



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

The Millennium Challenge Corporation intends to invest \$11,970,735 in development assistance to the Government of the Republic of Sierra Leone to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss this assistance, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

The attached notification is being transmitted to Congress on January 24, 2022, with the intent to obligate 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
[January 24, 2022]

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal year 2022 Program Funds
OBLIGATION AMOUNT:	\$11,970,375

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021, as carried forward by the Continuing Appropriations Act, 2022, as amended by the Further Extending Government Funding Act; 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 \$11,970,375 under section 609(g) of the Act for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with the Government of the Republic of Sierra Leone (“GoSL”).

MCC plans to finance critical feasibility studies to further develop and design the proposed Sierra Leone compact in four areas of opportunity, including but not limited to, assessing the expected impact of the proposed compact, furthering design activities, and developing implementation strategies.

SUPPLEMENTAL INFORMATION - MCC 609(g) ACTIVITIES FOR Sierra Leone

Background

Situated on the tropical Atlantic coast of West Africa, Sierra Leone occupies an area roughly the size of West Virginia and is home to an estimated eight million people. The country's economy, valued in 2019 at just over \$4 billion, or about \$500 per capita, revolves primarily around low productivity agriculture and extractive mineral exports. Like many countries with a similar profile, poverty dominates Sierra Leone's economic landscape, with just over half the population living on less than \$1.90 per day. Growth has averaged about six percent annually over the previous two decades, but this number masks a roller coaster trajectory marked by shocks—particularly disease outbreak and commodity price drops—that have rapidly undone gradually-won gains. Coupled with the country's painstaking recovery from a devastating civil war that ended in 2002, Sierra Leone has struggled to transform from a rural, subsistence, small-holder farm economy into a more urban, modern, and productive one.

Sierra Leone faces significant challenges in growing its economy and reducing poverty. Among these challenges, the power sector stands out as a binding constraint to growth. Sierra Leone's existing electricity infrastructure is geographically limited, unreliable and costly to operate and consequently raises barriers to private sector investment and job creation. Inefficiencies in the sector's operation also add pressure to the country's fiscal balance, diminishing the government's ability to fund its development goals. Currently, only 26 percent of Sierra Leone's households are connected to an electrical grid, mostly in the capital Freetown, and unpredictable service blackouts compel most firms to rely on costly diesel generators to support their operations. The lack of electricity also exacerbates the Sierra Leone's food insecurity crisis, inasmuch as the absence of processing and storage technologies that use electricity contributes to high rates of food loss and waste.

MCC is in close coordination with the U.S. Embassy in Freetown as it develops a poverty reduction program that directly aims to confront the root causes of insufficient availability of affordable and reliable electricity to satisfy demand among households, businesses, and social institutions. The GoSL has asked that MCC collaborate with the Sierra Leone Compact Development Unit ("SLCDU") to develop a program to address this constraint, and, further, to ensure that power sector investments also support increasing the productive use of power to support food security where feasible and cost effective to do so.

Compact Eligibility and Constraints Analysis

MCC selected Sierra Leone for development of a compact program in December 2020. MCC and SLCDU subsequently identified four binding constraints to economic growth in Sierra Leone: power, food insecurity and supply, health, and water in Freetown. MCC and SLCDU validated these findings in consultations with government officials, sector experts, the donor community, and stakeholders nationwide. Since that time, in consultation with the Government of the Republic of Sierra Leone, MCC has decided to move forward focusing solely on the power constraint, while continuing to investigate opportunities to address targeted aspects of food insecurity in Sierra Leone through the productive use of electricity.

Summary of Potential Compact Projects

MCC and the Government of the Republic of Sierra Leone are working on four areas of opportunity as the basis for potential compact projects. The proposed investments target the following objectives:

- Access and Reliable Supply. Invest in infrastructure to improve equitable access and reliability, including climate-resilient transmission and distribution infrastructure to reduce technical losses, support for increased supply in the form of renewable energy, and increased access.
- Governance. Strengthen institutional governance and capacity in the power sector, including technical capacity building, improved institutional coordination, and strengthened policy, regulation, and tariff frameworks.
- Affordability. Support loss reduction, improved operations and maintenance, and increased supply of lower cost electricity, including private sector-led on-grid renewable energy supply and possible off-grid and mini-grid systems in unserved areas
- Agriculture/Productive Uses. Promote the productive use of electricity, including in the agricultural economy, via strategic deployment of power investments to support off-farm food sector activities, particularly focused on reducing post-harvest losses.

Assistance to Develop the Compact Proposal

In order to assist the Government of the Republic of Sierra Leone to further develop the proposed compact, MCC intends to use section 609(g) funding to finance the Government of the Republic of Sierra Leone's preparatory activities for each of the proposed concepts listed above. Specifically, funds would be used to:

- Conduct studies, including climate vulnerability assessments, specific feasibility studies and gender-disaggregated data collection, designs, geospatial assessments, stakeholder mapping, and implementation preparations for power sector investments.
- Provide essential inputs to project selection, such as prioritization of select transmission and distribution investments, selection criteria, modeling access based on specific criteria related to potential beneficiaries, design requirements and cost estimates. Funds will also cover assessments of institutional and tariff reform requirements, building on the recently concluded MCC Threshold Program,
- Conduct studies to amplify the impact of proposed power investments on the agricultural economy, including those focused on the demand for power and agricultural value chains.
- Support the administrative standup of the Government of the Republic of Sierra Leone entity that will be responsible for compact implementation.
- Identify implementation approaches such as project management units, partnering arrangements with the public and private sector, and non-profit or community partners, as well as beneficiary analysis.

Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner, prior to compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

Update on, and Sustainability of, the Sierra Leone Threshold Program

In March 2021, MCC and the Government of the Republic of Sierra Leone marked the closure of a five-year, \$44.4 million Threshold Program, a partnership to reform the water and electricity sectors

in Sierra Leone and advance economic growth. All activities were completed by the closure date, and the reform momentum and capacity building developed during program implementation has been an asset to compact development thus far.

- The \$11.3 million Regulatory Strengthening Project supported the Government of the Republic of Sierra Leone efforts to stand up and build the capacity of the newly independent regulator, the Electricity and Water Regulatory Commission (EWRC). The specific objectives were twofold: to operationalize EWRC, including performance monitoring standards and capacity building, to ensure transparency and support long-term financial sustainability of the water and electricity sectors; and, to establish appropriate tariff setting processes and technical capacity.
- The \$16.0 million Water Sector Reform Project supported Government of the Republic of Sierra Leone efforts to (i) improve water sector coordination; (ii) strengthen commercial practices, operational independence, and planning capacity at Sierra Leone's largest water distribution utility; and (iii) enhance transparency, accountability and customer service practices through improved community, consumer, and customer engagement, as well as the establishment and utilization of new accountability mechanisms.
- The \$11.9 million Electricity Sector Reform Project supported Government of the Republic of Sierra Leone efforts to (i) operationalize the emerging institutional framework and market structure in Sierra Leone's electricity sector; (ii) improve integrated planning capacity; and (iii) strengthen operational efficiency and corporate governance at targeted electricity sector institutions, particularly Sierra Leone's Electricity Generation and Transmission Company.

MCC has commissioned an independent evaluation of the Sierra Leone Threshold Program, to assess performance in both the electricity and water sectors. Findings from this evaluation are expected by September 2023.