



### CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to \$354,757,640 under a Millennium Challenge Compact with the Republic of Zambia.

This notification is being sent to the Congress on April 5, 2012.

Obligation of funds may be incurred on or after 15 days from the date of this notification.

An attached summary describes the project and other key elements of the planned Compact. If you or your staff would like to arrange a meeting to discuss the Compact, please contact me or Jim Mazzarella, Managing Director of Congressional Affairs, at (202) 521-3850.

Sincerely,

T. Charles Cooper  
Vice President  
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

April 5, 2012

<b>PROGRAM:</b>	Eligible Countries
<b>APPROPRIATIONS CATEGORY:</b>	Fiscal Year 2012 Program Funds
<b>OBLIGATION AMOUNT:</b>	\$354,757,640

Pursuant to section 7015(c) and the heading "Millennium Challenge Corporation" of the Consolidated Appropriations Act, 2012 (P.L. 112-74, Division I), the Millennium Challenge Corporation ("MCC") wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the "Compact") with the Republic of Zambia ("Zambia"), through which MCC will grant up to a total amount of \$354,757,640 to Zambia under the Millennium Challenge Act of 2003, as amended (the "Act"). To accelerate implementation of the Compact, MCC intends to obligate up to \$15,288,939 ("Compact Implementation Funding") of the overall grant under section 609(g) of the Act, using fiscal year 2012 funds, when the Compact is signed by the parties. MCC intends to obligate up to \$339,468,701 under section 605 of the Act, using fiscal year 2012 funds, when the Compact enters into force. After the Compact enters into force, Compact Implementation 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.

Compact funding will support a project designed to improve access to, and the provision of, water supply, sanitation, and drainage services in the capital city of Lusaka that is expected to benefit more than 1.2 million Zambians. The Compact has an Economic Rate of Return of approximately 13.7 percent.

## **SUPPLEMENTAL INFORMATION**

### **MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION, AND THE REPUBLIC OF ZAMBIA**

April 5, 2012

The Millennium Challenge Corporation's Board of Directors (the "Board") has approved a five-year, \$354.8 million Compact with the Government of the Republic of Zambia (the "Government ") aimed at reducing poverty through economic growth (the "Compact"). The Compact addresses one of Zambia's most binding constraints to economic growth through investment in the water sector (i.e., water supply, sanitation, and drainage systems). MCC's investments are designed to build on more than 15 years of water sector reform in which Zambia has developed a strong, commercially-operated utility, an independent regulator, and a sound legal and regulatory structure. Through these reforms, the Government has established a firm foundation for an MCC investment targeted to assist the nation's rapidly urbanizing capital of Lusaka. MCC investments are expected to continue the Government's sector reform efforts through institutional strengthening to improve the health and economic productivity of more than 1.2 million Lusaka residents and help the country reduce poverty on a sustainable basis. The Compact has an economic rate of return of approximately 13.7 percent.

#### **I. Background**

Zambia continues to strengthen its democracy as evidenced most recently by free and fair elections and the smooth and peaceful transition of power in 2011 from the ruling party to the main opposition party. The country has also experienced nearly six percent real GDP growth over the last ten years, inflation has moderated, and the exchange rate has become increasingly stable and competitive.

Despite these positive outcomes, the incidence of poverty, driven in part by widespread water-related disease, remains high at 82 percent of the population based on a \$2 per day poverty line.

At independence in 1964, Lusaka's population was just over 100,000, representing less than four percent of the country's population. The city of Lusaka currently has a population of over 1.8 million people, representing over 10 percent of Zambia's total population and is projected to have nearly five million residents by 2035. This rapidly increasing population is served by a water supply, sanitation, and drainage system constructed in the 1960s and 1970s to serve a much smaller population. While the sector has seen a major investment in institutional reform over the past fifteen years, the municipal water system has not benefited from major capital investment in the intervening years. As a result, the system's core infrastructure assets are outdated, dilapidated, and unable to meet current or future demand. This contributes to a high prevalence and incidence of water-related diseases, which is exacerbated by endemic flooding

resulting from insufficiently maintained and inadequate drainage infrastructure. For example, Lusaka’s infectious diarrhea rate (including cholera) is estimated at 138 per 1,000 residents, while the city’s malaria rate is estimated at 120 per 1,000 residents. In addition to poor health, the degraded and inadequate condition of the system’s core infrastructure forces Lusaka’s residents and businesses to waste substantial time and resources seeking alternative sources of water, as well as incurring lost time and property damage due to flooding, resulting in further losses to productivity and well-being.

## **II. Program Overview and Budget**

The Compact program is designed to address this constraint to economic growth by supporting infrastructure investments and continued institutional strengthening and reform in order to expand access to, and improve the reliability of, water supply and sanitation and to improve drainage services in select urban and peri-urban areas of Lusaka.

Approval by the Board and negotiations with the Government have resulted in a Compact comprised of a single Water Supply, Sanitation, and Drainage Project (the Project) comprised of two activities: (i) the Infrastructure Activity, and (ii) the Institutional Strengthening Activity. MCC’s corporate priorities of policy reform, gender integration, and private sector engagement have been captured in the Compact design of both activities. To mitigate the risk of a slowing down or reversal of the Government’s ongoing sector reforms efforts, the Government has agreed to enter into a “Sustainability Agreement” with operational, financial and sector milestones tied to funding disbursements to ensure ongoing reforms continue. The Government has also agreed to fund, install and make operational pre-paid meters at each Government institutional customer. This will help ensure the continued sector performance and financial strength of partner institutions.

The following table presents the allocation of funding across the Compact program and the Project activities.

<b>Project and Activities</b>	<b>Budget (\$ millions)</b>
<b>Water Supply, Sanitation, and Drainage Project</b>	<b>\$310.6</b>
<i>Infrastructure Activity</i>	283.9
<i>Institutional Strengthening Activity</i>	26.7
<b>Monitoring &amp; Evaluation</b>	<b>5.8</b>
<b>Program Administration</b>	<b>38.4</b>
<b>Total</b>	<b>\$354.8</b>

## **III. Summary of the Project’s Activities**

***Infrastructure Activity (\$283.9 million):*** This activity incorporates interventions designed to support infrastructure managed by: (i) the Lusaka Water and Sewerage Company (LWSC), the

utility primarily responsible for managing the city's water and sanitation infrastructure; and (ii) Lusaka City Council (LCC), the local government entity responsible for managing Lusaka's drainage infrastructure. A major portion of the investment is focused on rehabilitation of Lusaka's core water supply network, including components designed specifically to reduce non-revenue water. This activity also includes interventions designed to expand the city's water supply network; rehabilitate and enlarge select sewer networks; improve select drainage infrastructure; and provide support for engineering and resettlement professional services.

Each of the water supply and sanitation components was considered based on the results of investment master plans supported by MCC during the Compact development process, which chart a three-phase, more than \$3.0 billion overall plan through which Lusaka can meet the needs of its current and future projected population through 2035. The drainage component was selected based on the results of priorities identified in a separate comprehensive urban development plan funded by Japanese International Cooperation Agency (JICA). All components were also selected based on the results of substantially completed feasibility studies.

***Institutional Strengthening Activity (\$26.7 million):*** In addition to the infrastructure improvements, investments have been identified to help support sector and institutional strengthening for both LWSC and LCC. This activity would provide technical assistance to LWSC and LCC to continue ongoing government sector reform efforts and pursue new ones designed to ensure improved sector management and sustainability of MCC investments. This activity includes support for better asset and environmental management by LWSC. It also provides technical assistance for LCC to improve its strategic planning and to conduct better maintenance and environmental management for the city's drainage network. Further, support under this activity would be provided to LWSC and LCC for mainstreaming gender policies; improving service delivery to poor and underserved populations; and carrying out well-designed and coordinated information, education, and communications (IEC) campaigns. The activity also would include efforts to increase innovation in pro-poor service delivery in the water sector through, among other possibilities, grants to community based organizations, civil society, and/or private sector entities to enhance and support the Compact's sustainability through an innovation grant component.

The Compact includes program administration costs estimated at \$38.4 million over a five year timeframe, including the costs of administration, management, auditing, and fiscal and procurement services. In addition, the cost of monitoring and evaluation of the Compact is budgeted at \$5.8 million.

#### **IV. Expected Results, Beneficiaries, and Benefits**

The MCC investment aims to increase incomes in Lusaka by creating conditions for a healthier population, which would result in more time available for productive economic activity. More specifically, in addressing health conditions, the investment seeks to have significant impact on

reducing: (i) the incidence and prevalence of water-related diseases; (ii) productive days lost due to water-borne and water-related diseases; (iii) the cost of water and new sanitation connections; (iv) the time to collect water; and (v) business and residential flood losses. By the end of the Compact, the Project is expected to benefit approximately 1,240,000 people in the city of Lusaka, 73 percent of whom currently have incomes of less than \$2 per day. As noted above, the Compact has an economic rate of return of approximately 13.7 percent.