2009, MCC and the Government of Senegal signed a \$540 million compact designed to reduce poverty and increase economic growth by unlocking the country's agricultural productivity and expanding access to markets and services. The two primary compact projects, the *Roads Rehabilitation Project (Roads Project)* and the *Irrigation and Water Resource Management Project (IWRM)*, strategically invested in the road network and essential irrigation schemes geographically focused in the Senegal River Valley in the north and the Casamance region in the south.

The Compact ended on September 23, 2015. At compact closing, IWRM's achievements included building 24.38 kilometers of canals and drainage, rehabilitating 181 kilometers of hydraulic axes in the Senegal River Delta, adding 3,533 hectares of improved irrigation infrastructure in the Senegal River Delta and Podor regions, establishing nine land management committees, and formalizing 8,655 land rights representing 15,246 hectares of land registered, allocated and titled. The Roads Project achievements included rehabilitating 121.61 kilometers of road on National Road 2. By the end of the compact's administrative closure period, 136 kilometers (of a targeted 252 kilometers) of road on National Road 6 had also been provisionally accepted by the Government of Senegal, subject to expiration of the defects liability period. The Government of Senegal has also taken over responsibility for work on the remaining 116 kilometers that were incomplete at compact end due to poor contractor performance, and as of August 2016, 92 percent of the remaining work on National Road 6 was completed. In addition to completing the remaining road work, Senegal also committed to complete a 29 kilometer optional road segment to continue improving road quality in the southern road network. Independent evaluations to assess the economic impact of these projects are expected to be completed in June 2018 for IWRM and March 2020 for the Roads Project.

MCC deobligated \$46 million in funds related to non-completion of the National Road 6 during the compact period, \$20 million in cost savings due to design efficiencies achieved in the Roads Project, and \$40 million in unspent contingency funds. The Government of Senegal, in turn, has committed approximately \$50 million of its own resources to complete construction on National Road 6 activities.

Following compact completion, a successor entity to the accountable entity that implemented the compact was created under the Prime Minister's office to further ensure sustainability. The post-compact entity is ensuring completion, without MCC funding, of those activities not completed by the end of the compact largely due to poor contractor performance, as well as managing project archives, monitoring Senegal's performance on MCC's eligibility criteria, reporting annually on post-compact indicators, and providing support to independent impact evaluations. The Government of Senegal has committed several million dollars to fund the compact development team as well as a follow-on entity coordinating the completion the first compact activities, including measures to ensure their long term sustainability.

In the north of Senegal, an agriculture value chain project (Naatal Mbay) in the Senegal River Valley funded by USAID is slated to support MCC irrigation project beneficiaries with technical assistance in all aspects of the agriculture value chain, primarily for rice. USAID and U.S. Department of Agriculture activities are directly benefiting from the MCC-financed road rehabilitation work in the Casamance in the south, where programs supporting agricultural producer groups have improved value chains and market access. Several donors, including the World Bank and Alliance Française de Développement, are also expanding the model and tools used in the Land Tenure Security Activity in the north.