



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation plans to sign a Millennium Challenge Compact with the Government of Burkina Faso (the “Compact”).

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

The attached notification is being sent to Congress on June 30, 2020. The Compact may be signed and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the Compact.

Sincerely,

/s/

Emily Davis  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

June 30, 2020

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Years 2012, 2014, 2019 and 2020 Program Funds
OBLIGATION AMOUNT:	\$450,000,000

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), and the other statutory references cited in the Statutory References and Fiscal Year Funding Sources Table below, the Millennium Challenge Corporation (“MCC”) wishes to notify Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Burkina Faso, through which MCC will grant an amount not to exceed \$450,000,000 to the Government of Burkina Faso under the Act. To accelerate implementation of the Compact, MCC intends to obligate up to \$33,421,419 (“Compact Facilitation Funding”) of the overall grant under section 609(g) of the Act, using fiscal years 2019 and 2020 funds, when the Compact is signed by the parties. Under section 605 of the Act, MCC intends to obligate up to \$416,578,581 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding. The Statutory References and Fiscal Year Funding Sources Table sets forth the amount of funding under sections 605 and 609(g) of the Act for each fiscal year of funding.

Compact funding will support economic growth in Burkina Faso through assistance that addresses 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 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 streams to both commercial users and to households. Benefits to households include reduced cost of energy for connected and non-connected households, whereas the principal benefit to business is through reduced expenditures on alternative sources of electricity, such as diesel-to-electricity 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 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 electricity sector laws, regulations, and institutions, as well as improving the capacity of key actors in the sector, the 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 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 Electricity 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 Strengthening Electricity Sector Effectiveness 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 Compact. MCC estimates that the total electrification rate will increase from 57.1 percent to 74 percent in Ouagadougou and from 45 percent to 62 percent in Bobo-Dioulasso.

**Statutory References and Fiscal Year Funding Sources Table**

<b>Statutory Reference Requiring Congressional Notification</b>	<b>Program Funding under Section 605 of the Act (up to)</b>	<b>Compact Development Funding under Section 609(g) of the Act (up to)</b>
Section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012	16,800,000	
Section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014	85,200,000	
Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2019	280,578,581	28,421,419
Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2020	34,000,000	5,000,000
<b>Total</b>	<b>416,578,581</b>	<b>33,421,419</b>

## **BURKINA FASO COMPACT SUPPLEMENTAL INFORMATION**

### **Overview**

The Millennium Challenge Corporation (MCC) plans to sign a Millennium Challenge Compact with Burkina Faso (“the Compact”) that will seek 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 Project (“Reform and Capacity Building Project”); the Cost-Effective and Reliable Electricity Supply Project (“Supply Project”); and the Grid Development and Access Project (“Grid 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 electricity sector. Peace, security, and political stability will also be important factors for ensuring steady growth and progress in Burkina Faso. MCC’s Board of Directors approved the Compact at its June 2020 meeting.

### *Impact of COVID-19*

Burkina Faso, one of the first African countries to be affected by the coronavirus, appears to have limited its spread due to its health system and the rapid response by the government at the national level. As a result, the human toll of the virus has been limited to date. Restrictive measures in response to the coronavirus are gradually being eased, with the reopening of bars and restaurants, the lifting of quarantine requirements, and the resumption of inter-urban transport. To address the urgent balance-of-payments needs, on April 14, 2020, the International Monetary Fund (“IMF”) approved \$115.3 million in emergency assistance for Burkina Faso under the Rapid Credit Facility (“RCF”). The financing provided under the RCF aims to finance health, social protection and macroeconomic stabilization measures; meet the urgent balance of payments needs arising from the COVID-19 outbreak; and catalyze additional support from the international community. The country also benefited from IMF debt service relief under the Catastrophe Containment and Relief Trust (“CCRT”). As a result, Burkina Faso will receive relief from the CCRT on debt service falling due to the IMF in the next six months (about \$11.9 million). This relief could be extended for up to two years, subject to the availability of resources under the CCRT.

### **Compact Overview and Budget**

The 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 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 Compact. The budget for the Compact is approximately \$500.11 million, which includes MCC funding of up to \$450 million and a Government of Burkina Faso contribution of at least \$50.11 million.

### **Burkina Faso Compact Budget**

<b>Component</b>	<b>Amount</b>
<b>1. Reform and Capacity Building Project</b>	<b>\$46,920,170</b>
1.1 Development of Institutional and Regulatory Framework Activity	\$4,763,337
1.2 Support for the Development of Independent Power Producers (IPPs) Activity	\$3,482,108
1.3 Strengthening of Institutional Organization and Capacity Activity	\$38,674,725
<b>2. Supply Project</b>	<b>\$99,534,417</b>
2.1 Facilitating New Low-Cost Supply Activity	\$16,574,097
2.2 Improving Reliability of Supply Activity	\$65,892,144
2.3 Improving Regional Connectivity Activity	\$17,068,176
<b>3. Grid and Access Project</b>	<b>\$210,678,788</b>
3.1 Expanding and Improving the Ouagadougou Grid Activity	\$84,083,226
3.2 Expanding and Improving the Bobo-Dioulasso Grid Activity	\$116,893,651
3.3 Improving Access and Productive Use Activity	\$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	\$50,110,795
<b>Total Compact</b>	<b>\$500,110,795</b>

## Compact Projects

The Compact projects are as follows:

1. The **Reform and Capacity Building Project** aims to improve and strengthen the legal, regulatory, and institutional framework of the electricity sector by funding priority sector reforms and capacity-building for key actors in the sector, 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 **Supply Project** aims to increase the supply of energy and the reliability of the network, at a lower cost for the national utility, through the production and storage of solar energy and increased imports. This project will provide assistance for electricity supply infrastructure, including support for new solar electricity 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 electricity 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 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 electricity. 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 Compact can produce the desired impact only if accompanied by key policy and institutional reforms like those planned primarily under the Reform Project. These efforts have three principal objectives: (i) improved governance; (ii) financial viability; and (iii) improved institutional performance. More specifically, the Compact will support the Government of Burkina Faso in 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 ANEREE) 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 national utility (*Société Nationale d'Electricité du Burkina Faso* or SONABEL), including (i) all government

subsidies and 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 a tariff that fully reflects costs.

### **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 land 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 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.