



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

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

The transmission of this notification to Congress on July 29, 2024 affirms that the Sierra Leone Compact may be signed and the funds obligated on or after 15 days from the date of this notice. Please find enclosed the notification with supplemental information regarding the Compact.

If you require a meeting to discuss MCC's Compact with Sierra Leone, or MCC at large, please contact Brian Forni at ForniBJ@mcc.gov.

Sincerely,

/s/
Aysha House
Vice President
Congressional and Public Affairs

Enclosure as stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

July 29, 2024

PROGRAM: Eligible Countries

APPROPRIATIONS CATEGORY: Fiscal Years 2023 and 2024 Program Funds

OBLIGATION AMOUNT: \$480,669,000

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended (the "Act"), and the other statutory references cited in the Statutory References and Fiscal Year Funding Sources Table below, the Millennium Challenge Corporation ("MCC") notifies Congress of its intent to sign a Millennium Challenge Compact (the "Compact") with Sierra Leone, through which MCC will grant an amount not to exceed \$480,669,000 to Sierra Leone under the Millennium Challenge Act of 2003, as amended (the "Act"). To accelerate implementation of the Compact, MCC intends to obligate up to \$42,258,000 ("Compact Facilitation Funding") of the overall grant under section 609(g) of the Act, using fiscal year 2024 funds, when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$438,411,000 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to accelerate implementation of the Compact may be de-obligated, 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 following table sets forth the amount of funding under sections 605 and 609(g) of the Act for each fiscal year of funding.

| Statutory Reference Requiring Congressional Notification | Program Funding under Section 605 of the Act (up to) | Compact Facilitation Funding under Section 609(g) of the Act (up to) |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------|
| Division K, Title III under the heading "Millennium Challenge Corporation" of the Consolidated Appropriations Act, 2023 (P.L. 117-328) | \$5,669,000 | |
| Division F, Title III under the heading "Millennium Challenge Corporation" of the Further Consolidated Appropriations Act, 2024 (P.L. 118-47) | \$432,742,000 | \$42,258,000 |
| Total | \$438,411,000 | \$42,258,000 |

Compact funding will support economic growth in Sierra Leone through investments in the energy sector to address insufficient availability of affordable and reliable electricity. The proposed Compact includes three key projects, (1) the Transmission Backbone Project; (2) the Distribution and Access Project; and (3) the Power Sector Reform Project, that together will better satisfy demand among households, businesses, and social institutions.

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 policies and institutions. These bottlenecks negatively impact current customers, most of whom are in the capital city, and prevent Sierra Leone from expanding electricity service to the 70% of the population without electricity. As the economy grows and the grid expands, load forecasts suggest demand will more than double by the end of the Compact term.

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 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 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 **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 Compact investments. The transmission dispatch center and associated supervisory control and data acquisition 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 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 **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 **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 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.

The analysis to forecast how many people will benefit from this investment projects **a total of 4.6 million people**, and an estimated 28% of the total are people that currently fall below the country's National Poverty Line.

SUPPLEMENTAL INFORMATION

Overview of MCC Sierra Leone Compact

On June 26, 2024, MCC's Board of Directors (Board) approved a five-year, \$480,669,000 Compact with Sierra Leone aimed at reducing poverty through economic growth. The Compact seeks to assist 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 and Context

Sierra Leone is a coastal country in West Africa with a population of 8.4 million people. The country faces longstanding development challenges, and 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.

Country Selection and Ongoing Eligibility

In December of 2020, Sierra Leone was selected as eligible to develop a compact with MCC 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 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, begin implementation of the resulting Agreement for National Unity (ANU), and establish a national election review committee. Those 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, as outlined in the Agreement for National Unity, prior to approval of a compact.

Since December, stakeholders in Sierra Leone have made substantial progress implementing the ANU process, concluding the electoral review committee's work, and producing a report recommending a wide range of meaningful reforms to address shortcomings in Sierra Leone's electoral processes. Following the report's release, the Government of Sierra Leone has taken a number of steps to begin implementation of the report recommendations, including adopting a cabinet paper that officially endorses the electoral review committee's report, establishing an implementation steering committee, approving a terms of reference for the committee's work and a timebound plan for implementing the recommendations, and endorsing a concept note for the external review of the electoral management body of the country. Advancing with Compact signing acknowledges the substantial progress made in the inclusive process to strengthen Sierra Leone's democracy. While signing recognized the progress to-date, going forward, MCC will continue to engage in constructive dialogue with the Government of Sierra Leone, the opposition, and relevant Sierra Leonean stakeholders to emphasize the importance of full implementation of the recommended reforms for continued eligibility for MCC assistance, particularly in advance of entry into force of the compact.

Compact Overview and Budget

The 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 Compact. The budget for the program is approximately \$495 million, which includes MCC Funding under the Compact of up to \$480,669,000 and a Government of Sierra Leone contribution of approximately \$14.2 million.

Sierra Leone Compact Program Budget

| Component | Amount |
|------------------------------------------------|----------------------|
| 1. Transmission Backbone Project | \$226,702,000 |
| Activity 1.1: Transmission Dispatch Center | \$23,447,000 |
| Activity 1.2: Southern Transmission Corridor | \$170,900,000 |
| Activity 1.3: Bumbuna-Freetown Line Upgrade | \$24,390,000 |
| Activity 1.4: EGTC Capacity Building | \$7,965,000 |
| 2. Distribution and Access Project | \$123,634,000 |
| Activity 2.1: Distribution Dispatch Center | \$30,554,000 |
| Activity 2.2: Distribution Refurbishment | \$44,335,000 |
| Activity 2.3: Access | \$26,850,000 |
| Activity 2.4 EDSA Capacity Building | \$21,895,000 |
| 3. Power Sector Reform Project | \$50,490,000 |
| Activity 3.1: MIAA | \$25,250,000 |
| Activity 3.2: Financial Sustainability | \$8,300,000 |
| Activity 3.3: Policy & Planning | \$10,420,000 |
| Activity 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 |

| Funding | Amount |
|-----------------------------------------|----------------------|
| Total Compact Funding | \$480,669,000 |
| Government of Sierra Leone Contribution | \$14,200,000 |
| Total Program | \$494,869,000 |

Project Summaries

The projects and activities to be completed are:

The **Transmission Backbone Project (\$226,702,000)** 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 project connects a high-voltage West African Power Pool transmission line to the capital city. The project also builds and operationalizes a main and

back up 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 **Distribution and Access Project (\$123,634,000)** 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 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 to improve EDSA's O&M performance.

The **Power Sector Reform Project (\$50,490,000)** 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. The project includes embedded support to key sector institutions such as the regulator, the 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.

Policy Reform and the Compact

The Compact envisions a robust package of policy and reform activities to be implemented through the **Power Sector Reform Project**. This project builds on the Threshold Program to enhance the financial viability and institutional performance of the electricity sector by improving regulation, financial management, and governance. The project clarifies market structure and financial flows and further supports regional integration into the West African Power Pool. Additionally, the project enhances institutional effectiveness by promoting women's participation in the workforce, advancing environmental sustainability, and integrating climate change preparedness into sector planning, with the goal of fostering lasting change in the sector's culture, operations, and financial sustainability. The project comprises the following activities:

- *Financial Sustainability Activity:* This activity strengthens Sierra Leone's electricity sector by separating EGTC's generation and transmission business lines, updating power purchase agreements between utilities, and implementing tariff and subsidy reforms. It also supports improved regulator performance and ensures transparent and sustainable financial flows.

- *Policy and Planning Activity:* This activity enhances Sierra Leone’s power sector policies and planning capabilities by updating the grid code, strengthening sector coordination and governance, and facilitating the development and implementation of a pro-poor connection policy.
- *Millennium Impact Infrastructure Accelerator (MIIA) Activity:* This activity strengthens the enabling environment for private sector investment in Sierra Leone’s power sector. It includes mechanisms to identify, develop, and finance early-stage generation projects and provides transaction advisory support to facilitate the financial closure of bankable projects. Furthermore, it de-risks private investments by securing Sierra Leone’s membership in the Africa Trade and Investment Development Insurance organization.
- *Cross-Cutting Capacity Activity:* This activity strengthens the capacity of multiple sector institutions, including utilities, the regulator, and government ministries, in environmental management and climate change as well as gender and social inclusion.

Update and Sustainability of Sierra Leone’s Threshold Program

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 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 has made advancements in 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.