



## 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 Ghana.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Ghana, please contact me or Jim Mazarella at (202) 521-3850. This notification is being sent to the Congress on May 12, 2014 and negotiations with Ghana may be started on or after May 27, 2014.

Sincerely,

Paul Weinberger  
Vice President  
Congressional and Public Affairs

Enclosure:  
As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

Pursuant to the section with the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014 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 Ghana for a Millennium Challenge Compact and (2) to initiate the 15-day consultation period before the start of negotiations.

Attached please find a summary of the objectives and mechanisms to be used for the negotiations of this Compact.

## **SUPPLEMENTAL INFORMATION**

### **MCC COMPACT DEVELOPMENT WITH GHANA**

#### **Overview**

The proposed compact seeks to assist the Government of Ghana (GoG) to increase economic growth by addressing problems with the power sector through private sector investment in power generation and distribution as well as improvements that will reduce load shedding, power losses, and outages that currently affect millions of Ghanaians.

#### **Background**

After being selected as eligible by the MCC Board of Directors for compact assistance in January 2011, the GoG conducted an analysis of constraints to growth that identified the three critical binding constraints to economic growth: (i) inadequate and unreliable supply of electricity, (ii) lack of access to credit and (iii) lack of access to secure land rights. The GoG chose to address inadequate and unreliable supply of electricity due to the significant impact that the underperforming sector has on the country's economy.

The power sector in Ghana is adversely affected by technical and commercial inefficiencies in the distribution utilities, and tariffs that are not cost reflective. This creates a situation where the distribution companies are losing money and network maintenance and expansion requirements are not met.

#### **Program Overview and Budget**

Ghana's compact proposal includes base funding of \$308.2 million and an incentive of up to \$190 million which would be released only after significant agreed-upon reforms are adopted by the GoG. This does not include the GoG contribution of 7.5 percent of the total MCC funding. The compact focuses on turning around the main public electricity distribution company through the introduction of private sector participation (PSP) as well as targeted infrastructure investments and reforms in generation to jointly contribute to a more functional, credit worthy and self-sustaining power sector that will better serve its existing and future customers.

Due to the importance of introducing PSP into the distribution sector, as well as reforms intended to improve the financial position of the distribution utilities, enable gas supply for the energy sector, and ensure a cost reflective tariff regime, MCC has made its compact signing contingent on tangible progress towards these goals. In addition, MCC is proposing to include an innovative conditional incentive funding component that would involve providing a second tranche of funding to be made available only if these essential reforms milestones are met, including final approval of the PSP transaction and continued progress toward a cost reflective tariff.

Components of the proposed Ghana Compact are summarized below. The budget shown in Figure 1 and expected impacts described further below are preliminary based on initial due diligence and project appraisal and are subject to change following compact negotiations.

Figure 1: Proposed Ghana Compact Budget Overview

Compact Budget Overview (Millions of US\$)			
Projects	MCC Tranche I (Base Funding)	MCC Tranche II (Conditional Incentive Funding)	Potential Grand Total
ECG Financial & Operational Turnaround Project	\$149.6	\$190	\$498.2
NEDCo Financial & Operational Turnaround Project	\$54.2		
Regulatory Strengthening & Capacity Building Project	\$5.0		
Access Project	\$10.0		
Power Sector Generation Improvement Project	\$16.3		
Energy Efficiency & Demand Side Mgmt. Project	\$25.4		
Monitoring & Evaluation	\$7.6		
Program Administration and Oversight	\$40.2		
<b>Total Investment</b>	<b>\$308.2<sup>1</sup></b>	<b>\$190</b>	

Tranche I represents the core investment and Tranche II the conditional investment triggered by the GoG’s performance of specific conditions. As the required conditions are met, the Tranche II funding that is part of the overall compact funding will be allocated both to the projects and activities described herein and to investments that further the objectives of the proposed compact and will be mutually agreed by MCC and GoG with enough time allotted prior to the release of funds to ensure the projects are prepared and ready for implementation. While categories of investments are known, the specific investments have not yet been specified as MCC wants to ensure that potential activities are evaluated for financial and economic impact at the time the decision to release the funding is made. Investments could include:

- Additional investments in distribution
- Additional generation investments
- Scale-up of the Access Project and/or the Energy Efficiency and Demand Side Management Project
- Investments that facilitate private sector investment in generation

The proposed compact program can be divided into two general areas: projects that focus on the distribution sector, and projects that focus on the generation sector.

**Distribution Sector Investments**

***Utility Reforms: Electricity Company of Ghana and Northern Electricity Distribution Company Financial and Operational Turnaround Project***

The ECG Financial and Operational Turnaround Project, totaling \$149.6 million, pursues a two-pronged approach – changing the governance and management of this Ghanaian electric utility by bringing in a private sector operator coupled with infrastructure and foundational investments

<sup>1</sup> Numbers do not add due to rounding

designed largely to reduce losses and improve service quality. Specifically, the project contains the following five interconnected activities:

- **Activity 1: Private Sector Participation (PSP).** Accepting the reform program as a condition of the proposed compact will signal Ghana’s willingness to take bold moves to improve an underperforming sector that drags down economic growth in the country.
- **Activity 2: Modernizing Utility Operations.** Investments to support integrated loss management, such as technical assistance, to provide overall project management support.
- **Activity 3: Reduction in Commercial Losses and Improvement of Revenue Collection Rates.** Reducing distribution system vulnerability to theft and meter manipulation and improving metering systems, including installation of pre-paid meters.
- **Activity 4: Technical Loss Reduction.** Interventions focused on lowering thermal losses in the distribution systems.
- **Activity 5: Outage Reduction.** Reducing both the frequency and duration of outages by introducing improved system protection and sectionalizing devices in the distribution system.

The estimated economic rate of return (ERR) for the proposed ECG Financial and Operational Turnaround Project, is 19 percent. The initial estimated beneficiaries of this project are 4.8 million people in the short term and 7.8 million people long-term.

The NEDCo Financial and Operational Turnaround Project will initially provide \$5 million in technical assistance to improve operations of NEDCo. No later than the conclusion of the first year of compact implementation, MCC will evaluate ERRs for possible system and infrastructure investments and if resulting ERRs are acceptable, MCC will make investments up to \$49.2 million.

### ***Regulatory Strengthening and Capacity Building Project***

The proposed activities under the Regulatory Strengthening and Capacity Building Project which totals \$5 million are two-fold – tariff review, focused on the process of ratemaking and more specifically on the structure of tariffs, and capacity building of the sector performance monitoring capabilities to ensure better reporting. The activities under this project include:

- **Activity 1: Sector Performance Monitoring Capacity Building.** Improving the regulatory monitoring and independent verification of sector performance.
- **Activity 2: Tariff Review and Regulation.** Improving the tariff review process by supporting studies that will provide critical inputs to the redesign of the tariff structure prior to implementation of the PSP and the next round of ratemaking and technical assistance to the regulators.

### ***Access Project***

The Access Project, totaling \$10 million, will test the most cost effective approaches to address the key constraints that Micro, Small and Medium Enterprises (MMSMEs) in markets and economic enclaves face in obtaining safe and legal access to electricity. In Ghana, markets and economic enclaves have economic significance as they host thousands of MSMEs, many of which

are owned and operated by women. Many of these MSMEs and microenterprises do not have legal access to electricity. This small project is designed to be innovative and experimental – it will test several different interventions aimed at reducing critical barriers to legal connections for MSMEs in a small sample of markets and economic enclaves and provide evidence of effective approaches to increasing access for the distribution utilities. In addition to the direct benefits the project would have for the MSMEs, increasing access will also expand the customer base of the utilities to include these important stakeholders and ensure that they are beneficiaries of improvements in the Ghanaian power sector. The Access Project will also address the problems caused by illegal connections, improve safety and security in target areas, and strengthen relationships between end users, local government, and the utility companies. The project includes two activities:

- **Activity 1: Infrastructure Upgrades.** Upgrades will be made to target selected markets and economic enclaves that are within the intervention sites of the ECG and NEDCo Financial and Operational Turnaround Projects.
- **Activity 2: Social Inclusiveness and Improved Partnership.** This will seek to alleviate the various barriers (including a high connection fee, cumbersome connection processes and weak coordination among key actors including utility companies, local government and the communities) that prevent MSMEs from having legal access to electricity.

These activities are expected to contribute to increased incomes for MSMEs; firm ERRs for this project, however, are not yet available. At this time, data needed to undertake an assessment of the proposed intervention are still being collected. This activity will provide an important opportunity for innovation and economic growth within the proposed compact while targeting micro- and small businesses disproportionately owned by women. Robust economic evaluations will identify promising interventions that could be scaled up during or after the compact, potentially in partnership with USAID, and will provide evidence of effective strategies for increasing access to electricity in markets and enclaves across Ghana.

### **Generation Sector Investments**

The generation sector investments adopt two strategies to make more energy available. The first is to make better use of the electricity already in the system by reducing waste. The second is to foster an enabling environment for investments to expand generation capacity.

#### ***Power Generation Improvement Project***

This \$16.3 million project prioritizes the alleviation of major constraints to private sector investment in generation through the following three activities:

- **Activity 1: Operationalize the “Gas to Power” Plan and Commercialize the Gas Sector.** The lack of reliable fuel supply is a significant barrier to securing affordable and sustainable generation capacity and has led to unplanned load shedding and outages in the past few years. The proposed compact will leverage ongoing advisory support provided by USAID by providing both the impetus to act (achievable, action-oriented conditions precedent linked to first disbursement) and continued support to the GoG to ensure that decisions regarding institutionalization, commercialization, and securitization of the gas sector are informed and serve Ghana’s best interest.

- **Activity 2: Improve Sector Planning and Develop Independent Power Producer (IPP) Framework.** Ghana does not have an active and integrated master plan to guide the development of its growing energy sector, or an established competitive process for procuring IPPs. This has led to uneven, opaque and costly additions to capacity that may not be consistent with a least cost plan. The activity will support the development of a least cost plan that addresses generation, transmission, distribution and demand side management in a holistic and integrated fashion, as well as capacity building within the entities responsible for sector planning.
- **Activity 3: Facilitate Liquefied Natural Gas (LNG) Development.** Studies have shown that even with gas from domestic sources and the West African Gas Pipeline, Ghana will need additional fuel to support projected increases in electricity demand. The private sector has expressed an interest in building the required infrastructure associated with importing LNG and MCC is funding the technical feasibility studies required to provide a ‘shovel-ready’ project.

The estimated ERR for this project is 24 percent. The initial beneficiaries of the project are 19.6 million people and the long-term beneficiaries are 41.8 million people.<sup>2</sup>

#### ***Energy Efficiency and Demand Side Management Project***

Energy efficiency and demand-side management policies and investments represent some of the most cost-effective means to bridge the gap between supply and demand, serving as sources of new energy supply. Reducing energy waste on the consumer side of the electricity meter decreases the growth of demand and reduces the investment that is needed in the electricity system to maintain needed capacity and reliability. This \$25.4 million project includes four activities:

- **Activity 1: Development and Enforcement of Standards and Labels.** Most energy-using products do not have standards and labelling requirements and the standards that do exist would benefit greatly from technical updates and enforcement support.
- **Activity 2: Improved Energy Auditing.** Energy efficiency auditing and energy services company market support includes technical capacity-building for energy efficiency and energy management professionals.
- **Activity 3: Education and Public Information.** Awareness, education, and information activities help assure that both technical workers and the general public are aware of cost-effective energy saving opportunities.
- **Activity 4: Demand Side Management Infrastructure.** This activity would support piloting of distributed applications such as solar photo voltaic back-up power for lighting and electronics, off-grid solar systems, and grid-connected solar systems as well as the conversion of conventional street lights to LED street lighting.

The estimated ERR for this project is 27 percent. The estimated beneficiaries for this project are 19.6 million people in the short term and 41.8 million people long-term.<sup>3</sup>

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<sup>2</sup> This is a 20-year projection based on a population growth rate of 2.3%

<sup>3</sup> See footnote 2.

