



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to negotiate a concurrent Millennium Challenge Compact with the Government of Benin for the purposes of enhancing regional economic integration, increased regional trade, and cross-border collaborations.

The transmission of this notification to Congress on July 5th, 2022, affirms negotiations concerning the proposed Benin Concurrent Regional Compact may begin on or after 15 days from the date of this notice.

Please find enclosed, the notification along with supplemental information regarding the proposed compact.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Benin, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure as stated

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION

July 5, 2022

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117 - 103) 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 Benin for a concurrent Millennium Challenge Compact for the purposes of enhancing regional economic integration, increased regional trade, and cross-border collaborations and (2) to initiate Congressional consultation before the start of negotiations.

The proposed concurrent compact will seek to assist the Government of Benin in addressing the high cost of transport and travel time along the transport corridor from Cotonou, Benin to Niamey, Niger (Corridor) to reduce poverty through inclusive, sustainable economic growth while increasing regional economic integration, trade, and cross-border collaboration with Niger.

Economic Justification

The proposed compact will run concurrently with the current Benin Compact focused on the energy sector. However, the compact will address transportation from a cross-border perspective. Road conditions are a key market and institutional constraint impacting transport costs along the Corridor. The range of issues is significant, from inefficient trucking industries, dysfunctional border crossings and customs processing, weak maintenance regimes, and weak application of regional axle load limit regulations. While fully understanding and addressing these issues will take time and be challenging, the pay-off to unlocking these constraints is expected to be high. The overall Regional Transport Program is estimated to have an Economic Rate of Return (ERR) of 10.7%. The concurrent compact will address these constraints through two projects: the Corridor Infrastructure (CI) Project and the Efficient Corridor Operations (ECO) Project.

The **CI Project** aims to reduce transportation costs along the Corridor. This project’s Road Segment Rehabilitation Activity is expected to result in vehicle operating cost savings and increased speeds, leading to time-savings. The installation of road safety infrastructure is also expected to result in reduced accidents and, in turn, reduced mortality and morbidity risk to road users and reduced non-injury-related accident damage. These benefits are expected to accrue both to users of the road for trips that would have occurred in absence of MCC’s investment (current traffic level plus “normal” traffic growth), as well as to users of the road for trips expected to occur due to reduced transport costs resulting from MCC’s investment (“generated” traffic growth). Roughly 1,240,000 unique road users are expected to directly benefit. This includes approximately 680,000 beneficiaries defined as “poor” and 330,000 beneficiaries defined as “near-poor.”¹ Costs and benefits are forecast from the initiation of infrastructure

¹ These beneficiary categories are defined based on the levels of consumption per day (in 2011 purchasing price parity international dollars) with the poor consuming less than \$3.20 and near-poor consuming between \$3.20 and \$5.50.

works in 2024 through 2046. In total, the Bohicon-Dassa Road Segment Rehabilitation Activity (83km or 52 miles) has an ERR of 17.5%.

The **ECO Project** emerged from a root cause analysis that identified the key drivers of high freight prices, high and variable freight shipment duration, and rapid road deterioration along the Corridor. The inter-linking investment components are expected to reduce average border transit times, variability in border transit times, accident-related mortalities and morbidities, rents collected by intermediaries, market inefficiencies resulting from imperfect information and unenforceability of agreements, axle overloading and local pollution along the Corridor. The project includes two activities: Freight Sector Operations Improvement and Customs Border Operations Improvement. The ECO Project is not yet sufficiently designed to enable the calculation of an ERR. However, ERRs will be calculated for all project components before the compact enters into force. If all investment components that are not yet fully designed have an ERR above 10% once fully designed, the concurrent compact estimated ERR will be equal to or greater than 16.6%.

SUPPLEMENTAL INFORMATION

Overview

The proposed concurrent compact will seek to assist the Government of Benin in addressing the high cost of transport and travel time along the transport corridor from Cotonou, Benin to Niamey, Niger (Corridor) to reduce poverty through inclusive, sustainable economic growth while increasing regional economic integration, trade, and cross-border collaboration with Niger. The compact program will achieve this goal through two projects: the Corridor Infrastructure (CI) Project and the Efficient Corridor Operations (ECO) Project.

Background and Context

Benin is a small, West African country that has a current estimated population of 13.3 million people and a tropical climate—hot and humid in the south and semiarid in the north. The people of Benin speak 55 different languages. French is the official language, with Fon and Yoruba spoken widely in the south and Bariba and Fulfulde spoken widely in the north. About 40% of Beninese live below the poverty line.

In December 2018, MCC's Board of Directors (Board) selected Benin and Niger as eligible to develop concurrent compacts. MCC began working with each country to determine if there were projects that met MCC's compact investment criteria and evaluated the countries' ability to work with MCC. In 2019, 2020, and 2021, the Board reselected both Benin and Niger to continue developing potential concurrent compacts. MCC has focused the development of the concurrent compacts on a potential regional integration transport program between the countries.

Following the initial selection of Benin and Niger for potential concurrent compacts, an MCC team conducted project scans and worked to gather priority projects in the energy and transportation sectors from each country for consideration. It was determined that ideal opportunities for MCC's initial concurrent compacts would be cross-border infrastructure projects, with policy and institutional reform (PIR) components, which collectively have significant political support and otherwise meet MCC's investment criteria. Important market and institutional constraints along the Corridor include uncompetitive and extractive freight allocation arrangements; inefficient trucking industries; dysfunctional border crossings and customs processing; weak maintenance regimes; and weak application of regional axle load limit regulations. The concurrent compact includes transport infrastructure and policy and PIR aimed at addressing one or more of these constraints.

The Government of Benin has stated clearly that developing this Corridor with Niger is its top priority for a potential concurrent compact. This potential investment would have a clear link to the MCC investment at the Port of Cotonou in the first Benin compact, as well as to the current MCC compact program in Niger, which is focused on agriculture and roads. The Corridor has a relatively high traffic volume with an average of approximately 1,000 vehicles per day, of which a high percentage are trucks.

Benin passes the MCC scorecard. In Fiscal Year (FY) 2022, it passes 14 of 20 indicators and both hard hurdles, though it has exhibited a multi-year decline in democratic governance, as seen on the democratic rights indicators on the scorecard. While not yet incorporated in Benin’s performance on the FY 2022 scorecard, this decline was punctuated by the uncompetitive April 2021 presidential election.

As communicated in MCC’s Report on the Selection of Eligible Countries for FY 2022, at the December 2021 meeting, the Board reselected Benin as eligible to continue developing a potential concurrent compact. However, the Board also endorsed MCC’s determination to significantly reduce the planned regional investment that would be made in Benin through a concurrent compact due to Benin’s declining commitment to democratic governance.

Compact Overview and Budget

The proposed Benin concurrent compact projects aim to reduce transportation costs along the Corridor. Each project targets reducing vehicle operating costs (VOCs), time related costs, and injuries and deaths. The ECO project also aims to reduce unreliability costs, which are associated with the lack of confidence in the transportation system’s ability to successfully move people or goods from one location to another in an efficient and timely manner, as well as market inefficiency costs.

Table 1 presents an approximate budget for the proposed concurrent compact based on initial due diligence and appraisal.

Below is a summary describing the components of the proposed concurrent compact with the Government of Benin. The budget and expected impacts are preliminary based on initial due diligence and project appraisal. The anticipated budget for the proposed concurrent compact is up to \$217.15 million, including the Government of Benin country contribution.

Table 1: Benin Concurrent Compact Budget (million in US\$)

MCC Funding by Compact Components	Total MCC Funding
1. Corridor Infrastructure Project	\$143,313,000
1.1 Road Segment Rehabilitation Activity	\$139,113,000
1.2 Road Maintenance Activity	\$4,200,000
2. Efficient Corridor Operations Project	\$26,000,000
2.1 Freight Sector Operations Improvement Activity	\$20,555,000
2.2 Customs Border Operations Improvement Activity	\$5,445,000
3. Monitoring and Evaluation	\$1,500,000
4. Program Administration and Oversight	\$31,187,000

MCC Funding	\$202,000,000

Total Compact Funding	Amount
Total MCC Funding	\$202,000,000
Government of Benin Contribution	\$15,150,000
Total Compact	\$217,150,000

Proposed Projects

The proposed concurrent compact's two projects are described below:

The objective of the **CI Project** is to reduce transportation costs along the Corridor. These include VOCs, time related costs, and injuries and deaths.

- **Activity 1 - Road Segment Rehabilitation:** This activity intends to support the rehabilitation of approximately 83 kilometers of road between the cities of Bohicon and Dassa, along the Corridor.
- **Activity 2 - Road Maintenance:** This activity intends to support PIR associated with the improvement of road maintenance work quality, and the reduction of road maintenance funding gaps.

The objective of the **ECO Project** is to reduce transportation costs along the Corridor. These include VOCs, time related costs, unreliability costs, market inefficiency costs, and injuries and deaths.

- **Activity 1 - Freight Sector Operations Improvement:** This activity intends to support the review of the regulatory environment in Benin with the goal to make meaningful reforms that will positively impact and improve the efficiency of truck freight sector operations. These include axle load management, regulatory review and capacity building, freight vehicle regulatory enforcement, and support for the organization and establishment of a Corridor Authority.
- **Activity 2 - Customs Border Operations Improvement:** This activity intends to support improvements associated with the existing custom border operations at the Gaya-Malanville crossing, which directly relate to the fluidity of corridor operations, with additional support in capacity building.

Policy Reform and the Concurrent Compact

The PIR identified as critical are focused on the improvement of road maintenance institutional framework and ensuring untapped sources of maintenance funding can become available.

The following is a preliminary, non-exhaustive, list of the proposed reforms and associated outputs:

- A. Creation of a Road Authority [transformation of the Société des Infrastructures Routières du Benin (SIRB or Road Infrastructure Company) into a full Road Authority]
 - a. Road maintenance policy formulation, road master planning, periodic maintenance multi-year programming, and annual periodic maintenance project planning.
 - b. Road management systems.
 - c. Road maintenance procedures and processes.
 - d. Road asset management.
- B. Re-instatement of the road fund (Fonds d'Entretien Routier or FER)

Some of these reforms must be adopted by the Government of Benin prior to entry into force of the concurrent compact and demonstrating continued compliance to the terms and conditions of these reforms will be a condition precedent to subsequent disbursement requests of compact funding. The project design incorporates technical assistance to ensure the successful implementation of these reforms.

Update and Sustainability of the 2015 Benin Energy Compact

MCC's \$391 million compact with the Government of Benin is focused on reforming, expanding, and modernizing the West African country's power sector. With an additional contribution of \$28 million by the Government, the compact aims to strengthen the national power utility, attract private sector investment into solar power generation, and fund infrastructure investments in electricity distribution as well as off-grid electrification for poor and unserved households. Major line works and substation construction continue across Benin, including 18 new or expanded substations, installation of more than 50 miles of new underground cabling, and the rehabilitation of nearly 500 miles of overhead power lines. The 50 MW solar photovoltaic Independent Power Producer (IPP) transaction is nearing financial close. If financial close is attained, this would be one of Benin's first successful IPP transactions and could leverage \$50-60 million in private investment. Finally, four of eight mini-grid project developers recently obtained regulatory approvals for 20-year concession agreements and are completing designs. The remaining four mini-grid projects are still under regulatory review.

Current projections show this compact is on track to have 10.6 million estimated beneficiaries and \$634 million in estimated net benefits. The compact end date is June 22, 2023.

Update and Sustainability of 2006 Benin Compact

In February 2006, MCC signed a five-year, \$307 million compact with the Government of Benin that aimed to increase investments and private sector activity through the implementation of four projects. These projects increased access to land through more secure and useful land tenure; expanded access to financial services through grants given to micro, small, and medium enterprises; improved access to justice by bringing courts closer to rural populations; and

improved access to markets by eliminating physical and procedural constraints hindering the flow of goods through the Port of Cotonou. The MCC compact in Benin entered into force in October 2006 and closed on October 6, 2011. The compact is expected to benefit more than 14 million Beninese over two decades. Among other accomplishments, independent evaluations found that the compact led to a sustained increase in agricultural investments as a result of clear land tenure; reduced import and export costs for port users; increased employment in and around the Port of Cotonou; and improved regional market integration through transport services.