



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended, we wish to inform you that the Millennium Challenge Corporation (MCC) entered into a Millennium Challenge Compact with the Republic of Zambia on May 10, 2012. We have included a detailed summary of the Compact and a copy of the text of the Compact.

We will publish the text of the Compact and the summary in the Federal Register and on MCC's website.

The attached notification is being sent to Congress on May 17, 2012.

Sincerely,

T. Charles Cooper
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION
May 17, 2012**

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003, as amended (22 U.S.C. 7701 et seq.) (the “*Act*”), this notification is to advise that the Millennium Challenge Corporation (“*MCC*”) entered into a Millennium Challenge Compact with the Republic of Zambia under sections 605 and 609(g) of the Act on May 10, 2012 (the “*Compact*”).

A detailed summary of the Compact and a copy of the text of the Compact follow.

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

May 17, 2012

The \$354.8 million Compact with the Republic of Zambia is 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). The Compact is designed to build on more than 15 years of water sector reform through which Zambia has developed a strong, commercially-operated utility, an independent regulator and a sound legal and regulatory structure. Through these reforms, the Government of Zambia (the “Government”) has established a firm foundation for a Compact targeted to assist the nation’s rapidly urbanizing capital of Lusaka. MCC investments are designed 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 to 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 nationwide, 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 and 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 policy and institutional reform over the past 15 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.

To that end, the Compact includes a single-sector 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 slow down or reversal of the Government’s ongoing sector reforms efforts, the Compact includes an agreement from the Government 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 in the Compact 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.

Project and Activities	Budget (\$ millions)
Water Supply, Sanitation, and Drainage Project	\$310.6
Monitoring & Evaluation	5.8
Program Administration	38.4
Total	\$354.8

III. Summary of the Project’s Activities

Infrastructure Activity: 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. All components were also selected based on the results of substantially completed feasibility studies.

Institutional Strengthening Activity: In addition to the infrastructure improvements, the Compact includes investments to support sector and institutional strengthening for both LWSC and LCC. The institutional strengthening activity builds on more than 15 years of reform in the water and sanitation sector – during which Zambia has developed a viable commercial utility, an independent regulator, and a sound legal and regulatory structure. This activity will 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 will 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 will 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 also includes program administration costs estimated at \$38.4 million, 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 Compact 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 (for some beneficiaries); (iv) the time to collect water; and (v) business and residential flood losses. The Compact is designed to address these aims by: (i) improving service provider operating efficiency; (ii) increasing water storage capacity; (iii) enhancing water delivery capacity; (iv) upgrading wastewater collection and treatment capacity and quality; and (v) modernizing and expanding primary and secondary network components.

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.