



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

The Millennium Challenge Corporation intends to provide assistance to the Government of Senegal to facilitate the development and implementation of a concurrent regional Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Brian Forni at ForniBJ@mcc.gov.

The attached notification is being sent to the Congress on May 24, 2023. The assistance may be provided 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 planned assistance.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

May 24, 2023

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2022 Program Funds
OBLIGATION AMOUNT:	\$10,000,000

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 (the “Act”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$10,000,000 under section 609(g) of the Act for the purpose of facilitating the development and implementation of a regionally-focused Millennium Challenge Compact with the Government of Senegal.

The funds are expected to finance the development of projects and activities, assess the expected impact of the proposed projects and activities, and develop implementation strategies.

SUPPLEMENTAL INFORMATION

Background

Under section 609(k) of the Millennium Challenge Act of 2003, as amended (the “Act”), the Millennium Challenge Corporation (“MCC”) may enter into a regional compact with an MCC-eligible country for the purposes of regional economic integration, increased regional trade, or cross-border collaborations.

Senegal has a long history as a stable democracy in West Africa since its independence from France in 1960. Its lower middle-income, services-based economy was hit hard during the early stages of the COVID-19 pandemic, but in 2021 saw a real GDP growth rate of 6.06% (up from 1.33% in 2020). Senegal is rich in natural resources, including fish, phosphates, and iron ore.

Senegal has a population of 18 million, comprising six primary ethnic groups. With a high fertility rate and large and growing youth population (more than 60% of the country is under the age of 25), the country has high potential human capital but has struggled to develop this resource toward economic productivity. Youth unemployment remains high, even among university graduates. The majority of the poor live in rural areas, and income inequality is relatively high. Senegal’s economy has a large informal sector, and limited formal job opportunities in rural areas perpetuates rural poverty. Urban poor are mostly internal migrants who lack education and skills, and mostly work in the informal sector with low pay. Labor force participation rate for women is low at 34.5%. There is substantial gender disparity in education, employment, and household decision making. Social norms result in forced and early marriage, limiting women’s economic potential.

Senegal faces increasing environmental challenges, including coastline erosion, soil erosion, droughts, and flooding. The country struggles with over-exploitation of its natural resources, leading to deforestation, overgrazing, desertification, and overfishing. Senegal has struggled to develop and enforce strong environmental protection laws. Key water resources are shared with neighboring countries, such as the Senegal and Gambia rivers, major transboundary aquifers, and coastal and marine waters. The legal and institutional framework to sustainably manage shared resources is relatively recent and still evolving.

Compact Eligibility

In December 2022, MCC’s Board of Directors (the “Board”) selected Senegal as eligible to develop a concurrent regional compact for purposes of regional economic integration, increased regional trade, or cross-border collaborations. Senegal presents a substantial opportunity to explore potential investments that could promote regional integration, particularly given its geographic location and ties to key regional organizations. Senegal has been a dedicated partner and has consistently met MCC’s scorecard criteria. In Fiscal Year 2023, Senegal passes 14 of 20 indicators overall, with strong performance on the Control of Corruption and Democratic Rights hard hurdles. Senegal is currently on Tier 2 Watch List of the U.S. Department of State’s annual

trafficking in persons (“TIP”) report, and faces an automatic downgrade to Tier 3 in the upcoming 2023 report if it is not assessed to have taken sufficient action during the reporting period to have raised its rating to Tier 2. However, the Government of Senegal has been taking significant steps to strengthen the fight against trafficking in persons and to address the concerns outlined in the TIP report amid engagement from the U.S. Embassy and MCC.

Constraints Analysis and Potential Regional Partner Selection

MCC’s country team is in the preliminary analysis phase of compact development; the team is conducting a sector prioritization analysis to identify cornerstone concepts with potential for regional economic integration, increased regional trade, or cross-border collaborations. This preliminary analysis process includes a private sector opportunities assessment, financial sector analysis, constraints to inclusive growth analysis, and natural capital and climate risks analysis, as well as exploration of a potential regional partner country.

Assistance to Develop the Compact Proposal

Funds will be used for the development and design of a compact program that will address the root causes of binding constraints to economic growth that can be addressed through regional economic integration, increased regional trade, or cross-border collaborations, as agreed upon by the Government of Senegal and MCC. These funds are expected to finance the development of regionally-focused projects and activities that will be defined through the compact development stages of preliminary analysis, problem diagnosis, and project definition. Compact development activities include costs related to: feasibility studies, social and environmental assessments, baseline surveys, economic impact assessments, technical assistance, transaction advisory services, and design activities, as well as the establishment of the structures necessary for compact implementation. Funding these activities reflects MCC’s commitment to preparing projects in a comprehensive manner to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

Update on the 2018 Senegal Power Compact

The \$550 million Senegal Power Compact was signed in December 2018 and entered into force in September 2021. The Government of Senegal pledged to contribute an additional \$50 million, bringing the program total to \$600 million. The compact is designed to strengthen the power sector by increasing reliability and access to electricity, and aims to help the Government of Senegal establish a modern and efficient foundation upon which the nation’s power system can grow.

The compact consists of three projects designed to take a complementary approach to improving the power sector: improving the transmission network to meet the growing demand on the interconnected network in Senegal; increasing electricity access in rural and peri-urban areas of the south and central regions; and improving the overall governance and financial viability of the sector.

1. The **Transmission Project** aims to strengthen and increase the reliability of Senegal's high-voltage transmission network in and around greater Dakar and improve electricity service delivery throughout the country. The investment in a robust transmission network is needed for Senegal to effectively capitalize on private sector-led investment in electricity generation and to ensure that electricity is delivered reliably to consumers.
2. The **Access Project** aims to extend the electrical grid in selected areas in Senegal's south and central regions that have high economic potential but low connection rates. Through a blend of supply-side and demand-side interventions, this project aims to increase rates of adoption and consumption of electricity, facilitate opportunities for income-generating activities in these regions, and improve the understanding of energy efficiency at a national level.
3. The **Reform Project** aims to strengthen laws, policies and regulations governing the electricity sector, as well as, the key sector institutions, especially the utility, the regulator, and the ministry responsible for energy. In particular, the project investments will support improved management of the transmission network and increased access to electricity, reinforcing the foundations for the provision of a less costly and more reliable supply of electricity nationwide.

These combined investments are expected to increase household incomes for over 12 million Senegalese across approximately 1.3 million households, improving the quality of life for their families and future generations. The compact-wide economic rate of return is 24%.

Update on and Sustainability of the 2009 Senegal Compact

The \$540 million 2009 Senegal Compact was designed to spur economic growth by unlocking the country's agricultural productivity and expanding access to markets and services by investing in roads and irrigation networks. The compact was implemented from September 2010 to September 2015. The final amount disbursed at compact end date was \$433 million, largely due to delays in project implementation, which resulted in the Government of Senegal covering costs for contracts that extended beyond the compact's five-year term.

The compact consisted of two projects that made strategic investments in roads and irrigation networks in the Senegal River Valley in the north and the Casamance region in the south.

1. The **Irrigation and Water Resources Management Project** sought to improve the productivity of the agricultural sector in certain agricultural-dependent areas of northern Senegal. The Project rehabilitated or built 266 kilometers of irrigation and drainage infrastructure, constructed a 450-hectare irrigated agricultural field, mapped newly irrigated agricultural land in the Delta and Podor areas, supported a comprehensive land occupancy and use inventory, and trained officials to better administer land rights.

Findings as of 2019 indicated that rice production increased as a result of the project, but at the expense of farming other crops.

2. The **Roads Rehabilitation Project** improved 372 kilometers of strategic highways and river crossings in the north and south of the country. Findings as of 2021 indicated that reduced travel times have not yet led to reduced transport costs for users.