



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of Burkina Faso.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Burkina Faso, please contact Dan Petrie at (202) 521-3583 or [PetrieDB@mcc.gov](mailto:PetrieDB@mcc.gov).

This notification is being sent to the Congress on March 27, 2020 and negotiations with Burkina Faso may be started on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have included supplemental information regarding the planned compact.

Sincerely,

/s/

Emily Davis  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION**  
**CONGRESSIONAL NOTIFICATION**

March 27, 2020

Pursuant to the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, 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 Burkina Faso for a Millennium Challenge Compact and (2) to initiate Congressional consultation before the start of negotiations.

The proposed compact will seek to assist the Government of Burkina Faso in addressing its main binding constraint to economic growth, which is the high cost of electricity, low quality of electricity, and low access to electricity.

**Projected Economic Justification**

The expected overall economic rate of return (ERR) for the proposed compact is 14 percent. MCC calculates the ERR based on a detailed cost-benefit analysis. The analytical model measures the capital and future operations and maintenance costs of the project, and compares this to the expected benefits steams to both commercial users and to households. Benefits to households include reduced cost of energy for connected/non-connected households, whereas the principle benefit to business is through reduced expenditures on alternative sources of electricity such as diesel to power standalone generators. Benefits less costs are discounted over the long term to derive a single estimate of the project rate of return.

- **Strengthening Electricity Sector Effectiveness Project (the “Reform Project”):** The estimated ERR for this project is 11.33 percent over 15 years. The project is expected to address the high cost of electricity and the low access to electricity. By strengthening the power sector laws, regulations, and institutions, as well as improving the capacity of key actors in the power sector, the Reform Project aims to reduce the cost of service and improve the performance of all sector actors. It also includes the development of standards and regulations to make Burkina Faso compliant with the West Africa Power Pool (WAPP), allowing it to be part of a more efficient and sustainable regional electricity market. The project’s benefit streams are expected to come from four sources: (i) reduction in cost of service; (ii) increased supply, as the project will create the necessary environment for private sector independent power producers (IPPs) to enter the market and for increased imports of lower cost electricity; (iii) increased electrification due to higher investment (both public and private); and, (iv) reduction in subsidy needs since cheaper imports and solar-based IPPs will reduce cost of service and therefore reduce the need for government subsidies. The beneficiaries of this project will include all connected households in 2027, the expected close of the proposed compact. MCC estimates that the total electrification rate will increase from 20 percent to 35 percent (8.1 million people) in 2027 and beneficiaries are expected to include 2.2 million poor, 2.5 million near-poor, and 3.4 million non-poor people, assuming the poverty distribution remains as it is today.

- **Cost-Effective and Reliable Energy Supply Project:** The estimated ERR for this project is 16 percent over 20 years. The project is expected to address the quality of electricity and its high cost. Through the construction of an electricity control center, the updating of the dispatch center, the provision of synchronous reserve batteries, and technical assistance and transaction advisory support for a new IPP transaction, the project will reduce load shedding and non-distributed energy as well as reduce generation costs while increasing the total supply of cheaper solar energy and reducing the proportion of costly thermal energy in the country's energy mix. Increased electricity imports and solar energy supply are two additional expected results of the project. The project's benefit streams are expected to come from (i) thermal displacement; (ii) reduction in imports (especially during peak hours); (iii) replacement of the two sources of electricity by an increase in solar electricity; and (iv) reduction in non-distributed electricity. The beneficiaries of this project are the same as those described in the Reform Project above.
- **Grid Development and Access Project:** The estimated ERR for this project is 23 percent over 20 years. The project is expected to address the low quality of electricity through the construction, rehabilitation, and extension of transmission and distribution lines in the country's two largest cities (Ouagadougou and Bobo-Dioulasso). The project will aim to address low access to electricity by (i) conducting an analytical study to identify major constraints to connections; (ii) funding a results-based connection fund to enhance the utility's ability to provide affordable connections to its lowest income clients; and (iii) providing funding for the electrification of select social institutions. The project will also aim to increase the electricity consumption rates of households and firms. Key expected results of this project include reduced technical losses, reduced non-distributed energy, increased number of grid customers, and increased consumption of electricity from the network. The beneficiaries of this project are expected to comprise 4.3 million people, which includes all connected households in both Ouagadougou and Bobo-Dioulasso by 2027, the close of the proposed compact. MCC estimates that the total electrification rate will increase from 57.1 percent to 74 percent and from 45 percent to 62 percent in Ouagadougou and Bobo-Dioulasso, respectively.

## **PROPOSED BURKINA FASO COMPACT SUPPLEMENTAL INFORMATION**

### **Overview**

The proposed Burkina Faso compact seeks to assist the Government of Burkina Faso in addressing its key binding constraint to economic growth, which is the high cost, low quality, and low access to electricity. The compact will address this constraint through the following three projects: the Strengthening Electricity Sector Effectiveness (Reform) Project; the Cost-Effective and Reliable Energy Supply Project; and the Grid Development and Access Project.

### **Background and Context**

Burkina Faso is a landlocked country in West Africa with a population of 18.6 million. It faces significant development challenges, as indicated by its ranking of 182 (out of 189 countries) in the United Nations Development Program 2019 Human Development Index, and 43.7 percent of its population is considered poor. However, Burkina Faso also has one of Africa's fastest growing economies, with a gross domestic product growth rate of six percent in 2019.

Burkina Faso's challenge is how to sustain this growth rate. Burkina Faso is focusing on investments needed to sustain and broaden this growth over the long-term and has prioritized the power sector. Peace, security, and political stability will also be important factors for ensuring steady growth and progress in Burkina Faso. MCC currently projects that the MCC Board of Directors will consider a compact program for Burkina Faso in June 2020.

### **Compact Overview and Budget**

The proposed single-sector compact is focused on Burkina Faso's electricity sector and aims to address the country's key binding constraint to economic growth: the high cost, poor quality, and lack of access to electricity. The proposed projects will address the poor condition of energy infrastructure, insufficient generation capacity, and an over-reliance on thermal energy.

Below is a summary describing the components of the proposed compact with the Government of Burkina Faso. The budget and expected impacts are preliminary based on initial due diligence and project appraisal and are subject to change following compact negotiations. The anticipated budget for the compact is approximately \$494.11 million, which includes MCC funding of up to \$450 million and a Government of Burkina Faso contribution of at least \$44.11 million.

## **Burkina Faso Proposed Compact Budget**

<b>Component</b>	<b>Amount</b>
<b>1. Reform Project</b>	<b>\$46,920,170</b>
1.1 Development of the Institutional and Regulatory Framework	\$4,763,337
1.2 Support in the Development of the IPPs	\$3,482,108
1.3 Strengthening of Institutional Organization and Capacity	\$38,674,725
<b>2. Supply Project</b>	<b>\$99,534,417</b>
2.1 Facilitating Low Cost Power Supply	\$16,574,097
2.2 Improving Reliability of Power Supply	\$65,892,144
2.3 Improving Regional Connectivity	\$17,068,176
<b>3. Grid Access Project</b>	<b>\$210,678,788</b>
3.1 Expanding and Improving Ouagadougou Grid	\$84,083,226
3.2 Expanding and Improving Bobo-Dioulasso Grid	\$116,893,651
3.3 Improving Access and Productive Use	\$9,701,911
<b>4. Monitoring and Evaluation</b>	<b>\$11,992,899</b>
<b>5. Program Administration and Oversight</b>	<b>\$80,873,726</b>
<b>Total MCC Funding</b>	<b>\$450,000,000</b>

<b>Total Compact Program Funding</b>	<b>Amount</b>
Total MCC Funding	\$450,000,000
Government of Burkina Faso Contribution	\$44,110,795
<b>Total Compact</b>	<b>\$494,110,795</b>

### **Proposed Projects**

The projects and activities to be negotiated are as follows:

- 1. The Strengthening Electricity Sector Effectiveness (Reform) Project** aims to improve and strengthen the legal, regulatory, and institutional framework of the electricity sector by investing in priority sector reforms and capacity-building for key sector, actors including the national utility, regulator, and Ministry of Energy. This project is expected to result in improvements in the quality and supply of electricity, which will translate into improved operational efficiency, cost reduction, improved service, and increased investment by the private sector.
- 2. The Cost-Effective and Reliable Energy Supply Project** aims to increase the supply of energy and the reliability of the network, at a lower cost for the national public electricity supplier, through the production and storage of solar energy and increased imports. This

project will provide assistance for energy supply infrastructure, including support for new solar power projects, the introduction of battery storage and improvements to electricity dispatch centers. These activities are expected to result in the increased availability of cheaper electricity through the production and storage of solar energy and increased imports, which in turn will improve electricity network reliability by reducing brownouts and other breakdowns. Improved reliability and increased supply from cheaper sources will make electricity more cost-effective by lowering costs for both the national utility as well as its customers.

3. The **Grid Development and Access Project** aims to reduce outages and increase the availability and consumption of electricity for end users by (i) updating the transmission and distribution network and (ii) increasing access and targeting productive use of energy. This project is expected to result in extending the reach and capacity of the network and improving the access of customers covered, allowing the national utility to reduce losses and outages caused by system failures and lack of redundancy, as well as to increase coverage, access, and consumption of end users.

### **Policy Reform and the Compact**

Both MCC and the Government of Burkina Faso recognize that the proposed compact can produce the desired impact only if accompanied by key policy and institutions reforms, which are primarily under the Reform Project. These efforts have three principal objectives: (i) improved governance; (ii) financial viability; and (iii) improved institutional performance. More specifically, MCC will work with the Government of Burkina Faso on the drafting and adoption of several decrees and regulations to achieve the following:

- Clarify the role of the Ministry of Energy relative to other sector institutions in policy development, strategic planning, and monitoring;
- Clearly delineate the mandates of the renewable energy and energy efficiency agency (*Agence Nationale des Energies Renouvelables et de l'Efficacité* or ANAREE) and the rural electrification agency (*Agence Burkinabè d'Électricité Rurale* or ABER); ensure the financial independence and empowerment of the regulator (*Autorité de Régulation du Secteur de l'Energie* or ARSE) and revise its governance structure in line with international best practices;
- Ensure the financial viability and transparent accounting of the utility (*Société Nationale d'Electricité du Burkina Faso* or SONABEL), including (i) all government subsidies and/or transfers to it, and (ii) full cost accounting and a complete separation of accounts; and
- Develop and implement a tariff plan that will reflect SONABEL's cost of service and set a course for progress towards what should ultimately be a fully cost-reflective tariff.

### **Update and Sustainability of the 2008 Burkina Faso Compact**

MCC's initial compact with Burkina Faso ended in July 2014. The \$480.9 million compact aimed to address challenges in land reform, agriculture, transportation, and education. Through the compact's land reform project, the Government trained 8,700 local officials in lands rights and processed more than 13,000 land possession certificates, well over the target of 6,000 certificates. Through the compact's agriculture project, the government constructed 2,240

hectares of irrigated farmland and rehabilitated a dam to protect new farms from catastrophic flooding. Through the compact's road project, the Government paved or upgraded 525 km of roads and developed new road maintenance planning tools to improve management of the country's road network. Through the compact's education project, the Government built on the success of MCC's earlier threshold program that ended in September 2008 by building 396 new classrooms and increasing access to girls' participation in primary school. Throughout compact implementation, the Government of Burkina Faso demonstrated sustained commitment and high-level engagement, meeting all conditions precedent, including requirements for significant institutional reforms, substantial new legislation, and 52 new implementing decrees and regulations.