



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of Senegal.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Senegal, please contact Jennifer Lackey at (202) 521-3880.

This notification is being sent to the Congress on August 23, 2018, and negotiations with Senegal 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/

Karen Sessions
Vice President
Congressional and Public Affairs

Enclosure:

As stated

MILLENNIUM CHALLENGE CORPORATION CONGRESSIONAL NOTIFICATION

August 23, 2018

Pursuant to the heading “Millennium Challenge Corporation (Including Transfer of Funds)” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, as carried forward by the Further Continuing Appropriations Act, 2013, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), this notification is to advise the Congress that the Millennium Challenge Corporation (MCC) intends to start negotiations with the Government of Senegal for a Millennium Challenge Compact under section 605 of the Act.

The proposed compact will seek to assist the Government of Senegal in addressing one of its main binding constraints to economic growth: the high cost of electricity to grid-connected firms, low access to electricity outside of the main urban centers and to a lesser extent, the unreliability of electricity service that reduces firms’ competitiveness by increasing costs and uncertainty of production.

Projected Economic Justification

Analysis conducted jointly by MCC and the Government of Senegal concluded that the high cost of electricity to grid-connected firms, the low rate of access to electricity outside of Dakar, and the unreliability of the electricity supply reduces firms’ profitability by increasing costs and risks, and limiting business opportunities. The poor quality of grid-supplied electricity and lack of connections to the grid force firms and households to switch to more expensive and less efficient sources of energy. A 2014 study by the African Development Bank estimated that a one percent increase in access to electricity in Senegal could increase productivity by 12 percent in the short term, and by between 21 to 29 percent in the long term. These large returns to an expansion in supply indicate significant demand for electricity that is not currently being met. Ensuring consistent and affordable access to energy will allow businesses to grow, catalyze private sector investment, increase productivity and employment, and ultimately support diversification and growth of Senegal’s economy.

To sustain Senegal’s strong recent economic performance and to make the country’s growth more inclusive, the proposed program will support three projects focused on improving the transmission network in and around the capital of Dakar, increasing electricity access in agricultural areas of the south and central regions, and improving the overall governance of the sector. The estimated economic rate of return (ERR) for the proposed program is 30 percent over

20 years, reflecting the significant expected benefits of improvements in the quality and sufficiency of electricity supply.

MCC calculates the ERR based on a detailed cost-benefit analysis. This analysis accounts for the estimated capital, operations, and maintenance costs of the projects, and weighs these against the expected benefits to commercial and household users alike. Benefits to households include indirect benefits, *e.g.*, improved land value in rural areas, whereas the principal benefits to business are increased availability and quality of electricity supply for productive purposes.

MCC also conducted a beneficiary analysis for the proposed program to determine the total number of beneficiaries and how program benefits would be distributed. Based on this analysis, MCC expects 12.8 million total beneficiaries. The table below indicates the projected beneficiaries by project.

ERRs and Beneficiaries by Project

Project	Estimated ERR	Beneficiaries
Transmission	33 percent	4,600,000 people
Access	17 percent	22,673 households
Reform	18 percent	12,600,000 people
Compact Total	30 percent	12,800,000 beneficiaries

The economic analysis assumes that Senegal’s national utility, Senelec, will, with MCC’s support, be able to improve its operational performance over the next 20 years, reducing losses and increasing energy throughput. This will be supported by the proposed program, which will assist Senelec in enhancing its financial sustainability and strengthening its operations and maintenance capabilities.

The electricity sector in Senegal is among the most developed in West Africa, with over 886 megawatts of installed generation capacity, a 56.5 percent national electrification rate, and significant private sector participation in the sector, primarily through independent power producers and private concessions in rural areas. The proposed program support to strengthen the transmission grid and improve the enabling environment for the sector aims to further increase private sector participation. The MCC compact will help ensure that Senegal maximizes benefits from existing and future private investment in generation for electricity consumers and for Senegal’s citizens more broadly.

PROPOSED SENEGAL COMPACT SUPPLEMENTAL INFORMATION

Overview

The Government of Senegal and the Millennium Challenge Corporation (MCC) recently finalized the development of the country's second MCC compact. The proposed compact will support a \$600 million program, which includes a \$50 million contribution from the Government of Senegal, and seeks to assist the Government of Senegal in addressing one of its main binding constraints to economic growth: the high cost of energy and low access to electricity.

Senegal is an important partner of the United States in promoting peace and security in Africa. The country shares many fundamental values and international goals with the United States, and it has set an example of democratic rule in the region as well as ethnic and religious tolerance. It is a stable democracy in a challenging West Africa region, a strong security partner, and a rising economy that is attracting global investment. MCC's singular focus on growth and poverty reduction – and its ability to combine major infrastructure works with policy change – allows the agency and the proposed program to play a key role in a catalyzing transformation in Senegal.

Background and Context

Senegal is located on the western coast of Africa. Dakar, its capital city, is the westernmost point of Africa. Senegal is bordered by the Atlantic Ocean, Mauritania, Mali, Guinea, Guinea-Bissau, and the Gambia. The estimated 2018 population of Senegal is 16.29 million, which ranks 72nd in the world. More than 60 percent are under 25 years of age and over 42 percent of the population live in rural areas, with a population density that varies from 77 people per square kilometer to 2 people per square kilometer in the arid eastern region of the country. Dakar is where 25 percent of the country's population lives. Senegal is an ethnically diverse country with over 36 spoken languages. Since 2015, Senegal's economy has grown at an annual average rate of 6.7 percent.

In December 2015, three months after the closeout of the first Senegal compact, MCC's board of directors (Board) selected Senegal to develop a second compact program. The Board's decision was rooted in Senegal's performance on its first compact and a steady legacy of strong democratic performance. The 2012 presidential election won by President Macky Sall over the incumbent Abdoulaye Wade, marked Senegal's second peaceful democratic transition since 2000, cementing the country's reputation as one of the pillars of democracy in Africa. In fiscal year 2018, Senegal passed 15 fifteen out of 20 MCC selection indicators, demonstrating a steady commitment to the rule of law, economic justice and economic freedom.

A constraints analysis was conducted from June – November 2016, with the findings submitted to a technical peer review committee in Senegal, comprised of experts across government and other donors. The constraints analysis identified the high cost of energy and low access to electricity as the most binding constraint to economic growth. More specifically, the high cost of and low access to electricity, especially in rural and peri-urban areas, results in reduced productivity and output and reduced economic opportunities for households and firms. The electricity price in Senegal is one of the highest in Africa, despite Government of Senegal subsidies.

With support from various donors, the Government of Senegal has mobilized nearly \$2.1 billion to address the socio-economic challenges created by the high cost of and low access to electricity. The proposed program is intended to bolster this effort by leveraging key partnerships opportunities that aim to secure the financial sustainability of the sector and increase private sector participation.

Compact Overview and Budget

The proposed compact program is focused entirely in Senegal's electricity sector. It is designed to accompany ambitious goals set forth in the country's long-term development strategy, the PSE. The proposed program will include three projects with distinct objectives that all contribute to securing quality electricity supply for the growing demand in Senegal. Respectively, the projects focus on improving the quantity and quality of electricity for grid-connected customers, mostly in the greater Dakar region, providing electricity to potential customers in rural areas, and strengthening the enabling environment for sustainable sector performance.

The proposed program is summarized in the table below. Of the total program amount, the Government of Senegal has committed to fund up to \$50,000,000, equivalent to approximately 9.1 percent of the total amount of MCC funding, which demonstrates a clear commitment to the successful implementation of this compact. MCC will further discuss the Government of Senegal contribution leading up to and during compact negotiations to determine the optimal allocation. Costs and expected benefits may change as a result of compact negotiations.

Senegal Proposed Compact Budget

Component	Amount
1. Modernizing and Strengthening of Senelec Transmission Network Project	\$366,140,000
1.1 Dakar Transmission Network Build Out Activity	\$313,910,000
1.2 Transformer Replacement Program Activity	\$29,340,000
1.3 Grid Stabilization Activity	\$22,890,000
2. Increasing Access to Electricity in Rural Areas Project	\$57,410,000
2.1 Supply-Side Infrastructure Activity	\$31,270,000
2.2 Consumer Demand Support Activity	\$13,460,000
2.3 Distribution Network Reinforcement Activity	\$12,680,000
3. Enabling Environment and Capacity Building Project	\$43,260,000
3.1 Sector Governance Activity	\$14,340,000
3.2 Regulatory Strengthening Activity	\$11,600,000
3.3 Utility Strengthening Activity	\$17,320,000
4. Monitoring and Evaluation	\$14,400,000
5. Program Administration and Oversight	\$68,790,000
Total MCC Funding	\$550,000,000

Total Program Funding	Amount
Total MCC Funding	\$550,000,000
Government of Senegal Contribution	\$50,000,000
Total Compact	\$600,000,000

Proposed Projects

The proposed program is comprised of three projects designed to secure quality electricity supply for growing demand in Senegal, and address binding constraints to growth in one of the Africa's fastest growing economies.

- The **Modernizing and Strengthening of Senelec Transmission Network 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. This support for a robust transmission network is needed for Senegal to effectively capitalize on private sector-led investment in generation and to ensure that

electricity is delivered reliably to consumers. This is particularly important since much of the private sector interest is in new, lower-cost generation projects including wind, solar, and natural gas that rely heavily upon a reliable, stable transmission network.

- The **Increasing Access to Electricity in Rural Areas Project** aims to extend the electrical grid in selected areas in Senegal's south and center regions that have high economic potential but low connection rates. Through a blend of supply-side and demand-side interventions, this proposed project also 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. This project offers several opportunities for collaboration with related U.S. Government initiatives, including Feed the Future and Power Africa, and with other donors who are providing complementary support to agricultural value chains in MCC's areas of assistance, thereby increasing the potential value of the MCC assistance.
- The **Enabling Environment and Capacity Development Project** aims to strengthen laws, policies and regulations governing the power sector, as well as the institutions responsible for implementing them, especially the utility, the regulator, and the Ministry of Energy. In particular, the proposed project aims to 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. The proposed project builds on a participatory electricity sector planning process (referred to as the sector roadmap) funded by MCC during compact development to help the Government of Senegal articulate and select an appropriate long-term vision for the sector that will favor more private sector participation and enhance the financial sustainability of the sector and its key stakeholders.

Policy Reform and the Compact

Both MCC and the Government of Senegal recognize that the proposed program can produce the desired impact only if amplified by reforms that strengthen relevant laws, policies and regulations, as well as the institutions responsible for implementing them. The proposed program will focus this reform effort in three areas:

- **Strengthening Sector Governance** by formalizing and publicizing the Government of Senegal's long-term vision for the sector as developed through the sector roadmap; adopting and enacting an Electricity Code that conforms to this vision; continuing the current strategy of unbundling; preserving and reinforcing the independence of the regulator; and improving the policy and regulatory environment for rural electrification.
- **Strengthening the Utility** by ensuring an appropriate instrument is in place to provide financial incentives for Senelec's progress on key performance indicators; ensuring a reduction arrears; and developing and adopting a tariff plan that ensures progress toward a tariff that fully reflects the cost of service.

- **Strengthening the Regulator** by increasing financial autonomy and resources for the regulator; preparing an integrated investment planning framework; and ensuring all relevant audits to verify compliance to this planning framework.

Update and Sustainability of 2009 Senegal Compact

The Government of Senegal concluded an earlier compact with MCC on September 23, 2015. That compact included two major projects that were designed to improve agricultural productivity and expand access to markets and services. The two projects – the Road Rehabilitation Project (\$324 million) and the Irrigation and Water Resources Management Project (\$170 million) – strategically provided support for the road network and the nation’s primary irrigated rice production system and were geographically located in the Senegal River Valley (North) and the Casamance (South). The priorities of the compact aligned with the country’s comprehensive long-term objectives of enhancing national growth and food security.

At the end of the first compact, 10 of the 11 major activities were completed and transferred to the dedicated Government of Senegal entities, *Ageroute* for the road projects and *SAED* for the irrigation project. The compact assets were disposed of according to MCC compact closeout guidelines. At the time of closeout, only a portion of one of the roads supported by the compact (*Route Nationale 6*) remained incomplete, including ancillary Environmental, Social and Performance components related to this project. As required by the compact, the Government of Senegal financed the remaining works. To date, the pavement of RN6 is 100 percent complete, road drainage is 90 percent complete, Environmental, Social and Performance activities are approximately 95 percent complete, and the entire project is slated to be fully complete by September 30, 2018.

The Government of Senegal established a post-compact entity, the *Unité de Suivi des Activités du Compact* (USAC) to support the completion of the remaining works, to assist MCC in the collection of evaluation data for the post-compact activities, and to manage the compact archives. USAC is comprised of a coordinator, a monitoring and evaluation expert, and an archivist, among other support staff. MCC continues independent evaluations to measure results achieved as a result of the 2009 Senegal compact. Lessons from the first compact have deeply informed MCCs approach to the second compact.