



Millennium Challenge Corporation

Reducing Poverty Through Growth

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform of the intent to provide funding of up to \$1,400,000 for the purpose of facilitating the development of a Millennium Challenge Compact with the Kingdom of Lesotho and, if a Compact is concluded, the implementation of such Compact.

The attached notification is being sent to the Congress on May 17, 2005. Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. The obligation of funds will be made at the time the applicable agreement is effective.

Sincerely,

Frances C. McNaught
Vice President
Domestic Relations

Enclosure:
As stated

**MILLENIUUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

May 16, 2005

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| PROGRAM: | FY 2004 and FY 2005 Eligible Countries |
| APPROPRIATIONS CATEGORY: | FY 2004 Program Funds |
| INTENDED FY 2005 OBLIGATION: | \$1,400,000 |

In accordance with section 515 of the Foreign Operation, Export Financing, and Related Programs Appropriations Act 2004 (Div. D, P.L. 108-199) (“FOAA”), this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to One Million Four Hundred Thousand Dollars (\$1,400,000) in FY 2004 MCC program funds. Pursuant to Section 609(g) of the Millennium Challenge Act of 2003 (the “Act”), MCC plans to undertake activities to facilitate the development and, subject to appropriate approvals and notifications, implementation of a Millennium Challenge Compact with the Kingdom of Lesotho. These funds will be used for the activities described below:

(1) Completion and expansion of the earlier partial feasibility study on the Metolong Dam (“Dam”) and conduct of a feasibility study of recycling industrial waste water to increase short-term water availability, each acceptable MCC.

Lesotho’s Compact proposal requests US\$115 million for the construction of the Dam, which will operate as a bulk water supply for Maseru and surrounding communities. Due to exchange rate movements and escalation of certain costs, the budget for the Dam is currently estimated at US\$160 million. The primary beneficiaries of the Dam will be 95,000 domestic users who currently lack reliable access to safe drinking water and the industrial sector. The Government of Lesotho (“GoL”) projects that this sector, dominated primarily by the water-intensive garment industry, will be the principal engine for employment creation. The feasibility studies to be funded by MCC will address, among other things, the technical gaps in and revise project costs from, an earlier study undertaken by the GOL. In addition to satisfactory completion of these studies, MCC will also require an Environmental and Social Impact Assessment (to be funded by the World Bank), acceptable to MCC, to be completed before MCC commences due diligence on the Dam project.

(2) Development of specific business and investment climate reform plans to improve policies, regulations, and government operations.

While the availability of water is a necessary condition for growth, it is not sufficient to ensure growth. As such, the other component of the proposed Compact program with Lesotho is comprised of business and investment climate policy reform activities. These activities are expected to address areas such as: judicial procedure and commercial law reform, border and

customs procedures, financial infrastructure and property rights, including gender equality related to access to credit, and vocational training and capacity building for entrepreneurs.

(3) Completion of baseline data collection for the proposed Compact program's economic analysis and monitoring and evaluation.

MCC intends to use existing data sources (e.g., Bureau of Statistics, World Bank, Lesotho National Development Corporation) for economic analysis and Compact monitoring and evaluation. These data sources, however, may need to be supplemented through the design and administration of additional surveys and subsequent relevant data collection and analysis to fill baseline information gaps related to the business and investment reform plan and the Dam.