



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to negotiate a Millennium Challenge Compact with the Government of Sierra Leone.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Sierra Leone, please contact Brian Forni at ForniBJ@mcc.gov.

This notification is being sent to the Congress on April 12, 2024, and negotiations with Sierra Leone 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/
Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

MILLENNIUM CHALLENGE CORPORATION

CONGRESSIONAL NOTIFICATION

April 12, 2024

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2023 (P.L. 117-328), as amended by the Further Additional Continuing Appropriations and Other Extensions Act, 2024 (P.L. 118-35), as further amended by the Extension of Continuing Appropriations and Other Matters Act, 2024 (P.L. 118-40), and section 610(a) of the Millennium Challenge Act of 2003, as amended, this notification is (1) to advise you that the Millennium Challenge Corporation (MCC) intends to start negotiations with the Government of Sierra Leone for a Millennium Challenge Compact (Compact) and (2) to initiate Congressional consultation before the start of negotiations. The proposed \$480,669,000 compact assists the Government of Sierra Leone in addressing a binding constraint to economic growth, which is insufficient availability of affordable and reliable electricity to satisfy demand among households, businesses, and social institutions. The proposed compact includes three key projects: (1) Transmission Backbone Project; (2) Distribution and Access Project; and (3) Power Sector Reform Project.

Projected Economic Justification for the Compact

Sierra Leone’s economy suffers from a power sector that cannot serve its existing customer base or keep up with future business and household demand. This is due to limited and high-cost supply, low capacity and poor reliability of the transmission and distribution networks, and the ineffectiveness of sector institutions. These bottlenecks negatively impact current customers, most of whom are in the capital city, and prevent Sierra Leone from expanding service to the 70% of the population without access to electricity. As the economy grows and the grid expands, load forecasts suggest demand will more than double by the end of the term of the proposed compact.

Meeting this demand will require large investments in foundational infrastructure and institutional capabilities. The need to simultaneously address multiple sector constraints, combined with the long lead times required to plan, finance, and construct large scale infrastructure, poses a major coordination challenge for public and private investment in the sector. This coordination challenge is magnified by the lack of capacity at sector institutions to regularly reassess, update, and execute against sector planning documents, as well as by sector-wide issues with transparency and governance. As a result, much needed public and private investment is all too often delayed, withdrawn, or exceedingly costly due to the risks and uncertainties involved.

Given this sector context, the proposed MCC compact strengthens the foundation of a reliable electricity sector through investments in transmission and distribution infrastructure, development of a strong enabling environment for independent power producers, and substantial capacity building support for the utilities and key sector institutions.

The objective of the proposed **Transmission Backbone Project** is increased coverage and reliability of the transmission network with modern, centralized system operations. The project includes major investments in centralized control and a new transmission corridor as well as investments in the network to ensure continuity of service during and after construction of the

proposed compact investments. The proposed national dispatch center and associated supervisory control and data acquisition (SCADA) upgrades will improve the utilities' capabilities to manage an increasingly complex grid— facilitating quicker responses to network disruptions, improved integration of variable and renewable generation sources, and stronger regional integration with neighboring countries. The proposed construction of a southern transmission corridor will help eliminate an existing transmission bottleneck as well as support longer-term demand growth and grid expansion to southern parts of the country.

The objective of the proposed **Distribution and Access Project** is increased reliable delivery and consumption of electricity in Sierra Leone, while reducing barriers to access in selected communities. The project includes upgrades to refurbish the currently overloaded and dilapidated distribution network, establish new connections and regularize existing connections. Benefits of the refurbishment investments include: (i) reduced frequency of faults—and thus outages; (ii) reduced probability of injury or death associated with safety violations; (iii) improved power quality (e.g. voltage levels); (iv) increased access to electricity among households, schools, health facilities, and businesses; and (v) reduced technical and commercial losses and increased throughput capacity. The project will also include the construction and operationalization of a main and back-up distribution dispatch center to improve the Electricity Distribution and Supply Authority's (EDSA) operations and maintenance (O&M) performance and provide centralized visibility and remote operating capabilities.

The objective of the proposed **Power Sector Reform Project** is improved financial sustainability of the electricity sector in Sierra Leone that enables the sector to expand and satisfy more demand at lower cost. The project includes embedded support to key sector institutions such as the regulator, the Electricity and Water Regulatory Commission (EWRC), and the Ministry of Energy (especially its planning functions) to help them develop the capabilities needed to shepherd sector development over the coming decade. This support is intended to help Sierra Leone implement its Power Sector Reform Roadmap and Action Plan, including achieving improvements on key sector performance indicators targeting improved sector financial sustainability, reduced cost of service while fostering cost recovery for supplied electricity, and improved regulation. Additionally, the Power Sector Reform Project seeks to spur additional private sector-financed generation through project preparation support, transaction advisory services, and de-risking mechanisms. These outcomes will be critical to the economic and financial viability and sustainability of the sector as it expands, and to realizing the benefits of the proposed compact investments. This project also aims to improve the conditions for private sector participation in generation via transaction support and improving the availability of insurance products.

The initial estimate for the **overall compact economic rate of return (ERR) is 10.3%**, although this estimate is highly sensitive to assumptions (made under significant data limitations) about the current status and future trajectory of the electricity sector. MCC will continue refining its assessment of the compact's impact as new sector data becomes available during the subsequent phase.

Beneficiary analysis forecasts the compact will **benefit a total of 4.6 million Sierra Leoneans**, and an estimated 28% of all beneficiaries fall below the country's national poverty line.

PROPOSED SIERRA LEONE POWER COMPACT

SUPPLEMENTAL INFORMATION

Overview

The proposed Sierra Leone Power Compact is designed to assist the Government of Sierra Leone in addressing a key binding constraint to economic growth: insufficient availability of affordable and reliable electricity to satisfy demand among households, businesses, and social institutions. The compact aims to address this constraint with three projects: the Transmission Backbone Project, Distribution and Access Project, and Power Sector Reform Project.

Background & Context

Sierra Leone is a coastal country in West Africa with a population of 8.4 million people. The country faces longstanding development challenges, ranks 181 out of 195 countries in the 2021 Human Development Index, with a gross national income (GNI) per capita of \$510 per year. Successive shocks to the economy, including a ten-year civil war, an Ebola outbreak, the COVID-19 pandemic, and now a worldwide food crisis, have frustrated Sierra Leone's efforts to reduce poverty.

Sierra Leone's power sector remains particularly nascent. The nation has very limited generation, transmission, and distribution assets operated by young institutions with low capacity. Approximately 30% of Sierra Leoneans have access to electricity and less than 5% of rural residents have access. For those who can connect to the grid, the power supply's unreliable and fluctuating voltage often damages business and household appliances, such as refrigerators and processing equipment. Many in the private sector opt to run their businesses using diesel generators despite being connected to the power grid.

Compact Selection and Ongoing Eligibility

Sierra Leone was selected as eligible to develop a compact in December 2020 in recognition of its consistent passage of the MCC scorecard and strong partnership with MCC on the Sierra Leone Threshold Program. Following concerns that arose over the conduct and credibility of the June 2023 elections, MCC diverted from its original timeline for considering approval of a compact and instead focused engagement with the Government of Sierra Leone on the importance of establishing an inclusive process to address the concerns. Subsequently, MCC's Board of Directors (Board) reselected Sierra Leone as eligible to continue developing a compact in December 2023 following progress that was made to advance the country's national dialogue process and to begin implementing the resulting Agreement for National Unity (ANU), including the establishment of a national election review committee as part of that ANU process. These actions constituted a critical beginning of an inclusive process to strengthen Sierra Leone's democratic and electoral institutions following the June 2023 elections. In making its reselection decision, the Board noted its expectation of continued progress toward meaningful electoral reform and broader implementation of the ANU, prior to approval of the proposed compact.

Since December, the Government of Sierra Leone and the opposition have made substantial additional progress in implementing the ANU by, among other things, finalizing the terms of reference for the electoral review committee, officially launching its mandate, securing international experts to facilitate the committee’s work, and beginning the process of identifying specific reform recommendations. Pursuant to a key provision of the ANU, an inter-party dialogue process was also launched in early April, with leadership of both the opposition All Peoples Congress party and ruling Sierra Leone People’s Party meeting to promote national unity. Advancing with compact negotiations acknowledges this additional progress, while recognizing the need for continued progress in the inclusive process to strengthen Sierra Leone’s democracy prior to MCC Board approval and signing of the proposed compact.

Compact Overview & Budget

The proposed Sierra Leone Power Compact is a single sector compact that builds on successful MCC investments in the power sector made during the Sierra Leone Threshold Program that was in force from 2016-2021. MCC is uniquely positioned to deliver transformative change by making foundational investments in the power sector to deliver more reliable, cleaner, and cheaper electricity that can catalyze economic growth, while at the same time connecting Sierra Leone to the West African Power Pool.

Below is a summary describing the components of the proposed compact with the Government of Sierra Leone. The budget and expected impacts are preliminary based on initial due diligence and project appraisal and are subject to change following compact negotiations. The anticipated budget for the compact is up to \$480.7 million.

Sierra Leone Proposed Compact Budget

Component	Amount
1. Transmission Backbone Project	\$226,702,000
1.1 Transmission Dispatch Center Activity	\$22,447,000
1.2 Southern Transmission Corridor Activity	\$170,900,000
1.3 Bumbuna-Freetown Line Upgrade Activity	\$24,390,000
1.4 EGTC Capacity Building Activity	\$7,965,000
2. Distribution and Access Project	\$123,834,000
2.1 Distribution Dispatch Center Activity	\$30,554,000
2.2 Distribution refurbishment Activity	\$44,335,000
2.3 Access Activity	\$26,850,000
2.4 EDSA Capacity Building Activity	\$22,095,000
3. Power Sector Reform Project	\$50,290,000
3.1 MIAA Activity	\$24,500,000
3.2 Financial Sustainability Activity	\$8,600,000
3.3 Policy & Planning Activity	\$10,670,000

3.4 Cross-Cutting Capacity Activity	\$6,520,000
4. Monitoring and Evaluation	\$7,800,000
5. Program Administration and Oversight	\$72,043,000
Total Compact Funding	\$480,669,000

Proposed Projects

The proposed projects and activities to be negotiated are as follows:

- The proposed **Transmission Backbone Project** will expand Sierra Leone’s transmission network to increase network coverage, increase the throughput capacity needed to evacuate increasing electricity supply, and increase reliability of service. With less than 500 miles of transmission lines currently in Sierra Leone, the country’s extremely limited grid means most citizens do not have access to power. This proposed project connects a high-voltage West African Power Pool transmission line to the capital city. The project also builds and operationalizes a transmission dispatch center critical for network reliability and integration into the regional power marketplace. Technical assistance supports critical capacity development for the transmission utility in transmission operations and maintenance.
- The proposed **Distribution and Access Project** is designed to increase reliability of the grid, improve the financial viability of the distribution utility, and make strategic investments in connecting new customers to the grid and regularizing existing connections. This project refurbishes critical components of the distribution network in the capital city where 80% of power is consumed in Sierra Leone and reduces both technical and commercial losses through the provision of new meters and organizational change. Access investments include distribution line and substation expansion as well as direct connections to select end users, driven by socioeconomic data and planned transmission expansion. In addition, this project will involve the construction and operationalization of a main and a back-up distribution dispatch center into the compact to improve EDSA’s O&M performance.
- The proposed **Power Sector Reform Project** is designed to improve sector financial sustainability, reduce the cost of service, and improve regulation by investing in priority sector reforms and capacity-building for key sector actors, including the utilities, regulator, and Ministry of Energy. This project is expected to result in improved financial management through the operationalization of an independent collection account to ensure revenue is appropriately distributed across sector stakeholders to cover maintenance and operational costs and honor payment agreements with independent power producers. Technical assistance for the Ministry of Energy and utilities in sector planning is expected to result in the development of an updated least cost investment plan and sustained capacity to perform this critical function. The project also supports capacity building for the regulator and advances tariff reform and facilitates private sector investment in electricity

generation by providing project preparation services to enhance the country's independent power producer pipeline, transaction advisory services to close deals, and African Trade and Investment Development Insurance (ATIDI) membership investment to reduce risks for private sector investments in Sierra Leone.

Update and Sustainability of the 2016-2021 Threshold Program with Sierra Leone

MCC and the Government of Sierra Leone completed the \$40.5 million Threshold Program in March 2021. The program supported reforms and improved governance in the water and electricity sectors. By supporting independent regulation, strengthening public utilities, and increasing transparency and accountability, the program focused on establishing a foundation for delivery of financially sustainable water and electricity services to the people of Sierra Leone.

The program helped establish the EWRC, which has become an independent authority, bringing greater accountability and transparency, in part through the development of a transparent approach to regulated tariff setting. The tariff reforms adopted by the national electricity utility increased revenues by 1 million USD per month. Three utilities and the EWRC also participated in an innovative and successful results-based financing pilot program that created incentives for performance improvements in planning, coordination, and operational and financial efficiency at the national water and electricity utilities.

The electricity sector advanced policy and framework developments as well as technical capacity for planning, which are critical to growth and much-needed private investment in the sector. The threshold program set the stage for expanding critical access to electricity for Sierra Leoneans and contributed to MCC's support of the U.S. Government's Power Africa initiative.