



**MILLENNIUM
CHALLENGE
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

In accordance with Section 610(b)(1) of the Millennium Challenge Act of 2003, we wish to inform you that the Millennium Challenge Corporation entered into a Millennium Challenge Compact with the Republic of Namibia on July 28, 2008. We have included a detailed summary of the Compact and a copy of the text of the Compact.

In addition, we will publish the detailed summary and the text of the Compact in the Federal Register and on MCC's website.

The attached notification is being sent to the Congress on August 1, 2008.

Sincerely,

James Mazarella
Managing Director, Congressional Affairs
Congressional and Public Affairs

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

In accordance with section 610(b)(1) of the Millennium Challenge Act of 2003 (Pub. L. 108-199, Division D) (the “*Act*”), this is to advise that the Millennium Challenge Corporation (“*MCC*”) entered into a Millennium Challenge Compact (the “*Compact*”) with the Republic of Namibia under Section 609 of the Act on July 28, 2008. Under the Compact, MCC will grant up to \$304,477,816 of FY 2007 and FY 2008 Millennium Challenge Account funds.

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

SUPPLEMENTAL INFORMATION

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

I. Introduction

Namibia is a young democracy having gained independence from South Africa in 1990. The country's population of 2.0 million is spread over 823,680 km, an area approximately twice the size, but with a population density one sixtieth, of California. According to the 2001 census, 67 percent of the population lives in rural areas, primarily in the northern communal area ("*NCA*"), with 12 percent living in the capital, Windhoek. The landscape is largely desert and desert savannah with low, highly variable rainfall. The economy continues to be dependent on the mining industry; with diamonds and other minerals accounting for more than 50 percent of total exports in 2005.

One of the primary constraints to achieving poverty reduction through economic growth in Namibia is an inadequately educated and skilled workforce. In addition, the economy's export base is narrowly focused on mineral commodities, with below-potential levels of revenue and employment generated in sectors of importance to the poor, such as livestock and tourism. While improving the quality of education and training for underserved populations, the Compact will also focus on diversifying Namibia's export base by capitalizing on Namibia's comparative advantages – large areas of semi-arid land suitable for livestock grazing, natural products indigenous to Namibia, and diverse wildlife and unique landscapes ideal for ecotourism. Through these investments, it is expected that incomes will rise for poor, rural communities that have been marginalized from the formal economy by former colonial and apartheid regimes.

Namibia is classified as a lower-middle income country ("*LMIC*") with a population of 2.1 million, 2006 per capita of \$3,000, and a steady economic growth rate averaging 4.3 percent per annum. Despite steady growth, Namibia is plagued by high levels of poverty, particularly in the northern communal areas ("*NCA*s"), high unemployment (30 percent in 2006), an extreme disparity in wealth and income between the rich and the poor (second highest Gini coefficient in the world), and an HIV prevalence rate of nearly 19.6 percent in 2005. Following 25 years of struggle for independence, the government of Namibia (the "*GRN*") is committed to providing equal opportunities to previously disadvantaged populations, while advancing interracial reconciliation to maintain political and economic stability.

II. Program Rationale

To sustain GDP growth and increase income levels, Namibia must rely heavily on the availability of skilled labor. Despite high levels of investment in the education sector, the

education system is unable to produce the quantity, levels, and types of human resources necessary to meet labor market demands. In 2005, the GRN, with the support of the World Bank, launched an ambitious 15-year reform process, the Education and Training Sector Improvement Program (“ETSIP”), to improve education outcomes. The Compact’s education project supports ETSIP through strategic investments that leverage policy and institutional reform to maximize the efficiency, accessibility, and quality of the education system.

As a result of the volatility of the mining sector, the GRN is focusing on diversifying Namibia’s economy with particular emphasis on two of the fastest growing sectors – agriculture and tourism. Agriculture contributes 11 percent of GDP and earns over 25 percent of export receipts. The livestock sector comprises 90 percent of all agriculture production in the country. Approximately 80 percent of livestock production is exported to the European Union and neighboring southern African countries. Due to increasing population pressures, a lack of flexible and efficient market outlets and the communal land regime in the north, livestock productivity in the north is low. In addition to livestock, there is significant growth potential for the indigenous natural products (“INP”) industry in Namibia. The INP industry is expected to grow substantially over the next ten years, allowing for some of the poorest households in Namibia to participate in this emerging industry. Overall, MCC’s investments in agriculture are intended to increase rural farmers’ productivity and income generated in the livestock and INP sectors, while opening up trade opportunities for meat and exports of high-value natural products such as devil’s claw, Kalahari melon seed, marula, and ximenia.

Consistent with the GRNs National Development Plan and long-term national development strategy known as “Vision 2030,” Namibia plans to develop one of its fastest growing “export” industries with a focus on tourism. Export earnings from international visitors and tourism goods are expected to generate 15.6 percent of total exports (\$650.6 million) in 2008 and grow to 22.6 percent (\$2.09 billion) by 2018. The GRN recognizes that tourism is an important generator of employment, particularly in rural areas where most tourism in the country occurs. Through MCC’s investments in tourism, the GRN intends to catalyze growth in the tourism industry and increase participation by Namibia’s poor rural population. To achieve these objectives, the tourism project will improve management and infrastructure in Etosha National Park, the premier tourism destination in Namibia, increase the overall number of tourism arrivals, and induce private investment in communal conservancies.

III. Program Overview and Budget

Table 1: Program Budget by Project

Component	(US\$ millions)						
	CIF*	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Education Project	8.97	10.30	29.99	53.32	34.62	7.75	144.97
Tourism Project	2.47	4.71	13.03	23.36	14.79	8.57	66.95

Agriculture Project	1.36	1.56	17.95	14.46	8.43	3.17	46.96
Monitoring & Evaluation	0.72	1.77	1.02	1.02	1.00	1.02	6.57
Program Management and Administration	6.00	6.60	6.60	6.60	6.60	6.60	39.00
TOTAL MCC FUNDING	\$19.54	\$24.95	\$68.61	\$98.78	\$65.44	\$27.13	\$304.47

*Compact Implementation Funds (CIF) refer to funding available before the entry-into-force of the Compact.

A. Education Project (\$144.97 million)

The education project is intended to improve the education sector’s effectiveness, efficiency, and quality, through systemic reforms and critical near-term interventions. MCC funding will support key gaps within ETSIP, as well as complementary measures, such as institutional strengthening, policy reform, and targeted technical assistance, to ensure sustainable results.

Primary activities include:

- Improving the Quality of Education: Improving infrastructure and providing equipment in approximately 47 primary and secondary school campuses, primarily in the northern communities of Namibia. Additionally, this activity includes support to teacher training colleges for policy-relevant studies and improving science and computer training facilities.
- Vocational and Skills Training: Improving vocational and skills training through assisting with the establishment of a National Training Fund within the Namibia Training Authority and making operational a sustainable training levy system. This includes funding priority projects, including tourism training (through competitive grants), construction and renovation of approximately nine Community Skills Development Centers (“*COSDECs*”), and facilitating private partnerships to address market demands for employment.
- Access to and Management of Textbooks: Upgrading access to and management of textbooks through operational support and reforms to establish more transparent, competitive acquisition processes for new textbooks, and to ensure adequate distribution and management procedures. This includes funding the acquisition of science, math, and English textbooks for grades 5 to 12 on a national level.
- Regional Study and Resource Centers (“*RSRCs*” or “*Libraries*”): Construction of approximately three regional Libraries in underserved areas that will improve access to documentation, information resources, training materials and programs, and study facilities.

- Expanding and Improving Access to Tertiary Education Finance: Expanding access to tertiary finance through assisting the Ministry of Education in its efforts to establish a sustainable and widely accessible tertiary and technical education finance system.
- Cross-Project Support: Strengthening the Ministry of Education's HIV/AIDS Management Unit and developing HIV/AIDS awareness and prevention plans related to construction activities.

B. Tourism Project (\$66.95 million)

The tourism project will improve the management and infrastructure of Etosha National Park, enhance the marketing of Namibian tourism, and develop the capacity of communal conservancies to attract investments in ecotourism and capture a greater share of the revenue generated by tourism in Namibia. Together, these activities will generate income and create employment opportunities for some of the poorest populations in Namibia, while preserving the natural resources that serve as the base for the tourism industry.

Primary activities include:

- Improved Management and Infrastructure of Etosha National Park: Improving the management capacity, providing improved infrastructure in management centers and staff housing in strategic locations, and providing road building/maintenance and game translocation equipment.
- Marketing Namibian Tourism: Expanding the promotion of tourism to Namibia by developing and promoting local and regional tourism packages and creating a fully interactive ecotourism website. The promotion of local and regional tourism will help to create jobs for economically disadvantaged groups that have not been able to take part in the thriving Namibian tourism industry—which comprises nearly 14% of Namibia's GDP—in the rural northern region of Namibia. Income generated from these jobs will help reduce poverty in these rural areas. Additionally, the promotion of sustainable eco-tourism packages will focus on directing anticipated increased tourists to communal areas adjacent to the ENP conservancy sites.
- Ecotourism Development in Conservancies: Building the capacity of conservancies to attract investment, preserve their natural resources and receive a greater share of revenues, through the provision of a range of technical assistance to approximately 31 high-tourism potential conservancies designed to render them financially self-sustainable. In addition, grant funding will be provided, based on individual conservancy needs and demand, to some of these conservancies to attract tourism enterprises.

C. Agriculture Project (\$46.96 million)

The agriculture project aims to increase the economic performance of the agricultural sector by strengthening the land tenure system, introducing community-based rangeland management practices, and building capacity of the livestock system to support farmers' ability to increase productivity and profits from livestock sales. In addition, the project will increase the volume, quality, and added value of INPs for export to regional and international markets.

Primary activities include:

- Land Access and Management: Improving the communal land regime and introducing effective community-based rangeland management practices through a comprehensive public awareness and outreach campaign on land rights, capacity building for Communal Land Boards, a systematic verification and registration process to regularize land, and training in community-based management of rangeland resources.
- Livestock Support: Constructing approximately five new veterinary centers in key, high volume livestock areas, in under-served communities. This includes introducing a traceability system for the livestock supply chain that meets food safety requirements and assists in herd management at the farm level, as well as support for reducing costs and losses, post-farm gate, in the marketing system of livestock in the NCAs.
- Indigenous Natural Products: Assisting primary producer organizations to increase the volume, quality, and added value of the natural products they collect and harvest, in addition to advancing their operational and business capacity. This includes funding research, testing, and application of innovations and services critical to the INP industry's immediate, short- and long-term competitiveness.

IV. Program Impact

A. Education Project

The lack of education and training of the Namibian population has been identified in MCC's internal growth diagnostic, by the World Bank, and others as a binding constraint to growth and poverty reduction. As a result, well-designed investments that enhance the efficiency and effectiveness of the education and training sector are expected to have a high economic rate of return.

Expected results of the education project include:

- Over a million students across Namibia will benefit from improved provision of textbooks and higher quality of education.

- An estimated 11,000 additional students will receive financing for tertiary education. By alleviating the high-level skills constraint in the Namibian economy, greater private investment and employment will likely result from an expansion of the tertiary sector. In addition, a more sustainable fiscal framework for tertiary education will shift the distribution of benefits of public education towards the poor.
- Up to 49,000 uneducated and unemployed (poor or near-poor) individuals over 20 years will receive training at the Community Skills and Development Centers.
- An estimated 2,000 additional vocational training graduates over a 20 year period will receive higher income due to improved training opportunities through the National Training Fund.
- Over the course of 20 years, 47 schools targeted for renovation and expansion will produce approximately 41,700 graduates in primarily rural northern communities. These graduates will benefit from a higher quality of education and higher lifetime income.
- Regional study and resource centers will meet the information and study needs of an estimated 8,000 individuals a year (about ten percent of the population of the towns where the centers are located), including upper primary, secondary and post-secondary students enrolled in distance learning, young people seeking skills upgrading, small business owners using computer facilities, and adults attending continuing education courses.

B. Tourism Project

Over the past 10 years, Namibia's tourism sector has enjoyed strong growth of 6.9 percent per annum (source: World Travel and Tourism Council 2007). However, stronger or more sustained tourism growth could be achieved through an enhanced marketing effort and improved wildlife and natural resource management, which would improve the tourism experience in Namibia's national protected areas.

Expected results of the tourism project include:

- Up to 118,000 conservancy residents within the approximate 31 conservancies are targeted to benefit under this project. A projected 7,000 Namibians will enjoy significantly higher incomes as a result of full and part time employment generated through the tourism project. The remaining 111,000 conservancy residents are expected to receive indirect benefits to improve overall incomes and many of these will also benefit from conservancy-sponsored projects.

- Increased incomes generated by greater investments in Etosha National Park will lead to increased tourists and added value to the Namibian economy more generally. The promotion activities will result in an estimated additional 4,000 tourists per year, on average.

C. Agriculture Project

MCC interventions will improve the security of land rights, the equitableness of access to land, the productivity and sustainability of communal rangeland resources, the productivity of herds, and the efficiency of livestock marketing and quarantine in the north. These activities – in particular, the land access and management activity - will create enabling conditions for communal and poor farmers to benefit from future public investments in the livestock sector.

Despite rapid growth in the INP sector, additional funding is necessary to improve coordination in preserving scarce renewable resources, address the lack of skills of primary producers, and catalyze research and development in the sector.

Expected results of the agriculture project include:

- Over 130,000 individuals, primarily in the north, will benefit from improved market efficiency, improved land tenure security, and more equitable access to land. Fifty communities, with an average of 36 cattle-owning households, will potentially benefit from the rangeland management component.
- The INP activity is expected to increase incomes for over 200,000 households, and to increase incomes for primary producers, a majority of whom are poor and female, and for whom small increases in cash income can represent important supplementary household income.

V. Program Management

The GRN will incorporate the Compact program into its existing government systems. The National Planning Commission (“NPC”), a ministry-level government agency charged with directing development resources, has been proposed as the designated accountable entity (“MCA-Namibia”). As such, it will have overall responsibility for the oversight, management, and implementation of the program. A program implementation unit within NPC will be responsible for the day-to-day administration of the Compact. In addition, the GRN has proposed that the Ministries of Education; Agriculture, Water and Forestry; and Environment and Tourism, assist in the implementation of the specific projects to ensure integration, coordination, and sustainability of MCC’s investments.

A. MCA-Namibia Board of Directors

The NPC commissioners will serve as the MCA-Namibia Board of Directors. The commission currently consists of 14 members, six of whom are GRN officials specified

by the NPC's enabling statute, with the remaining members appointed by the President of Namibia. As the six specified GRN officials do not include representatives from the Ministry of Education or the Ministry of Environment and Tourism, the GRN has agreed that two of the appointed commission member slots will be filled with representatives from these ministries. The remaining appointed board members will be civil society and private sector members, selected by the President based on their expertise in the development field.

MCA-Namibia will rely on existing consultative committees to serve as stakeholder committees for each project. These committees include members from the public and private sectors, and civil society. They are broad-based and offer relevant technical expertise plus a solid understanding of socioeconomic and environmental realities in Namibia.

B. MCA-Namibia Program Implementation Unit

Senior management of MCA-Namibia will consist of the chief executive officer (CEO); two deputy CEOs; director of administration and finance; project director for education, tourism and agriculture; environment and social assessment manager; monitoring and evaluation manager; legal advisor; and procurement manager. In addition to other standard operational staff, much of the technical expertise will come from government affiliates. To support MCA-Namibia and strengthen financial and procurement controls, MCA-Namibia will competitively recruit an external fiscal agent and procurement agent.

VI. Program Assessment

A. Consultative Process

The GRN initiated consultations in all 13 regions of the country in mid-2006. These consultations have been ongoing particularly in those sectors that the Compact program will support. Stakeholders included government officials at national and regional levels, local authority counselors and stakeholders, regional coordination committees, regional AIDS committees, regional emergency units, land boards, farmers associations, conservancy groups, women's associations, church groups, youth groups, vulnerable members of society, non-governmental organizations, community-based organizations, and the private sector. An important and noteworthy aspect of the consultative process is the absence of major divergence between the issues identified at national and regional levels. This appears to confirm that, in general, there is consensus within Namibia on priorities for economic growth – a consensus built on previous consultative processes for Vision 2030, the National Development Plans, Participatory Poverty Assessments, and other sector-level consultations.

MCA-Namibia, in close consultation and cooperation with the stakeholders for each of the program components, will continue to consult and inform Namibians country-wide on the Compact to ensure broad-based understanding, appreciation, commitment, and ownership of the program.

B. Government Commitment

The GRN has demonstrated commitment to the Compact development process by fully funding an MCA-Namibia core team since mid-2006, undertaking efforts to enhance performance on MCC Selection Indicators, proposing an ambitious lower-middle income country (“*LMIC*”) counterpart contribution, and adopting certain sector-specific policy reforms that are complementary to the Compact activities.

- Ongoing Effort of MCA-Namibia Core Team: GRN commitment to the program is evidenced by a budgetary commitment to the Compact development process amounting to over \$1.55 million over two years, the establishment of a 13-member MCA-Namibia core team, and the provision of significant office space and equipment for the MCA-Namibia core team in Windhoek. Coordinated by MCA-Namibia, GRN officials and other non-governmental stakeholders have been engaged in refining the proposal over the past year and half.
- MCC Eligibility Criteria: The GRN is in the process of developing a Performance Improvement Plan (“*PIP*”) to enhance Namibia’s performance on the specific indicators where it falls below the median, namely girls’ primary education completion, immunization rates, natural resource management, land rights and access, costs of starting a business, and fiscal policy. In addition, the GRN has named a senior-level point of contact within the Office of the President to lead and oversee the indicator performance enhancement efforts. MCC anticipates that the GRN will submit the PIP by mid-2008.
- LMIC Country Contribution: The GRN has proposed a substantial counterpart contribution to the Compact, which primarily entails investments in complementary sector programs of ETSIP, livestock, and management and business plans for Etosha National Park. In addition, the GRN is committing to fund a significant portion of the additional line ministry staff expenses required for Compact implementation, such as increased staff resources from the Directorate of Veterinary Services and the Ministry of Education. As part of ensuring sustainability of MCC investments, the GRN will provide upfront, detailed budget commitments for all additional recurrent expenditures required for the staffing, operations, and maintenance of all infrastructure included in the Compact.
- Sector-Specific Policy Reforms: The GRN has made several notable advancements in the education, tourism, and agriculture sectors, encompassing:

Education Project

- Enactment of the National Training Fund within the Namibia Training Authority under the Vocational Education and Training Act of 2008;
- Establishment and staffing of the National Training Authority;
- Approval of a new National Textbook Policy for primary and secondary schools (2008); and
- Adoption of policies for the Colleges of Education to allow for their semi-autonomy and introduction of performance contracts.

Tourism Project

- Adoption of Ministry of Environment and Tourism Strategic Plan;
- Adoption of Etosha National Park Management Plan and Business Plan; and
- Passage of the Environmental Management Bill into law establishing mandatory environmental review and mitigation procedures in Namibia (2007).

Agriculture Project

- Drafting the Access to Genetic Resources and Associated Traditional Knowledge bill that regulates the methods of harvesting and cultivation of indigenous natural products (passage into law by the Namibian Parliament and enactment by its President pending).

C. Environmental and Social Assessment

Education Project

The education project is considered a Category B project due to the environmental and social impacts that will result from the activities. The GRN will identify and assess environmental impacts as a result of detailed design work completed prior to entry into force. Limited resettlement impacts are anticipated to result from the education project. MCA-Namibia and the Ministry of Education have been coordinating with local communities on the acquisition of land in compliance with World Bank Operational Policy 4.12 on Involuntary Resettlement in advance of the MCC investments. No resettlement impacts are anticipated to result from the infrastructure investments at the general schools.

The education project is expected to lead to beneficial gender and social impacts by providing improved services and facilities to targeted communities. The COSDECs will

benefit unemployed youth, women, and low-skilled adults by providing training in entrepreneurship, business management, and other vocational skills critical to the local labor market. The proposed improvements at the approximately 47 general schools, including the provision of water and sanitation and new construction designs that provide disability access, will improve the quality of and access to schools for female and disabled learners.

HIV/AIDS education needs strengthening as the guidance and support to teachers and trainers is limited. HIV/AIDS awareness and prevention plans will also be implemented on construction contracts, where each facility is located for the schools, COSDECs, and RSRCs.

Tourism Project

The tourism project is categorized as a Category A project due to potential site-specific environmental and social impacts in sensitive areas anticipated from the construction of national park management centers in fragile ecosystems home to small populations of vulnerable ethnic groups. Tourism development activities supported through an independent fund established to provide community-based wildlife organizations with equity shares in tourism joint-ventures and support for wildlife relocation activities will be classified as Category D. While the environmental and social impacts of Compact-supported tourism activities are not anticipated to be significant in nature, they are occurring in sensitive areas and will require mitigation through environmental management plans, as well as support to ongoing voluntary resettlement actions to provide land for the San ethnic group outside of national parks.

The construction and rehabilitation of management centers in Etosha National Park will require an environmental impact assessment and site-specific environmental management plans. Social safeguards associated with the Etosha National Park management centers will include the implementation of HIV/AIDS awareness and prevention programs for both national park staff and construction contractors, and conditions to ensure park employees have access to schools for their children.

Women and vulnerable groups have been actively involved in land management, resource governance, and revenue-generating activities through the tourism sector in Namibia, and MCC's investment will ensure their continued participation. Membership in the conservancies is almost equally split between men and women, and as of January 2006, women comprised 37 percent of all conservancy management committee members. Underrepresented groups, such as San and Himba peoples, are active members in conservancies in their traditional homelands, which provide them with revenue generating opportunities previously unavailable, and MCC funding will be used to increase economic opportunities through tourism on conservancies in San and Himba homelands.