



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform Congress that the Millennium Challenge Corporation intends to provide up to \$550,000,000 in funding under a Millennium Challenge Compact with the Government of Senegal.

The attached notification is being sent to the Congress on November 8, 2018. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition to the enclosed notification, 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 compact, please contact Jennifer Lackey at (202) 521-7276 or lackeyjc@mcc.gov.

Sincerely,

/s/

Karen Sessions
Vice President
Congressional and Public Affairs

Enclosure:

As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

November 8, 2018

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Years 2005, 2010, 2014, 2018, and 2019 Program Funds
OBLIGATION AMOUNT:	\$550,000,000

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), and the statutory references cited in the Statutory References and Fiscal Year Funding Sources Table below, the Millennium Challenge Corporation (“MCC”) wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Senegal, through which MCC will grant an amount not to exceed \$550,000,000 to the Republic of Senegal under the Act. To accelerate implementation of the Compact, MCC intends to obligate up to \$37,800,000 (“Compact Development Funding”) of the overall grant under section 609(g) of the Act when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$512,200,000 when the Compact enters into force. After the Compact enters into force, Compact Development 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 Senegal through assistance in the electricity sector.

Projected Economic Justification

A constraints analysis conducted by MCC and the Government of Senegal identified electricity as one of Senegal’s main binding constraints to economic growth. Specifically, the high cost of electricity to grid-connected firms, low access to electricity outside of Dakar, and the unreliability of the electricity supply reduce 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 African Development Bank study 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 Compact will support three projects focused on (i) improving the transmission network to meet the growing demand on the interconnected network in Senegal, (ii) increasing electricity access in rural and peri-urban areas of the south and central regions, and (iii) improving the overall governance and financial viability of the sector.

The estimated economic rate of return (ERR) for the Compact is 30 percent over 20 years, reflecting the significant expected benefits of improvements in the quality and sufficiency of electricity supply. MCC expects 12.8 million total beneficiaries. The table below indicates the projected beneficiaries by project.

Economic Rates of Return and Beneficiaries by Project

Project	Estimated ERR	Beneficiaries
Modernizing and Strengthening Senelec’s Transmission Network Project	33 percent	4,600,000 people
Increasing Access to Electricity in Rural and Peri-Urban Areas Project	17 percent	181,380 people
Power Sector Enabling Environment and Capacity Development Project	18 percent	12,600,000 people
Compact Total	30 percent	12,800,000 people

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

The electricity sector in Senegal has shown progress, 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. By providing support to strengthen the transmission grid and improve the enabling environment for the sector, the Compact aims to further increase this private sector participation. The Compact is also designed to help ensure that Senegal maximizes benefits from existing and future private investment in generation for electricity consumers and for Senegal’s citizens more broadly.

Statutory References and Fiscal Year Funding Sources Table

Statutory Reference Requiring Congressional Notification	Program Funding under Section 605 of the Act (up to)	Compact Development Funding under Section 609(g) of the Act (up to)
Section 515 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2005		\$20,000,000
Section 7015(c) and the heading "Millennium Challenge Corporation (Including Transfer of Funds)" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010	\$900,000	
Section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014	\$1,000,000	
Section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018	\$429,200,000	\$17,800,000
Section 7015(c) and the heading "Millennium Challenge Corporation" of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018, as carried forward by the Continuing Appropriations Act, 2019	\$81,100,000	
Total	\$512,200,000	\$37,800,000

SENEGAL COMPACT SUPPLEMENTAL INFORMATION

Overview

MCC’s Board of Directors (the “Board”) has approved a five-year compact (the “Compact”) with the Government of Senegal (the “Government”) aimed at addressing one of Senegal’s main binding constraints to economic growth: the high cost of energy and low access to electricity. The Compact will support a \$600 million program, including \$550 million in MCC funding and a \$50 million contribution from the Government.

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 of 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—along with its ability to combine major infrastructure works with policy change—allows the agency and the Compact to play a key role in 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, of whom more than 60 percent are under 25 years of age and over 42 percent 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, MCC’s Board selected Senegal as eligible 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. This is also reflected in Senegal’s performance on the MCC scorecard. For fiscal year 2018, Senegal passed 15 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 to 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, this constraint, 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 subsidies.

With support from various donors, the Government has mobilized nearly \$2.1 billion to address the socio-economic challenges created by the high cost of, and low access to, electricity. The

Compact is intended to bolster this effort by leveraging key partnership opportunities that aim to secure the financial sustainability of the sector and increase private sector participation.

Compact Overview and Budget

The Compact program is focused entirely in Senegal’s electricity sector and is designed to accompany ambitious goals set forth in the country’s long-term development strategy. The Compact includes three projects with distinct objectives, all of which contribute to securing quality electricity supply for the growing demand in Senegal. The projects focus, respectively, on improving the quantity and quality of electricity for grid-connected customers, providing electricity to potential customers in rural and peri-urban areas, and strengthening the enabling environment for sustainable sector performance.

The Compact budget is summarized in the table below. Of the total amount, the Government has committed to fund up to \$50 million, equivalent to approximately 9.1 percent of the total amount of MCC funding.

Senegal Compact Budget

Component	Amount
1. Modernizing and Strengthening Senelec’s Transmission Network Project	\$376,800,000
1.1 Transmission Network Build Out Activity	\$327,900,000
1.2 Transformer Replacement Program Activity	\$26,000,000
1.3 Grid Stabilization Activity	\$22,900,000
2. Increasing Access to Electricity in Rural and Peri-Urban Areas Project	\$57,300,000
2.1 Supply-Side Activity	\$33,000,000
2.2 Consumer Demand Support Activity	\$13,400,000
2.3 Distribution Network Reinforcement Activity	\$10,900,000
3. Power Sector Enabling Environment and Capacity Development Project	\$43,500,000
3.1 Sector Governance Activity	\$14,000,000
3.2 Regulatory Strengthening Activity	\$11,900,000
3.3 Utility Strengthening Activity	\$17,600,000
4. Monitoring and Evaluation	\$11,800,000
5. Program Administration	\$60,600,000
Total MCC Funding	\$550,000,000

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

Project Summaries

The Compact is comprised of three projects designed to secure quality electricity supply for growing demand in Senegal, and address binding constraints to growth.

- The **Modernizing and Strengthening Senelec’s 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 and Peri-Urban 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 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 United States Government initiatives, including Feed the Future and Power Africa, and with other donors that are providing complementary support to agricultural value chains in MCC’s areas of assistance, thereby increasing the potential value of the MCC assistance.
- The **Power Sector Enabling Environment and Capacity Development Project** aims to strengthen laws, policies and regulations governing the electricity sector, as well as the institutions responsible for implementing them, especially the utility, the regulator, and the ministry responsible for energy. In particular, the 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 project builds on a participatory electricity sector planning process that MCC funded during compact development to help the Government articulate and select an appropriate long-term vision for the sector that favors more private sector participation and enhances the financial sustainability of the sector and its key stakeholders.

Government Commitments

Through the Compact, MCC will require (and support the Government to design and implement) a number of critical policy and institutional reforms intended to enhance the long-term sustainability of the sector. These include the following conditions precedent and other commitments, as more specifically described in the Compact:

- Government Contribution. The Government agreed on the timing and allocation of its \$50,000,000 contribution, which exceeds the MCC requirement of a 7.5 percent contribution from low-income second compact partners.
- Electricity Code. The Government agreed to enact an electricity code prior to entry into force of the Compact, which will provide for, among other things, (i) an integrated

investment planning framework; (ii) third-party access to the network for eligible customers; (iii) competitive bidding for independent power producers and other private sector participants under the purview of the sector regulator, an independent body or both; and (iv) the creation of a separate transmission system operator.

- **Sector Financial Viability.** The Government made an overarching commitment to ensure the long-term financial sustainability of the electricity sector, including through a commitment to ensure the independence of the regulator and through two key conditions precedent to entry into force of the Compact:
 - (1) **Payment of Outstanding Government Electricity Sector Obligations.** The Government agreed that, before entry into force of the Compact, it will develop, and make an initial payment under, a plan to repay the electricity utility all outstanding amounts owed by the Government before the end of the term of the Compact. The initial payment due before entry into force must be equal to half of this outstanding amount. Ongoing compliance with this repayment plan is also a condition precedent to subsequent disbursements of MCC funding.
 - (2) **Tariff Plan.** The Government agreed that, before entry into force of the Compact, it will adopt a tariff plan aimed at adjusting the tariff to more fully reflect the cost of service during the term of the Compact. Ongoing compliance with this tariff plan is also a condition precedent to subsequent disbursements.
- **Sector Performance.** The Government also made an overarching commitment to support efforts to improve the operational performance of the electricity utility, including by agreeing to enter into an agreement to monitor utility performance against identified key performance indicators and targets. This agreement must also be in place prior to entry into force of the Compact.

Update and Sustainability of 2009 Senegal Compact

Senegal's first compact with MCC concluded on September 23, 2015. That compact included two projects 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 (in the north) and the Casamance (in the 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 dedicated Government entities, *Ageroute* for the Road Project and *SAED* for the Irrigation Project. The compact assets were disposed of in accordance with MCC compact closeout guidelines. At the time of closeout, only a portion of one of the roads supported by the compact (*Route Nationale 6* or "RN6") remained incomplete, including ancillary environmental, social and performance components related to this project. As required by the compact, the

Government financed the remaining works. All aspects of RN6, including road drainage and environmental and social performance activities, are now complete.

The Government 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.