



**MILLENNIUM
CHALLENGE
CORPORATION**
REDUCING POVERTY THROUGH GROWTH

FRANCES C. MCNAUGHT
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform the Congress of our intent to provide funding of up to US\$362,551,000 for a Millennium Challenge Compact with the Kingdom of Lesotho.

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\$346,882,584 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 will obligate up to US\$15,668,416 of the total amount when the Compact is signed, pursuant to 609(g) of the Act.

The attached notification is being sent to Congress on June 29, 2007.

Sincerely,

Frances C. McNaught
Vice President
Congressional and Public Affairs

Enclosure:
As stated

CONGRESSIONAL NOTIFICATION

June 29, 2007

Pursuant to the Continuing Resolution of 2007 (P.L. 109-3833) the Millennium Challenge Corporation (“MCC”) wishes to notify the Congress of its intent to enter into a Millennium Challenge Compact (“Compact”) with the Government of Lesotho (“GoL”) through which MCC will grant up to US\$362,551,000 of FY 2007 Millennium Challenge Account (“MCA”) funds. MCC intends to obligate up to US\$346,882,584 under Section 605 of the Millennium Challenge Act of 2003 (the “Act”) 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 will obligate up to US\$15,668,416 of the total amount (“Compact Implementation Funding”) when the Compact is signed, under Section 609(g) of the Act.

The Compact Implementation Funding is included in the total amount of MCA funds under the Compact and will not increase overall MCA funding commitment to Lesotho. These funds will support:

1. Water Sector;
2. Health Sector;
3. Private Sector Development;
4. Monitoring and Evaluation and;
5. Program Management Oversight

Under Section 610(a) of the Act, the appropriate Congressional committees were notified on April 19, 2007 of MCC’s intent to commence negotiations with Lesotho. Key elements of the Compact are set forth in the accompanying summary. MCC will provide final text no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**MILLENNIUM CHALLENGE COMPACT BETWEEN THE UNITED STATES
OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE
CORPORATION AND THE GOVERNMENT OF THE KINGDOM OF
LESOTHO**

The Board of the Millennium Challenge Corporation has approved a five-year, \$362.6 million Millennium Challenge Compact to reduce poverty and increase economic growth in the Kingdom of Lesotho.

The Compact is focused on improving the provision of water supplies for industrial and domestic use, improving health outcomes and productivity and removing barriers to foreign and local private sector investment. By 2013, the Compact will benefit the majority of the population of 1.8 million due to its broad geographic scope and focus on sectors that impact most Basotho such as health and provision of potable water.

Background

Lesotho is strategically located within the rapidly growing Southern African Development Community which will become a common market in 2008. It could benefit greatly from the expected economic upsurge in the region led by the private sector, but it will miss this opportunity if it is unable to unlock the potential of its two greatest resources – its water and its people. Without immediate and sustainable interventions to harness its abundant water resources and to improve the health of the productive workforce, Lesotho has limited prospects of achieving rapid economic growth. The third critical element is a dynamic private sector. In recent years, Lesotho has embarked on a major reform program to remove legal and regulatory impediments to private sector growth, improve access to credit and increase the participation of women in the economy.

Water Sector Project (\$164 million)

This Project is aimed at improving the water supply for industrial and domestic needs. It will provide essential infrastructure to deliver water to garment and textile operations. Domestic users in selected urban and rural areas will benefit from water system upgrades and expansion to achieve a reliable supply of water and better sanitation. The Project will also enhance rural livelihoods through improved watershed management.

The Water Sector Project activities include the construction of a bulk water conveyance system; the extension and rehabilitation of the urban and peri-urban water network; the provision of improved sanitation services for an estimated 25,000 households or approximately 150,000 persons through construction of ventilated improved pit latrines and water systems; and the restoration of degraded wetlands at three areas in the highland pastures and preparation of a strategic environmental assessment to support development of a national watershed management and wetlands conservation plan.

Health Sector Project (\$122.4 million)

The Health Sector Project is designed to mitigate the negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis (“TB”) and other diseases by substantially

strengthening the country's health care infrastructure and human resources for health capacity. MCC funding will support Lesotho's efforts to significantly increase access to life-extending anti-retroviral therapy ("ART") by providing a sustainable platform to deliver this and other essential health services throughout the country. This has the potential to result in a measurable extension of productive life-years for people living with HIV/AIDS, TB and other debilitating diseases.

The Health Sector Project activities include the renovation of up to 150 health centers in order to establish a national stock of health centers that achieve a common standard; the establishment of ART clinics in and improved management of up to 14 hospital out-patient departments; the construction and equipping of a new central laboratory and training for laboratory staff; the construction of a dedicated, central facility for collecting and processing blood and the provision of mobile blood collection and storage equipment; an increase in the number of dormitories and staff residences at Lesotho's National Health Training College; the strengthening of health systems through increased capacity for pre-service and in-service nurse training and improved district-level public health human resources management; and improved occupational health and safety and medical waste management practices.

Private Sector Development Project (\$36.1 million)

This Private Sector Development ("PSD") Project is designed to increase private sector economic activity in Lesotho by improving access to credit, reducing transaction costs and increasing the participation of women in the economy. The activities within the PSD Project are an essential component of the Government of Lesotho's major policy reform program and are designed to contribute to the broader efforts to attract foreign investment and stimulate growth of Basotho-owned companies.

The PSD Project activities include the reformation of the civil legal system through the development of the commercial court, including creation of case management systems for courts, and promotion of alternative dispute resolution; support for the production and issuance costs of national identification cards as well as establishment of the necessary legal and regulatory reforms for data privacy and establishment and operations of a cross-border credit bureau; the implementation of a new payments and settlement system in Lesotho; the development of land policy and a new land administration authority , implementation of a systematic land regularization program for urban and peri-urban areas ; and the implementation of a training and public awareness program dedicated to implementing gender equality in economic rights and building of local capacity to continue advocacy.

The Compact also includes approximately \$40 million for administration, management, auditing, monitoring and evaluation, and environmental and social oversight.

Expected Results

The Compact program is expected to have economy-wide impacts affecting the entire population of Lesotho. The core elements of the Compact entail critical requirements that are needed to propel private sector investment and growth in employment to levels

that would support significant progress in the reduction of poverty. The program is structured to nearly double GDP growth by the end of the Compact implementation period. The acceleration of GDP growth is expected to continue beyond Compact completion, propelling growth towards seven percent per annum within five years after Compact completion. The Compact program is designed to lay the foundations for achieving sustainable economic growth and poverty reduction in Lesotho through its support of key areas identified by the Government of Lesotho as national development priorities.