



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation (MCC) intends to negotiate and sign a threshold program agreement with the Government of Sierra Leone obligating up to \$44,400,000. Signature of the agreement is subject to approval of the program by the MCC Board of Directors, which is scheduled to meet on September 17, 2015. In addition to the enclosed notification, we have included supplemental information regarding the Sierra Leone threshold program.

The attached notification is being sent to the Congress on September 2, 2015. Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Jim Mazzearella at (202) 521-2695.

Sincerely,

/s/

James A. Mazzearella  
Vice President (Acting)  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

September 2, 2015

PROGRAM:	Threshold Countries
APPROPRIATIONS CATEGORY:	Fiscal Years 2005, 2014 and 2015 Program Funds
OBLIGATION AMOUNT:	\$2,400,000 (Fiscal Year 2005) \$12,000,000 (Fiscal Year 2014) \$30,000,000 (Fiscal Year 2015)

In accordance with (i) section 515 of the Foreign Operations Export Financing and Related Programs Appropriations Act, 2005, (ii) the heading, “Millennium Challenge Corporation” and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014, and (iii) the heading “Millennium Challenge Corporation” and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, this is to advise that the Millennium Challenge Corporation (MCC) intends, pending approval by MCC’s Board of Directors, to negotiate and sign an agreement with the Government of Sierra Leone obligating up to \$2,400,000 of fiscal year 2005 funds, up to \$12,000,000 of fiscal year 2014 funds and up to \$30,000,000 of fiscal year 2015 funds for a program authorized under section 616 of the Millennium Challenge Act of 2003, as amended (the Threshold Program).

The proposed Threshold Program will support reforms by the Government of Sierra Leone to establish a foundation for the more effective and financially sustainable provision of essential urban services – water and electricity – in greater Freetown. To do so, the program will strengthen key institutions to improve service delivery and will support reforms to increase transparency and accountability in the provision of these services, thereby limiting opportunities for corruption and petty bribery.

## SUPPLEMENTAL INFORMATION

### SIERRA LEONE THRESHOLD PROGRAM

#### Background and Rationale

After several years of a demonstrated commitment to reform and good governance, as well as remarkable improvement in Sierra Leone's performance on MCC's policy scorecard, MCC's Board of Directors (Board) selected Sierra Leone as eligible to develop a compact in December 2012. However, while developing its proposal, Sierra Leone narrowly failed the scorecard in fiscal years (FY) 2014 and FY 2015, in each case falling just below the median on the *Control of Corruption* indicator. Ultimately, the Board selected Sierra Leone for Threshold Program assistance, MCC's program to incentivize continued policy improvement and to provide countries with the opportunity and support to demonstrate their commitment to implement policy reforms that promote economic growth.

The Government of Sierra Leone (GOSL) has remained strongly engaged with MCC throughout the process and this has permitted a quick reorientation of the program toward policy and institutional reforms while also incorporating elements to assist with control of corruption. During the initial compact development process, the GOSL had already completed an economic constraints analysis that identified lack of access to reliable and affordable electricity and to clean water and sanitation as constraints to growth. The analysis also identified policy and institutional ineffectiveness as an underlying problem contributing to and exacerbating these constraints.

With its proposed Threshold Program, Sierra Leone intends to build a foundation for more effective and financially sustainable provision of essential urban services – water and electricity – with a focus on the greater Freetown area. The program will improve governance in each sector, strengthen key institutions to improve service delivery, and support reforms to increase transparency and accountability in the provision of these services, thereby limiting opportunities for corruption and petty bribery. Specifically, the program is designed to:

- Establish effective and independent regulation of the water and electricity sectors, including creating a framework for transparent tariff setting, and improve sector governance;
- Strengthen commercial practices, operational independence, and planning capacity in sector institutions;
- Enhance transparency, accountability, and customer service through stakeholder engagement and the incorporation of new tools to fight corruption and petty bribery; and
- Test innovative approaches that could serve as models of sustainable service delivery with the potential to scale for systemic impact.

In doing so, the program will:

- (1) Enable MCC to assess whether the GOSL has the political will and capacity to follow through on important but difficult reforms in sectors that have been identified as critical for faster growth and poverty reduction;

- (2) Address corruption risks in essential service delivery, a factor, among others, contributing to Sierra Leone’s failure to pass MCC’s Control of Corruption indicator, by specifically incorporating targeted efforts to combat corruption and increase transparency and accountability in the provision of these essential urban services; and
- (3) Incentivize the GOSL’s efforts to regain compact eligibility by partnering with the GOSL on an ambitious program in critical sectors.

### **Planned Program Budget**

<b>Sierra Leone Threshold Program Budget (Estimated)</b>	
<b>Regulatory Strengthening Project</b>	<b>\$11,275,000</b>
1. Electricity and Water Regulatory Commission Institutional Strengthening Activity	\$5,775,000
2. Incentive-Based Regulation Activity	\$5,500,000
<b>Water Sector Reform Project</b>	<b>\$16,000,000</b>
1. Water Sector Roadmap and Coordination Activity	\$900,000
2. Guma Valley Water Company Institutional Strengthening Activity	\$10,100,000
3. District Metering Area and Standpipe Demonstration Activity	\$5,000,000
<b>Electricity Sector Reform Project</b>	<b>\$11,910,000</b>
1. Electricity Sector Roadmap and Coordination Activity	\$2,910,000
2. Institutional Strengthening Activity	\$9,000,000
<b>Program Administration</b>	<b>\$3,550,000</b>
<b>Monitoring and Evaluation</b>	<b>\$1,665,000</b>
<b>Threshold Program Total</b>	<b>\$44,400,000</b>

### **Projects and Activities**

The Program includes three projects – the Regulatory Strengthening Project, the Water Sector Reform Project, and the Electricity Sector Reform Project – united through a common focus on urban service provision and a shared regulatory framework.

#### **Project 1 – Regulatory Strengthening Project**

**Project Objective:** To support the GOSL in its efforts to stand up and build the capacity of the newly established independent regulator – the Electricity and Water Regulatory Commission (EWRC). The project will improve sector governance and accountability by establishing core regulatory functions within EWRC and developing transparent procedures for setting tariffs.

- *Activity 1: EWRC Institutional Strengthening Activity*  
EWRC has a critical role to play in overseeing improved sector operations and finances through technical oversight of regulated entities, providing a framework for regular tariff reviews and assessments, regulatory review of power purchase agreements and independent power projects (for the electricity sector), and, in all cases, protecting consumers through inclusive stakeholder consultation. However, EWRC currently exists more in name than in

practice. Accordingly, this activity includes technical assistance to establish core regulatory functions and capacities at EWRC, as well as regulatory performance monitoring standards and a transparent framework for regulated tariff setting. Importantly, the activity will also leverage Sierra Leone’s “Pay No Bribe” reporting platform funded by the U.K. Department for International Development in coordination with GOSL’s Office of the Chief of Staff to the President. Upon completion, this platform will provide citizens with an open and transparent system through which to register reports of corruption and petty bribery using mobile devices and other means.

- Activity 2: Incentive-Based Regulation Activity

The objective of this activity is to test knowledge transfer to beneficiary institutions and incentivize regulated utilities to improve performance. To do so, MCC funds under this activity will be conditional and only disbursed if utilities achieve targets on key performance indicators (KPIs). To reinforce the role of the regulator, EWRC will conduct quarterly or semi-annual assessments of KPIs, which will be verified by an independent third party. Successful achievement of KPIs will trigger results-based disbursements to implicated utilities. To assure proper utilization of these funds, utilities will be allowed to only apply results payments against existing procurement and operations and maintenance plans, which will have been developed earlier with program support.

## **Project 2 – Water Sector Reform Project**

Project Objective: To support GOSL efforts to: (1) improve water sector coordination; (2) strengthen commercial practices, operational independence, and planning capacity at the Guma Valley Water Company (GVWC), the Freetown water utility; and (3) enhance transparency, accountability, customer service practices, and quality through improved community, consumer, and customer engagement, as well as the establishment and utilization of new accountability mechanisms.

- Activity 1: Water Sector Roadmap and Coordination Activity

This activity intends to support the GOSL’s ambitious efforts to reform the overarching institutional structure for water resource management, develop a sector roadmap, and support a water sector reform steering committee to institutionalize sector coordination on issues such as tariff reform and loss reduction strategies.

- Activity 2: GVWC Institutional Strengthening Activity

This activity will strengthen the water utility’s capacity to perform core business functions and comply with emerging regulatory requirements developed under the Regulatory Strengthening Project. MCC funding will support:

- System-wide mapping, condition assessments, customer mapping, and hydraulic modeling, all of which are needed to enable proper planning;
- Technical assistance in utility operations, including technical, financial, and commercial management, service quality, investment planning, procurement, contract management, corporate governance, and environmental sustainability;

- Development of a strategy to reduce losses due to leaks, illegal or mischaracterized connections, theft, and other commercial losses (so-called “non-revenue water”), to be implemented and tested within the district metering area (see below);
- Standing up GVWC’s pro-poor unit, and development of a strategy to improve, and build capacity for, service delivery to low-income consumers; and
- Community and consumer outreach, including publication of service charters and consumer education on the need to pay for water.

This activity will also leverage the Pay No Bribe platform by assisting GVWC to respond to reports of bribery and corruption and to incentivize improved staff performance. This could include investigations of allegations, audits of implicated accounts, reduction targets with associated recognition, and/or development of administrative sanctions.

- *Activity 3: District Metering Area and Standpipe Demonstration Activity*

This activity will leverage the technical assistance provided under the GVWC Institutional Strengthening Activity by identifying and establishing a controlled district metering area (DMA), within which GVWC can implement and test its improved business practices and operationalize a non-revenue water strategy. GVWC expects to measure water flows in and out of the DMA, assess the scope of technical and commercial losses, design and implement a plan to reduce non-revenue water, and control illegal or mischaracterized connections. Social and political sensitivities, not to mention the poor state of GVWC’s physical system, pose serious challenges to the success of any non-revenue water strategy in Freetown. The DMA will provide GVWC with a vehicle to overcome these challenges by creating a limited, controlled zone within which the GOSL, stakeholders (including communities, customers, and users), and GVWC can experience service and reliability improvements and test strategies to reduce non-revenue water and other theft and non-payment challenges.

In addition to establishing the DMA, a key component of this activity will be the piloting of a public-private partnership model for the operation and management of public standpipes. More than fifty percent of GVWC’s customers access water through these shared water points. The standpipes, from which little to no revenue is collected by GVWC, provide unreliable service and often contaminated water to low-income users. Under the pilot, up to 10 existing standpipes within the DMA will be rehabilitated and transformed into water kiosks. The kiosks will be operated and managed by private operators (ideally local entrepreneurs) selected through an open concession process. Kiosk operators will have contracts with GVWC to pay for water and GVWC will monitor the operators’ performance. Water kiosks will also provide sanitation and hygiene, health, and other community services.

### **Project 3 – Electricity Sector Reform Project**

Project Objective: To support GOSL efforts to: (1) operationalize the emerging institutional framework and market structure in Sierra Leone’s electricity sector; (2) strengthen operational and planning capacity, as well as corporate governance, at targeted electricity sector institutions; and (3) enhance transparency and accountability through the development and utilization of service accountability mechanisms.

- Activity 1: Electricity Sector Roadmap and Coordination Activity

This activity will help the GOSL operationalize the electricity market restructuring that began in 2014 with the unbundling of the National Power Authority and the creation of EWRC. Specifically, the activity will convene a steering committee tasked with developing a roadmap for electricity sector reform to clarify the roles and responsibilities of various sector institutions in the new power sector framework, including the Electricity Distribution and Supply Authority (EDSA), the Electricity Generation and Transmission Company (EGTC), EWRC, the Ministry of Energy, and potentially other entities.

Building on the roadmap and with guidance from the steering committee, the activity will also support development of a policy for future financial contributions to the power sector. The policy will recognize a continued but diminishing role for government financing in conjunction with greater expectations for utility performance and the ability to become self-financing. The policy will also outline the GOSL's commitment to an independent and transparent tariff review process, while providing an opportunity for GOSL input regarding the timeline for transition to cost-reflective tariffs.

Activity 2: Institutional Strengthening Activity

This activity will strengthen the capacity of key sector institutions to develop system plans. MCC funding will support the development of actionable, foundational sector studies, such as an industrial load assessment and an integrated investment master plan. The objective is to build capacity for integrated investment planning within the Ministry of Energy, the likely primary beneficiary institution. Conditional funding will also be available under this activity for project feasibility work required to identify and prepare a viable independent power producer transaction to bring to market. This activity will also provide technical assistance to EGTC to move towards the development and operation of transmission system.

## **Implementation**

The GOSL would implement the Program through the Millennium Challenge Coordinating Unit (MCCU), which was established by the GOSL to develop the program proposal. The GOSL's MCCU would serve as the driving force of the program, ensuring coordination among the various GOSL institutions and with responsibility for financial management, procurement, contract administration, planning, reporting, and public outreach. The Program is planned to be implemented over 3.5 years.