MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation plans to negotiate a Millennium Challenge Compact with the Government of the Republic of Zambia.

If you or your staff would like to arrange a meeting to discuss the proposed negotiations with the Government of Zambia, please contact me or Jim Mazzarella at (202) 521-3850. This notification is being sent to the Congress on January 12, 2012 and negotiations with Zambia may be started on or after January 26, 2012.

Sincerely,

T. Charles Cooper
Vice President
Congressional and Public Affairs

Enclosure:
As stated

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION
January 12, 2012

Pursuant to 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 the Republic of Zambia for a Millennium Challenge Compact and (2) to initiate the 15-day consultation period before the start of negotiations.

Attached please find a summary of the objectives and mechanisms to be used for the negotiations of this Compact.

SUPPLEMENTAL INFORMATION
MCC COMPACT DEVELOPMENT WITH THE REPUBLIC OF ZAMBIA
January 12, 2012

Overview

The proposed compact for Zambia is expected to lay the foundation for systemic and lasting change in the water, sanitation and drainage sector. The compact addresses one of Zambia's most binding constraints to economic growth. A more productive and efficient water sector in Zambia will improve the health of Zambians, catalyze economic growth, and continue to reduce poverty on a sustainable basis. The proposed compact is expected to benefit approximately 1.2 million people over a 20-year period and has an economic rate of return (ERR) of approximately 13.7%. Zambia's recent free and fair national election and the new government's focus on anti-corruption strongly reflect principles of good governance that are at the core of U.S. partnership with the Zambian people and all MCC partner countries.

Background

The MCC Board of Directors (the Board) selected Zambia as eligible for a compact in December 2008, and has reselected Zambia for compact eligibility in each subsequent year. Prior to that, Zambia was selected by the Board for MCC's Threshold Program, pursuant to which the country successfully implemented a program designed to combat administrative corruption and reduce administrative barriers to increased trade and investment.

In October 2009, the Government of the Republic of Zambia (GRZ) initiated a constraints analysis that identified four main binding constraints to economic growth - infrastructure, externalities, micro and macro business climate, and skilled labor. To elicit feedback on these constraints, in December 2009, the GRZ initiated a targeted consultative process that included over five hundred individuals representing government, private sector, civil society, and donors. Feedback from these consultations resulted in a list of prioritized sectors, including ecotourism, hydropower, roads, vocational and secondary education, and water and sanitation, from which the GRZ developed and submitted six concept papers for MCC consideration. After an extensive examination of operational and economic feasibility that included internal and external peer review, MCC and the GRZ decided to focus solely on the water supply and sanitation and drainage sectors in the capital city of Lusaka.

The GRZ has provided sustained financial and political support throughout compact development. Since MCC's initial visit to Zambia in March 2009, the GRZ has allocated an estimated $2 million annually to fund the operations of a core team, which has lead the compact development process on the GRZ's behalf. This core team, governed by a steering committee comprised of senior GRZ officials and key representatives from the private sector and civil society, continues to be MCC's immediate point of contact and to receive support from the GRZ. Based on the foregoing, MCC now plans to enter into compact negotiations with the GRZ.

Program Overview and Budget

Below is a summary describing the components of the proposed compact with the GRZ. The budget and expected impacts are preliminary based on initial due diligence and project appraisal and are subject to change following compact negotiations.

PROJECT	Total ($ million)
Lusaka Water Supply, Sanitation and Drainage Project	**$310.6 million**
Monitoring and Evaluation	**$5.8 million**
Program Administration	**$38.4 million**
TOTAL COMPACT BUDGET:	**$354.8 million**

Lusaka Water Supply, Sanitation and Drainage (LWSSD) Project

Lusaka has a population of approximately 1.8 million people, 65% of whom live in peri-urban areas. Most of these peri-urban areas lack access to clean water supply and sanitation, and many suffer from endemic flooding. Currently, only approximately 70% of Lusaka residents have access to treated water supply, and only approximately 65% of the population has water-borne sanitation (either through a connection to the network or with septic tanks). Those without water-borne sanitation typically rely on pit latrines, most of which are not properly designed and therefore result in groundwater contamination, primarily impacting the shallow wells used for drinking water by the population without access to piped water. All of these factors contribute to high incidence of water-borne disease in Lusaka, which is exacerbated by the flooding that occurs from insufficiently maintained and inadequate drainage in the city. Furthermore, the rate of urbanization and population growth is higher than the rate at which new water and sanitation connections are made, meaning that coverage not only fails to improve but on current trends is likely to decline.

In light of these issues, the aim of the proposed LWSSD Project is to increase coverage of proper water supply and sanitation systems, and to make improvements to select drainage infrastructure in Lusaka. The project consists of investments in both hard infrastructure assets and technical assistance to the GRZ institutions that are responsible for the provision of water and sanitation service and drainage service for the city of Lusaka – respectively, the Lusaka Water and Sewerage Company (LWSC) for water and sanitation and the Lusaka City Council (LCC) for drainage. The technical assistance will be designed to ensure that MCC's infrastructure investments are sustainable and to enhance the ability of these institutions to effectively provide services to the residents of Lusaka in the future.

The LWSSD Project is preliminarily anticipated to benefit approximately 1.2 million people over a 20-year period and has a preliminary ERR of approximately 13.7%.

Specifically, the proposed LWSSD Project comprises the following two activities:

- **Infrastructure Activity.** This activity will consist of a series of infrastructure improvements to prioritized water supply, sanitation, and drainage assets. Each component of this activity was selected based on the results of comprehensive investment master plans developed for both the water supply and sanitation sectors, as well as the results of substantially completed feasibility studies on a subset of priority projects identified in these investment master plans. Collectively, during the compact period, available water supply is expected to increase from 225 million liters per day (Mld) to 240 Mld, water losses are expected to decrease from 48% to 25%, 152,000 new people are expected to benefit from the water system (either through new household connections or kiosks), and the number of sanitation connections is expected to increase from 22,000 to 38,300. During the same period, the incidence of diarrhea (including cholera) is expected to decrease from 138 per 1,000 population to 32, and the incidence of malaria to decrease from 120 per 1,000 population to 97.

- **Technical Assistance and Institutional Support Activity.** In addition to the infrastructure improvements noted above, the proposed compact will also support technical assistance designed to increase the ability of LWSC and LCC to maintain and manage their respective infrastructure assets and to more effectively and equitably deliver services to Lusaka residents. Specifically, this technical assistance will include efforts: to increase each institution's asset management planning and execution capacity, including environmental management; to assist LCC to define and mitigate Lusaka's flooding problems through the development of a drainage master plan and related studies, as well as a management and maintenance strategy, including environmental management; to strengthen and finalize LWSC's and LCC's gender policies, harmonize them with GRZ gender policies, and develop and support the implementation of these policies; to increase LWSC's and LCC's capacity and incentives to provide affordable services to peri-urban poor and vulnerable populations, thereby increasing access to the benefits of MCC investments; training and business development support for operators of LWSC's new and expanded system of water kiosks and for plumbers and masons to facilitate the installation and maintenance of household-level water and sanitation facilities; and to support information, education, and communication efforts to ensure that beneficiaries understand and effectively utilize the improvements being financed through the compact. Some of these community level technical assistance and capacity building activities may be implemented through a small projects innovation grant program managed by the GRZ accountable entity. In addition, this activity will also seek to increase private sector participation in the water and sanitation and drainage sectors in Lusaka by identifing and implementing innovative partnerships with other donors, civil society organizations and/or private sector entities, in each case in order to enhance and ensure the sustainability of the proposed compact program.