



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to US\$480,943,569 for a Millennium Challenge Compact with Burkina Faso.

Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. MCC intends to obligate pursuant to Section 605 of the Millennium Challenge Act of 2003 (the "Act") up to US\$464,842,504 when the Compact enters into force. These funds will be disbursed on a periodic basis over the course of the Compact subject to satisfaction of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC is expected to obligate US\$16,101,065 of the total amount before the Compact enters into force, pursuant to the authority of Section 609(g) of the Act.

In addition to the enclosed notification, we have included supplemental information on the Compact. The attached notification is being sent to Congress on July 16, 2008.

Sincerely,

Matthew McLean
Vice President
Congressional and Public Affairs

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

July 16, 2008

PROGRAM: Eligible Countries
APPROPRIATE CATEGORY: FY 2007/2008 Program Funds
OBLIGATION AMOUNT: US\$480,943,569

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003 (the "Act", Pub. L. 108-199, Division D), this is to advise that the Millennium Challenge Corporation ("MCC") has entered into a Millennium Challenge Compact ("Compact") with the Government of Burkina Faso ("GoBF") pursuant to Section 609 of the Act, through which MCC will grant up to US\$464,842,504 at the time the Compact enters into force. The Compact will enter into force pursuant to Section 7.3 of the Compact upon satisfaction of certain conditions set forth in Section 7.2 of the Compact. These funds will be disbursed on a periodic basis over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent.

In order to accelerate implementation of the Compact, MCC is expected to obligate US\$16,101,065 of the total amount before the Compact enters into force, pursuant to the authority of Section 609(g) of the Act.

The United States, acting through MCC, and the GoBF executed the Compact on July 14, 2008.

Supplemental information on the Compact follows along with a copy of the text of the Compact.

SUPPLEMENTAL INFORMATION ON THE BURKINA FASO COMPACT

I. Introduction

Burkina Faso is a landlocked country in Africa's Sahel region, bordering Benin, Cote d'Ivoire, Ghana, Mali, Niger, and Togo, with a population of approximately 15.26 million people. It is one of the poorest countries in the world, ranking 176 out of 177 countries as surveyed by the United Nations Development Program's 2007 Human Development Index. In an effort to address constraints to investment, Burkina Faso has undertaken several broad macroeconomic reforms since the mid-1990s, including market-oriented reforms, decentralization of power from the central government to local governments, adoption of a new labor code, and business climate improvements. In light of these efforts, in 2007, the International Finance Corporation named Burkina Faso one of the top reformers in West Africa. In January 2008, Burkina Faso began a two-year term on the United Nations Security Council. Despite these reforms, recognitions, and moderate economic gains, Burkina Faso continues to face severe constraints to growth and poverty reduction.

II. Program Overview, Budget, and Impact

Constraints are particularly acute in rural areas. Agricultural activities involve 85 percent of the country's active population and contribute to approximately 36 percent of GDP and 88 percent of export earnings. Rural populations in Burkina Faso currently lack access to basic inputs needed to improve agricultural and livestock productivity, including secure land, skilled labor, adequate water resources, sufficient volumes of credit, and adequate access to markets. To address these constraints, the government of Burkina Faso ("GoBF") has proposed a US\$480,943,569, five-year Millennium Challenge Compact ("Compact") that will consist of four interdependent projects:

- **Rural Land Governance Project** -- designed to increase investment in land and rural productivity through improved land tenure security and land management;
- **Agriculture Development Project** -- designed to expand the productive use of land in order to increase the volume and value of agricultural production in project zones;
- **Roads Project** -- designed to enhance access to markets through investments in the road network; and
- **BRIGHT 2 Schools Project** -- designed to increase primary school completion rates for girls (each of the four projects is referred to herein as a "Project").

Table 1 below sets forth the Compact program ("Program") budget at the Project level.

Table 1. Program Budget by Project

Component	(US\$ millions)						
	CIF*	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Rural Land Governance Project	1.10	7.21	13.00	15.60	14.08	8.94	59.93
Agriculture Development Project	4.77	17.91	40.95	44.03	25.28	8.97	141.91
Roads Project	0.34	3.05	32.97	93.23	58.60	5.94	194.13
Bright 2 Schools Project	3.00	25.83					28.83
Monitoring & Evaluation	0.45	1.72	1.21	1.46	1.36	1.68	7.88
Program Administration and Oversight	6.44	7.95	8.17	8.87	8.45	8.38	48.26
TOTAL MCC FUNDING	\$16.10	\$63.67	\$96.30	\$163.19	\$107.77	\$33.91	\$480.94

* Compact Implementation Funds (CIF) refer to funding available before the entry-into-force of the Compact.

Important synergies exist among the four Projects. The Agriculture Development Project will alleviate the constraint of poor water availability with investments in irrigation infrastructure and water management. This Project also will increase the availability of rural credit and provide technical assistance to farmers' groups and individual households, improving their ability to produce higher-value agricultural and livestock products. Complementary Rural Land Governance activities will secure land in the Agricultural Development Project areas and other areas, reducing economic losses due to land conflict or risk of conflict and encouraging productive investment in land. The Roads Project will rehabilitate rural and primary roads near the production zones, increasing opportunities for farmers to sell agricultural products and livestock, as well as to buy the necessary inputs. Finally, the BRIGHT 2 Schools Project will improve girls' literacy and numeracy skills, which will improve capacity for productive employment opportunities in the longer term.

- **Rural Land Governance Project (\$59.93 million).**

The Rural Land Governance Project will assist the GoBF to fulfill its commitment to achieve a new rural land tenure framework by addressing the three constraints to rural economic activity, as identified by the GoBF through a consultative process: (a) difficult access to formal land use rights; (b) unclear land rights leading to endemic and sometimes violent conflict; and (c) poor use of land resources resulting in land degradation.

A new rural land law is expected to be adopted prior to entry into force of the Compact, and will be based on the existing, stakeholder-driven 2007 rural land policy. The Project also will support the GoBF's implementation of the 2004 decentralization law that authorizes transfer of key aspects of land governance to municipal governments. The Project consists of the following three mutually reinforcing activities:

- (i) *Legal and Procedural Change and Communication* to support the GoBF's effort to develop and implement improved rural land legislation and to develop, revise and implement other legal and procedural frameworks;
- (ii) *Institutional Development and Capacity Building* which, in conjunction with the previous activity, is expected to improve institutional capacity to deliver land services in rural areas; and
- (iii) *Site-Specific Land Tenure Interventions* to ensure that the previous two activities yield their intended benefits across municipalities and in targeted agricultural development zones.

Most of the Project's site specific interventions will be scalable through a phased approach, thus enabling the expected returns on an initial share of the investments to be tested before the Project is expanded. Phase one will target 17 municipalities with a complete package of technical assistance and infrastructure construction, and a set of up-front investments that are not municipality-specific. The decision to move forward with phase two will be subject to the Project's satisfactory performance on specific economic, legal and policy indicators. Phase two will include the balance of the Compact's term and target up to 30 additional municipalities for technical assistance and infrastructure, and expand investments associated with other sub-activities.

- **Agriculture Development Project (\$141.91 million).**

The Agriculture Development Project is designed to address core constraints typical of rural Burkina Faso: (a) poor water resource availability and management; (b) weak beneficiary capacity; (c) lack of access to pricing information, markets, and inputs; and (d) lack of access to credit. This Project has synergies with MCC's other investments in rural land governance and roads infrastructure. Improvements in the road network will reduce constraints that producers face in terms of isolation from markets and high transport costs, while investments in land tenure security will be an important factor in motivating producers to invest time and capital in their operations. The Project consists of the following three activities:

- (i) *Water Management and Irrigation* to ensure adequate water availability, water delivery, flood control, and dam safety to support and protect investments in the Sourou Valley and to ensure better water resource management in the Comoé Basin;
- (ii) *Diversified Agriculture* to build on the delivery of water in the Project zones by supporting on-farm production and related activities throughout the agricultural value chain; and
- (iii) *Access to Rural Finance* to increase medium- and long-term credit in the four western regions of Sud-Ouest, Hauts Bassins, Cascades, and Boucle du Mouhoun.

- **Roads Project (\$194.13 million).**

Burkina Faso's Poverty Reduction Strategy Paper identifies infrastructure development as a critical priority for increased economic growth. For a landlocked country, the road transport network is an important asset for economic development to facilitate trade and communications with regional and international markets and to improve local connectivity of farms to markets. Road network investments also improve access to social services in rural communities, such as those in western Burkina Faso, which currently are underserved due to an inadequate transport system.

The Project is designed to (a) improve access to agricultural markets by upgrading primary and rural road segments serving the Sourou Valley and the Comoé Basin; (b) reduce travel time to markets and vehicle operating costs; and (c) ensure sustainability of the road network by strengthening road maintenance. Benefits are expected to result primarily from increasing the year-round accessibility to markets of agriculturally productive regions that are typically cut off during the rainy season.

The Project consists of the following four activities:

- (i) *Development of Primary Roads* to support the improvements of three primary road segments in western Burkina Faso currently projected to total 271 kilometers;
- (ii) *Development of Rural Roads* to support the improvement of 151 kilometers of road segments located in three rural areas in the Comoé Basin of southwestern Burkina Faso. These roads currently exist as rural tracks and improvements will include upgrading to a fully engineered rural road standard;
- (iii) *Capacity Building and Technical Assistance* to reinforce the effectiveness of existing government agencies and private sector institutions involved in road maintenance planning and implementation; and
- (iv) *Incentive Matching Fund for Periodic Road Maintenance* to set the GoBF on a path toward long-term, sustainable funding of periodic, or major, maintenance on the full road network in Burkina Faso.

- **Bright 2 Schools Project (\$28.83 million).**

The BRIGHT 2 Schools Project extends the successful threshold program that focused on improving primary school completion rates for girls. The Project will consist of two phases. Phase one, scheduled for September 2008 to December 2009, will be an interim phase to provide temporary classroom solutions, maintain community interest at the Project schools, and prepare for the construction phase. Phase two, scheduled from the date the Compact enters into force and for the three consecutive years thereafter, will consist of construction work and other activities. The Project includes the construction of: (i) up to 50 additional boreholes; (ii) an additional classroom block of three classrooms for grades 4-6 at each of the 132 locations (for a total of 396 additional classrooms); and (iii) of 122 *bisongos* (kindergartens), including playground and equipment. The Project will also provide daily meals (take-home rations) during all nine months of the school year for the approximately 100 children estimated to be enrolled at each of the 132 *bisongos* (including ten *bisongos* financed under the threshold program), and will fund a social mobilization campaign and an adult literacy/management of micro-projects activity.

The BRIGHT 2 Schools Project will be administered by the United States Agency for International Development (USAID) pursuant to an interagency agreement under Section 632(b) of the Foreign Assistance Act of 1961, as amended. MCC funds will cover direct and indirect costs incurred by USAID for the implementation of this Project.

II. Program Management

The GoBF, by a decree of the Council of Ministers dated April 18, 2008, established MCA-Burkina Faso to serve as the accountable entity for implementation of the Compact. MCA-Burkina Faso will be administered and managed by an independent board of directors (“Board”) that will make strategic decisions and provide oversight. The Board will be comprised of eleven voting members, including six government officials. The Board also will benefit from the participation of a stakeholders committee consisting of up to 28 members including government officials, and representatives from the private sector and civil society. In addition to the Board, a management unit, led by a national coordinator, will manage the day-to-day activities of MCA-Burkina Faso and will be supported by key officers, technical staff, and administrative personnel.

MCA-Burkina Faso will engage line ministries and public institutions to serve as implementing entities. However, as the accountable entity, MCA-Burkina Faso will remain responsible for the successful implementation of the Compact. In addition, the GoBF has appointed, through competitive processes approved by MCC, third-party fiscal and procurement agents. As a government entity, MCA-Burkina Faso will be subject to GoBF audit requirements as well as audits required by the Compact.

III. Assessment

A. Economic and Beneficiary Analysis

Many of the Compact investments are focused in the Boucle de Mouhoun region, the third poorest of Burkina Faso’s 13 regions. Approximately 80 percent of the region’s 1.4 million people live on less than \$1 per day. A smaller number of investments will be made in the Comoé region with an estimated population of 490,000. The table below summarizes the economic and beneficiary analysis for each Project.

Table 2: Projected Beneficiaries and Economic Rates of Return

Project	Beneficiaries	ERR	Description
Rural Land Governance	Up to 415,200 households, comprising up to 2,490,000 individuals, from 47 of Burkina Faso's 302 rural communes will have access to local land registration and titling services, including up to 138,000 individuals who will benefit from up to 23,000 land titles expected to be delivered.	TBD (based on assessment of pilot investment)	The project is predicated on the benefits of reducing land conflict. This assumption will be tested during a pilot phase and will inform an ERR-based decision on scaling up the project.
Agricultural Development	Up to 150,000 farmers, herders, members of producers groups and other traders, many of whom currently live on less than \$2 per day, will benefit from improved agricultural and livestock production conditions, better water managements, and improved access to credit.	7%	ERRs for the irrigation works are especially sensitive to crop prices. To be conservative, MCC used a composite of historical averages for key crops instead of current prices. Today's prices would result in a higher overall Project ERR.
Roads	A portion of the 2.4 million inhabitants of the nine provinces surrounding the primary roads and up to 65,000 inhabitants of the 30 villages serviced by rural roads. Many of these beneficiaries are likely to be farmers buying and selling agricultural produce.	2%	In spite of low ERRs for the three primary roads, these are critical links to MCC-funded agricultural zones, allowing producers better access to markets, health and education facilities, and facilitating trade with neighboring countries.
BRIGHT 2 Schools	Up to 19,800 children, including 9,900 girls.	Not applicable	This project is an extension of a successful threshold program and will be administered by USAID. As such, it was not subjected to MCC due diligence standards, including ERR calculations.

In addition to the beneficiaries identified above, national-level benefits are expected to result from the new land law associated with the Rural Land Governance Project and from the Roads Project's support of systemic improvements in the GoBF's long-term road maintenance strategy. Because the Projects are overlapping and there are synergies among projects, numerous individuals will benefit from more than one project. Drawing on lessons learned from previous Compacts, the cost estimates for Burkina Faso's large-scale infrastructure projects are conservative. For the Roads Project, base costs were derived from full feasibility-level studies and then doubled during due diligence, as MCC accounted for contingencies, environmental and social costs, and the higher costs of construction in a landlocked West Africa country. On the benefit side, MCC has generally not included benefits that cannot be quantified, a particular problem in a data-poor environment like Burkina Faso. In evaluating the Roads Project investment, MCC took into account the linkages between MCC-funded agricultural investments and markets, both national and regional. In particular, one road segment in the Boucle de Mouhoun region provides a critical link to the Mali border and is likely to reduce travel times and costs between Bamako and Ouagadougou. Another road segment in the Comoé Region provides an important link to Banfora, a

regional market town that is frequented by traders from Ivory Coast and Ghana, which is likely to facilitate trade opportunities for local farmers.

B. Consultative Process

In connection with the proposal submitted to MCC, the GoBF conducted a robust consultative process in May and June of 2006, building on the success and lessons learned from the process used to prepare its Poverty Reduction Strategy Paper. The GoBF also engaged the media to inform the public about the proposal for MCA assistance with a series of press releases, television interviews and press conferences. Consultations took place in all thirteen regions of the country and included representatives of civil society, the private sector, traditional authorities, farmers' and women's groups and local GoBF officials. Of the 3,115 participants, 87 percent came from civil society, and 18 percent were women. Overwhelmingly, input focused on improving the rural economy including ways to secure land tenure, intensify and modernize agricultural production, and improve the road network. Following the consultations, the GoBF distributed a summary document to partners in civil society and the donor community that resulted, after further revisions, in the proposal for funding submitted to MCC in October 2006. The Compact is designed specifically to address the core constraints to economic growth identified during the consultative process.

C. GoBF Commitment and Contribution to Development of the Compact

The GoBF has demonstrated substantial commitment to the Compact development process since becoming eligible for MCA assistance in November 2005. In February 2006, the GoBF carefully followed MCC guidance and established a full-time compact development unit at an operational cost of \$3.11 million. It financed an extensive consultation process throughout the country's 13 regions, at a total cost of \$0.33 million, and commissioned a \$2.36 million set of feasibility studies for the Roads Project. In setting up the accountable entity, the GoBF hired a recruitment firm to undertake the recruitment process for the key directors, at a cost of \$64,000. The estimated monetary value of these contributions together is \$5.86 million. For a country with a 2006 GNI per capita of \$460, this contribution demonstrates the high national priority placed on the successful negotiation and implementation of this Compact. GoBF also has demonstrated its commitment through its effort to maintain eligibility on MCC indicators, and through its decision to establish the accountable entity under the auspices of the Office of the Prime Minister. In addition, the GoBF has committed to funding access roads and health infrastructure in the Sourou Valley agricultural zone as a complementary investment to MCC-financed activities.

D. Sustainability

- **Rural Land Governance Project.** The foundation of this Project is a reformed legal, policy and procedural framework for land tenure, which will ensure an enabling environment for sustainability of the MCC investment. All site-specific sub-activities will be based on new legal frameworks, ensuring their support in law. Most of the Project's site-specific interventions will be scalable through the phased approach, thus enabling the expected returns on an initial share of the investment to be tested before the Project is expanded. By requiring that phase two be based on demonstrated performance, the Project design stands as an innovative approach to ensuring results and investment sustainability. All training and equipment investments, particularly those

associated with strengthening regional and provincial registration and mapping services, will be designed specifically for the Burkina Faso context.

- **Agriculture Development Project.** The overall sustainability of the Project lies with: (i) the strengthened capacity of the *Direction Générale des Ressources en Eau* (“DGRE”) to better manage and maintain water storage in the Sourou reservoir; (ii) the strengthened capacity of the *Autorité de Mise en Valeur du Sourou* (“AMVS”) within the Ministry of Agriculture, through its operation and maintenance contractors to provide a reliable supply of water to farmers as specified in the by-laws of the project (*Cahier de Charges*); (iii) the capacity of beneficiaries, through their water user associations (“WUA”) to pay for operations and maintenance to ensure the provision of irrigation water; (iv) the establishment of an operations and maintenance fund managed and overseen by AMVS and the WUAs; and (v) the GoBF to ensure that the *Cahier de Charges* is respected by the parties to it. Disbursement of MCC funding will depend on the GoBF strengthening capacity to MCC’s satisfaction.
- **Roads Project.** Road maintenance is crucial for the long-term functioning of the Roads Project investment. The continuation of efforts to mobilize resources for road maintenance is essential to ensure sustainability of the road investments. The provision by MCC of matching funds to annual increases in GoBF spending on periodic (major) maintenance is an innovative mechanism to ensure roads are adequately maintained and an adequate long-term road maintenance system is in place.
- **BRIGHT 2 Schools Project.** The sustainability of MCC investments in this Project is contingent upon the GoBF providing trained teachers and school books for 396 classrooms. The GoBF has committed to providing these teachers and books and met similar requirements during the threshold phase. In addition, the GoBF will be obligated to nominate a BRIGHT 2 Schools Project coordinator and coordination team, and to provide an annual budget allocation to the Ministry of Basic Education and Literacy for teacher salaries and other recurrent costs for the existing 132 BRIGHT schools (including classrooms and other facilities funded under the BRIGHT 2 Schools Project).

E. Environment and Social Impacts

MCC will require that all Projects comply with national laws and regulations, MCC’s environmental guidelines and gender policy, and the World Bank’s Operational Policy on Involuntary Resettlement (“OP 4.12”). None of the Projects is likely to generate significant adverse environmental, health, or safety impacts, and all expected impacts can be mitigated. The environmental and social sustainability of the Compact will be enhanced through oversight, ongoing public consultation, and institutional capacity building.

The **Rural Land Governance Project** is classified as Category B under MCC’s environmental guidelines due to potential site-specific environmental and social impacts anticipated to result from the construction of municipal buildings and field-level activities clarifying local land uses and land rights. While these impacts are not anticipated to be significant in nature, they will require mitigation through implementation of measures identified in an Environmental and Social Management Framework. Resettlement Action Plans (“RAPs”) also will be developed to adequately plan for and mitigate the

resettlement impacts at building sites.

The **Agriculture Development Project** is classified as Category A under MCC's environmental guidelines due to large-scale agriculture development activities involving intensification or conversion of natural habitats, with potential for significant impacts on sensitive locations as well as the potential for increased use of pesticides and increased surface water pollution. Given the potential for these significant social and environmental impacts, detailed assessments and mitigation plans will be required, including an environmental impact assessment ("EIA") and RAP for the water management and irrigation activities, and EIAs for the agricultural activities.

The **Roads Project** is classified as Category B under MCC's environmental guidelines as the potential environmental and social impacts related to upgrading and rehabilitation existing roads and supporting road maintenance are likely to be site-specific and mitigable. As a result, EIAs will be completed for each set of roads to be rehabilitated or upgraded, and each EIA will include gender analysis, environmental management plans and HIV/AIDS prevention plans.

For the **BRIGHT 2 Schools Project**, MCC and USAID have agreed that USAID Regulation 216 will be followed in lieu of MCC's Environmental Guidelines and Gender Policy.

F. Donor, Multilateral, and Interagency Coordination

MCC has consulted extensively on each of the proposed Projects with the major donors in Burkina Faso, including, the World Bank, the European Union ("EU"), the French Development Agency (*Agence Française de Développement*, or "AFD"), the Danish International Development Agency ("DANIDA"), the German Agency for Technical Cooperation (*Deutsche Gesellschaft für Technische Zusammenarbeit GmbH*, or "GTZ"), the Austrian Development Corporation, the Luxembourg Agency for Development Cooperation, the International Fund for Agricultural Development ("IFAD"), the International Finance Corporation ("IFC"), the African Development Bank ("AfDB"), the United Nations Food and Agriculture Organization ("FAO"), the Swedish International Development Agency ("SIDA"), the United Nations Development Program ("UNDP"), and USAID.

In several cases, MCC-funded activities complement or directly build on initiatives by other donors. For example, as part of the Agriculture Development Project, the market information system will continue work begun under a USAID project, and the improvements to district markets will draw on the experience of the Swiss Development Agency. Synergies will also be gained in the implementation of the Access to Rural Finance activity through close coordination with the IFC's micro-, small- and medium-sized enterprise credit program, the World Bank's *Projet d'Appui aux Filières Agro-Sylvo-Pastoral* Project ("PAFASP"), and the World Bank and EU-funded *Maison de l'Entreprise* which provides business support services.

In addition, technical assistance under the Roads Project has been structured to complement ongoing technical assistance programs, to build on the World Bank's assistance that resulted in the establishment of the Road Fund, and to strengthen work initiated by the AfDB and the EU on road maintenance. Design of the Incentive Matching Fund for Periodic Maintenance ("IMFP"), in particular, was developed in collaboration with the World Bank and the EU.

Finally, the BRIGHT 2 Schools Project, to be administered by USAID, is a model of interagency coordination and the first time MCC and USAID have partnered directly in connection with the implementation of a compact-funded project.