



## **CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET**

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$3,675,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Senegal.

The attached notification is being sent to the Congress on January 11<sup>th</sup>, 2018. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds. If you or your staff would like to arrange a meeting to discuss the program, please contact Dan Chaison at (202) 521-3593 or [chaisondm@mcc.gov](mailto:chaisondm@mcc.gov).

Sincerely,

W. Kirk Bell  
Deputy Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

January 11<sup>th</sup>, 2018

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2018 Program Funds
OBLIGATION AMOUNT:	\$3,675,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, as carried forward by the Continuing Appropriations Act, 2018, as amended, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$3,675,000 under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with the Government of Senegal.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed compact, engage in further design activities and develop implementation strategies.

## **SUPPLEMENTAL INFORMATION - MCC 609(G) ACTIVITIES FOR SENEGAL**

### **Background**

A West African country of 14 million people, Senegal offers a stable political environment, relatively solid infrastructure, generally strong democratic institutions and a favorable geographic position with growing opportunities for foreign investment. With relatively good transportation links, Senegal has ambitions to build on its position as a regional business hub, and become a regional center for logistics, services and industry. With its offshore oil and gas reserves, the country is also seeking to become an energy hub and an exporter of electricity in the region in upcoming years. However, Senegal's low access to affordable energy and electricity have prevented the private sector from realizing its full potential to contribute to the country's economic growth.

With 60 percent of Senegal's people under the age of 25 and a 2.8 percent growth rate, Senegal's population is young and rapidly growing. Despite large increases in real gross domestic product (GDP) per capita since 1994, economic growth is barely keeping up with population growth. As a result, real GDP per capita growth has averaged less than one percent during the last ten years.

### **Compact Eligibility and Constraints Analysis**

In December 2015, MCC's Board of Directors selected Senegal as eligible to develop a second compact, confirming that Senegal met MCC's higher standard for subsequent compacts by demonstrating improved scorecard policy performance, successfully implementing and sustaining its 2009 compact, and continuing its commitment to sectoral reforms. Senegal has passed 15 out of 20 indicators on its fiscal year (FY) 2018 MCC scorecard, including both the Democratic Rights and Control of Corruption hard hurdles. Senegal has also shown continuous improvement on the Control of Corruption indicator for five straight years, moving from the 66<sup>th</sup> to the 96<sup>th</sup> percentile between FY 2012 and FY 2017.

Senegal continues to be a strong partner for MCC and has demonstrated an early commitment to an inclusive and transparent compact development process, committing nearly \$2.7 million, to funding a professional compact development team from 2016 through 2018. From June to October 2016, the Government of Senegal conducted a constraints-to-growth analysis to identify the key factors inhibiting private sector-led investment and economic growth as well as to describe the relevant social dynamics that affect poverty and inequality in Senegal. That analysis identified two primary constraints: (i) the high cost of energy and (ii) complex and burdensome administrative, regulatory, and legal policies. In November 2016, MCC and the Government of Senegal initiated diagnostics to understand the root causes of both binding constraints. By February 2017, Senegal completed consultations with over 400 stakeholders, including the private sector and civil society in 7 of Senegal's 14 regions. Together with MCC, the Government of Senegal agreed to narrow the focus for potential compact investments to address root causes of the binding constraint related to the high cost of energy. The Government of Senegal then submitted to MCC four project proposals for MCC consideration, which were developed in an inclusive and transparent process from May to October 2017, after assessing over 110 different projects vis-à-vis MCC's Investment

Criteria, and culminating in a national validation workshop with over 250 participants from the public and private sectors, including United States firms in the energy sector.

MCC currently projects that the MCC Board of Directors will consider a fully developed compact program for Senegal in the third or fourth quarter of FY 2018.

### **Summary of Proposed Project Interventions**

Potential compact projects may focus on the following objectives:

- 1) *Diversification and efficiency optimization of Senegal's power generation mix.* If this project proves viable, MCC would aim to reduce the cost of generating electricity by supporting infrastructure and policies that enable private investment in diversified and less costly generation sources and by increasing the efficiency of existing generation assets.
- 2) *Increasing Access to Electricity in Peri-Urban and Rural Areas.* If this project proves viable, MCC would aim to improve access to modern electricity in peri-urban and rural areas by reforming the rural electrification sector, as well as by expanding the distribution network targeting households and productive use in peri-urban and rural areas. MCC would review strategies and coordinate efforts across key stakeholders in order to harmonize grid-expansion and off-grid electrification possibilities in a manner that is economically viable and reaches the highest number of consumers, value chains and/or productive sectors in peri-urban and rural areas of Senegal. MCC's investments could also include governance and financial reforms, as well as supply-side infrastructure and demand-side activities to enable electricity connections.
- 3) *Modernizing and Strengthening of Senelec Transmission and Distribution Network.* If this project proves viable, MCC would aim to modernize and strengthen Senegal's electricity network, which is administered by the national electricity company Senelec. This effort would include significant focus in the already-stressed Dakar region, in order to ensure that additional sources of power can come on line without degrading the network's investments. MCC would also seek to reduce energy costs for households and businesses by reducing their energy expenditures and losses due to outages and poor service quality.
- 4) *Strengthening the Enabling Environment and Capacity of Sector Institutions.* If this project proves viable, MCC would seek to provide an underpinning framework that will enable Senegal to grow its energy sector while keeping the cost of electricity as low and as affordable as possible for consumers. MCC's investments would (1) focus on improving sector planning and regulation, providing institutional capacity development and improving coordination of various policy institutions; (2) support the implementation of an energy sector strategy and road map financed during compact development, and (3) target assistance for key sector institutions such as the regulator and the national electricity company (Senelec).



## **Assistance to Develop the Compact Proposal**

In order to assist Senegal to further develop the proposed compact, MCC intends to fund additional preparatory and assessment activities, estimated at \$3,675,000, in order to fully implement the compact development strategy, develop a quality and sustainable compact, and develop implementation strategies. Specifically, the funds are planned to be used to advance feasibility and detailed design studies, and support core team administrative costs. Funding these activities reflects MCC's commitment to prepare projects in a comprehensive manner prior to compact signing, increase confidence in the economic justification and technical feasibility of the proposed projects, and reduce implementation risk.

## **Update on and Sustainability of the 2009 Senegal Compact**

In September 2009, MCC and the Government of Senegal signed a \$540 million compact designed to reduce poverty and increase economic growth by unlocking the country's agricultural productivity and expanding access to markets and services. The two primary compact projects, the *Roads Rehabilitation Project (Roads Project)* and the *Irrigation and Water Resource Management Project (IWRM)* strategically invested in the road network and essential irrigation schemes focused in the Senegal River Valley in the north and the Casamance region in the south.

This compact ended on September 23, 2015. By the close of the compact, IWRM built 24.38 kilometers of canals and drainage, rehabilitated 181 kilometers of hydraulic axes in the Senegal River Delta, added 3,533 hectares of improved irrigation infrastructure in the Senegal River Delta and Podor regions, established nine land management committees, and formalized 8,655 land rights representing 15,246 hectares of land registered, allocated and titled. The Roads Project has rehabilitated 121.61 kilometers of road on National Road 2. In addition, by the end of the compact's administrative closure period, 136 kilometers (of a targeted 252 kilometers) of road on National Road 6 were provisionally accepted by the Government of Senegal, subject to expiration of the defects liability period. The Government of Senegal took over responsibility for work on the remaining 116 kilometers that were incomplete at compact end due to poor contractor performance. As of October 2017, 98 percent of the remaining work on National Road 6 was completed. In addition to completing the remaining road work, Senegal also committed to complete a 29-kilometer optional road segment to continue improving road quality in the southern road network. Independent evaluations to assess the economic impact of these projects are expected to be completed in June 2018 for IWRM and March 2020 for the Roads Project.

MCC de-obligated \$46 million in funds related to non-completion of the National Road 6 during the compact period, \$20 million in cost savings due to design efficiencies achieved in the Roads Project, and \$40 million in unspent contingency funds. The Government of Senegal, in turn, committed approximately \$50 million of its own resources to complete construction on National Road 6, which it intends to complete by early calendar year 2018.

Following compact completion, a successor entity to the accountable entity that implemented the compact was created under the Prime Minister's office to further ensure sustainability. In addition to ensuring completion, without MCC funding, of the remaining segment of the National Road 6

that was not completed by the end of the first compact, largely due to poor contractor performance, the post-compact entity is managing project archives, monitoring Senegal's performance on MCC's eligibility criteria, reporting annually on post-compact indicators, and providing support to independent impact evaluations. The Government of Senegal has committed several million dollars to fund the compact development team as well as the follow-on entity coordinating the completion of the activities of the first compact, including measures to ensure their long-term sustainability.

In an additional development which may support sustainability of the IWRM, an agriculture value chain project (Naatal Mbay) in the Senegal River Valley funded by the United States Agency for International Development (USAID) is slated to support MCC irrigation project beneficiaries with technical assistance in all aspects of the agriculture value chain, primarily for rice. USAID and U.S. Department of Agriculture activities are directly benefiting from the MCC-financed road rehabilitation work in the Casamance in the south, where programs supporting agricultural producer groups have improved value chains and market access. Several donors, including the World Bank and *Alliance Française de Développement*, are also expanding the model and tools used in the Land Tenure Security Activity in the north.