



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to sign a Millennium Challenge Compact with the Government of Lesotho.

The transmission of this notification to Congress on April 25, 2022, affirms that the Lesotho Compact may be signed and the funds obligated on or after 15 days from the date of this notice. Please find enclosed the notification with supplemental information regarding the proposed compact.

If you require a meeting to discuss the proposed compact with the Government of Lesotho, or MCC at large, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

April 25, 2022

PROGRAM: Eligible Countries

APPROPRIATIONS CATEGORY: Fiscal Years 2014, 2019, and 2020 Program Funds

OBLIGATION AMOUNT: \$300,000,000

Pursuant to Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2014 (P.L. 113-76); Division F, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2019 (P.L. 116-6); Division G, Title III under the heading “Millennium Challenge Corporation” of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94); and section 610 of the Millennium Challenge Act of 2003, as amended (the “Act”), the Millennium Challenge Corporation (“MCC”) wishes to notify Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Lesotho (the “Government”), through which MCC will grant an amount not to exceed \$300,000,000 to the Government under the Act. To accelerate implementation of the Compact, MCC intends to obligate up to \$30,262,000 (“Compact Facilitation Funding”) of the overall grant under section 609(g) of the Act, using fiscal year 2019 funds when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$269,738,000 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total compact funding.

The Compact seeks to assist the Government of Lesotho in addressing the root causes of its binding constraint to economic growth, ineffective policy planning and coordination, in the health, financial services, and agriculture sectors. In partnering to tackle these constraints, MCC will invest in four key projects: the Health Systems Strengthening Project (the “HSS Project”), the Business Environment and Technical Assistance Project (the “BETA Project”), the Market Driven Irrigated Horticulture Project (the “MDIH Project”), and the American Catalyst Facility for Development (the “ACFD Project”) in partnership with the U.S. International Development Finance Corporation (“DFC”).

Projected Economic Justification for the Compact

Lesotho suffers from a cyclic system of a private sector that is too small to demand quality public goods and services from the government, and a government that too often delivers those goods and services based on patronage relationships instead of clear, transparent, and equitable distribution systems. Each of these projects is designed to target structurally disadvantaged populations, particularly the poor, women, and youth, and incorporates lessons learned from MCC’s other experiences in these sectors. The estimated overall compact economic rate of return (ERR) at this time is 8.9 percent; ongoing work will attempt to identify additional benefits not yet captured in the current calculation. Due to the national impact of the health project as well as

the reform-oriented nature of the Compact, the Compact is expected to benefit the entire population of Lesotho plus future citizens, about 2.5 million people¹.

Health Sector Investment. The **HSS Project** will implement policy and institutional reforms that are expected to strengthen the health system in ways that indirectly improve the quality and efficiency of health service delivery, which in turn is expected to result in improved health outcomes (reduced mortality and morbidity) and cost savings. The cost-benefit analysis explicitly incorporates the benefits of gender-based violence prevention and treatment expected to result from the investment. The project is expected to support the sustainability of PEPFAR's hard-fought achievement in reaching HIV/AIDS epidemic control. Beneficiaries of the investment are expected to include all individuals accessing public primary health care services over the course of the evaluation horizon, roughly 2.5 million people. A substantial share of benefits is expected to derive from improved maternal and child health outcomes, and therefore disproportionately accrue to women and children. The HSS Project ERR estimate is 15 percent.

Financial Services and Jobs Investment. The **BETA Project** addresses the root cause of the binding constraint by creating mechanisms to grow and support a pipeline of successful local companies, targeting structurally excluded groups like women and youth specifically, whose demand for services to make their job-creating investments possible will hold government service providers accountable. The objective of the BETA Project is to stimulate an increase in firm-level profits and formal employment from the pipeline, including for micro, small, and medium-enterprises owned by women and youth and firms in rural areas. These businesses will participate in the public-private dialogue, which results in provision of critical services. The project will intentionally target women and youth, who face relatively high barriers to investment. The cost benefit analysis for the BETA Project has two main benefit streams – the increase in returns to factors of production (land, labor, capital) that can be attributable to the BETA Project, and the increase in gross domestic product growth that results from major reform that results from the public-private dialogue component of the BETA Project. The projected total number of beneficiaries of the BETA Project is approximately 6,000. The BETA Project ERR estimate is 12 percent.

Agriculture Sector Investment. The **MDIH Project** provides public goods and services to a system that has structurally excluded rural smallholders, particularly women, youth, and the poor. The comprehensive design of infrastructure, human capacity development, financing, and institutional reforms supports the establishment of new, Basotho-owned, small-scale enterprises. The overall MDIH Project ERR is currently estimated at 4 percent but is expected to generate high development impact that has not yet been fully captured in our modeling:

- The project is expected to generate additional horticultural benefits beyond the direct intervention area (measured in the ERR) by supporting policy and institutional reforms to resolve government coordination problems, enhance transparent, secure, and sustainable access to land and water, and target enhanced inclusion of women and youth. The

¹ This number includes beneficiaries affected during the 20-year period following the end of the Compact Term and reflects population growth over that time. [2019 Revision of World Population Prospects \(2019\). United Nations. Site: https://population.un.org/wpp/.](https://population.un.org/wpp/)

institutional reform activities are expected to generate some non-horticulture benefits that are difficult to quantify for ERR purposes. Due to COVID-19 delays, MCC expects to complete data collection to estimate benefits to rural land reform in mid-2022 which is likely to further increase the project ERR.

- In response to evidence from previous MCC project evaluations, the project has a number of features designed to increase economic returns and sustainability. To help coordinate value chain issues, the project will seek out commercial anchor farmers to help provide access to finance markets and other value chain services that small scale farmers typically lack. Furthermore, the project will invest in additional human capacity and financing support, directly to small scale farmers. Some of these necessary new interventions increase the costs of the project relative to previous MCC irrigation efforts.
- There are important design aspects to the project that support broadening inclusion, including improving gender outcomes. In the direct intervention area, MCC is collecting data to calculate additional benefits from a new approach as a result of the interventions that reduce barriers to women's entry into self-employment. A partial beneficiary analysis performed early in the design of the MDIH Project ensured that the sites chosen targeted poor farmers. The preliminary analysis suggests that the income impact on poor and extreme-poor household beneficiaries per MCC dollar spent is around twice what they would receive from an economy project with a 10% ERR.
- There are further potential benefit streams arising from environmental externalities that are not currently captured in the ERR as additional due diligence work is completed. MCC notes the cost benefit analysis currently captures only a small representation of the total ecosystem services benefits that are likely to accrue to the project and its beneficiaries over the lifetime of its implementation. Other ecosystem service benefits that are likely to accrue to the project but are difficult to value include ground water recharge, pest control, and ecotourism, among others.

The MDIH Project's disproportional impact on the poor, targeted inclusion of women and youth in rural areas, and alignment with the Government's strategic priorities in the sector make it a compelling investment despite its currently atypical ERR. This comprehensive irrigated horticulture investment will support future growth opportunities related to the horticulture value chain that will serve to diversify Lesotho's export base and support more sustainable growth opportunities with greater resilience to climate change. The estimated number of direct beneficiaries of the project is 10,000. Furthermore, additional analysis finds that for every dollar of additional production due to the MCC intervention, there is another 23 percent of indirect benefits anticipated. Therefore, depending on the employment patterns outside of irrigated horticulture, the number of indirect beneficiaries could be an additional 2,300, for a total of 12,300 beneficiaries.

Financial Services Sector Investment. The **ACFD Project** will directly leverage DFC funding to support private investment in Lesotho. MCC funds will be used to de-risk DFC-led private

sector investments. The ERR assessment and cost-benefit analysis excludes the ACFD Project as DFC will lead on identification of potential investments and MCC will coordinate to help identify potential investments that align with the goals, activities, and timeline of the Compact. The beneficiaries of the ACFD Project will be identified as specific investments are identified.

PROPOSED LESOTHO COMPACT SUPPLEMENTAL INFORMATION

Overview of MCC Lesotho Compact

The Board of Directors of MCC has approved a five-year compact with the Government in the amount of \$300,000,000 aimed at reducing poverty through economic growth. The compact seeks to assist the Government in addressing the binding constraint to economic growth of ineffective policy planning, coordination, and execution. The compact will address this constraint through four key projects that seek to grow, strengthen, and organize the private sector in Lesotho by improving health outcomes for a healthy workforce, supporting the creation and viability of private businesses unconnected to existing patronage systems, and investing in the horticulture sector. MCC expects that providing infrastructure and capacity building in a specific sector, promoting business development, and ensuring access to healthcare will contribute to broader, longer-term efforts to support private sector growth to create a constituency that demands more effective and efficient governance.

Background and Context

The Kingdom of Lesotho is a mountainous, landlocked country approximately the size of Maryland, surrounded by South Africa. Of its 2 million population, approximately 60 percent live below the poverty line. The country is highly unequal economically, with a GINI coefficient of 44.6, in the top fifth of countries. Poverty and economic inequality in Lesotho have many drivers, including the mountainous geography (poverty is highly correlated with remoteness from urban centers), high political instability, and pervasive gender discrimination.

Lesotho's political environment is characterized by an unusual degree of turnover and instability that has grown acute in the last decade. This turmoil contributes heavily to the constraint of ineffective governance in Lesotho and generates a political and governing class essentially focused on short-term self-interest to the exclusion of developing and implementing long-term, poverty-alleviating policy. Immediately prior to and following Lesotho's reselection by MCC's Board in December of 2017, the Thabane administration presided over a period of relative political calm in Lesotho. The Government made strides towards addressing needed political reforms, including establishing the National Reforms Authority. In May 2020 Prime Minister Thabane resigned, and the ruling coalition selected former finance minister Moeketsi Majoro as the new Prime Minister. Since that time, Prime Minister Majoro has endured a series of no-confidence votes, and his administration has focused chiefly on political survival, resulting in numerous ministerial shuffles. This dynamic is representative of Basotho politics, yet still reflects a period of comparative stability in contrast to the overt political violence that led to the hiatus period from 2015-2017.

This instability is further reflected in the challenges the Government has had in passing key reform legislation like the Harmonization Bill, a law aimed at reconciling Lesotho's dual legal systems to cement equal civil and political rights for women across the whole of the national territory. The difficulty in passing the Harmonization Bill also reflects the pervasive gender discrimination that characterizes Basotho society and hinders social and economic development. Despite progress under MCC's 2008 compact with the Government, including passage of the Legal Capacity of Married Persons Act, which laid the groundwork for the Harmonization Bill,

many laws, institutions, and social norms remain discriminatory, limiting women’s economic participation and empowerment—most pervasively in rural Lesotho.

Compact Overview and Budget

Below is a summary of and budget for the components of the compact.

Lesotho II Compact Total Program Budget			
Component	Compact Facilitation Funds	Compact Implementation Funds	Total Program Funds
Health Systems Strengthening Project	2,099,000	73,306,000	75,405,000
Activity 1: PHC Service Provision	879,000	29,459,000	30,338,000
Activity 2: DHMT Reform	931,000	21,610,000	22,541,000
Activity 3: Digital Health	289,000	22,237,000	22,526,000
Business Environment and Technical Assistance Project	4,500,000	57,500,000	62,000,000
Activity 1: Pipeline Development	2,000,000	27,000,000	29,000,000
Activity 2: Strengthening the Business Ecosystem	1,500,000	18,500,000	20,000,000
Activity 3: Financial Ecosystem Strengthening	1,000,000	12,000,000	13,000,000
Market-Driven Irrigated Horticulture Project	13,877,000	104,745,000	118,622,000
Activity 1: Insitutional Reform	3,025,000	19,175,000	22,200,000
Activity 2: Irrigated Horticulture Support Services	4,890,000	24,220,000	29,110,000
Activity 3: Irrigation Infrastructure Development	5,962,000	61,350,000	67,312,000
American Catalyst Facility for Development Project	-	3,000,000	3,000,000

Lesotho II Compact Total Program Budget			
Component	Compact Facilitation Funds	Compact Implementation Funds	Total Program Funds
Activity 1: American Catalyst Facility for Development	-	3,000,000	3,000,000
Monitoring and Evaluation	200,000	2,800,000	3,000,000
Activity 1: Monitoring and Evaluation	200,000	2,800,000	3,000,000
Program Administration	9,586,000	28,387,000	37,973,000
Activity 1: MCA-Lesotho II Administration	7,686,000	18,267,000	25,953,000
Activity 2: Fiscal Agent	900,000	4,800,000	5,700,000
Activity 3: Procurement Agent	900,000	4,800,000	5,700,000
Activity 4: Audits	100,000	520,000	620,000
Total Compact Program Investment	30,855,000	291,418,000	322,273,000
MCC Funding	30,262,000	269,738,000	300,000,000
Government of Lesotho Contribution	593,000	21,680,000	22,273,000

Project Summaries

The projects and activities of the compact are:

The objective of the **Health Systems Strengthening (HSS) Project** is to improve the delivery of health services and management of the primary health care system in Lesotho resulting in improved health outcomes and reduced per unit treatment cost. The project includes three activities:

- *Primary Health Care Service Provision Activity* – This activity will support the Ministry of Health (MOH) to improve primary healthcare services from ministry-level management to clinic-level standards of care.
- *District Health Management Team (DHMT) Reform Activity* – This activity will expand health financial systems and management capacity to the district level.
- *Digital Health Services Activity* – This activity will work with the MOH and other stakeholders to ensure that health data systems are interoperable and protect sensitive personal information.

The objective of the **Business Environment and Technical Assistance (BETA) Project** is to stimulate an increase in firm-level profits and formal employment from a pipeline of supported firms (BETA pipeline), including for micro, small, and medium enterprises owned by women and youth and in rural areas. These businesses will participate in the public-private dialogue, which results in provision of critical services to improve the business enabling environment. This project is organized into three activities:

- *Pipeline Development Activity* – This activity will identify, build and connect existing and new high-growth potential firms to direct technical assistance and business development services to support increased firm level profits and business maturation. This activity will provide grants to select women- and youth-owned businesses to purchase equipment and goods to facilitate business plan implementation.
- *Business Ecosystem Strengthening Activity* – This activity strengthens the public-private dialogue mechanism to increase private sector participation in policy decisions and improve delivery of critical services to improve the business environment.
- *Financial Ecosystem Strengthening Activity* – This activity will increase financing options for micro, small, and medium enterprises and large firms by structuring financing vehicles that address access to credit issues for firms across the size spectrum and building the capacity of financial sector actors to develop and deliver innovative financial products.

The objectives of the **Market Driven Irrigated Horticulture (MDIH) Project** are to:

(i) increase rural incomes related to commercial horticulture, including for women, youth, and the rural poor, and establish a sustainable and inclusive model of irrigation, water resource, and land management. The project's implementation is contingent upon the identification of one or more commercial anchor farmers who will collaborate with local smallholder farmers to improve and sustain best practices in horticulture and to provide a financially viable path for all project stakeholders to remain active in horticulture production after the end of the compact. The project is composed of three activities:

- *Institutional Reform Activity* – This activity will work directly with Government partners to ensure that irrigation has strong legal and policy frameworks to support the growth of irrigation throughout the country, which is equitable and sustainable.
- *Irrigated Horticulture Support Services Activity* – This activity will help participants overcome the obstacles to sustaining irrigation schemes by providing relevant technical assistance and attracting experienced commercial farmers in the form of an anchor farmer or joint venture partnership to help leverage smallholder efforts and sustain the infrastructure investment.
- *Irrigation Infrastructure Development Activity* – This activity includes the development of up to 2,000 hectares of irrigated land at several sites still under study. Further feasibility and design work to be conducted prior to entry into force of the compact will refine the size and location of the irrigation perimeters and identify measures for environmental and social sustainability. Commercial farmer investments are necessary to ensure economic justification and sustainability of the investment.

The compact program also includes a \$3 million allocation for the **American Catalyst Facility for Development (ACFD) Project**. The purpose of this funding is to support blended finance transactions that will catalyze private investment into Lesotho. MCC and the Development

Finance Corporation (DFC) have been in discussions for over two years about potential investments including a small-medium enterprise working and growth capital fund, agriculture sector investments, and projects in the health sector. These investment areas and potentially other areas by DFC have the potential to contribute to DFC's broader southern African region investment strategy.

Policy Reforms in the Compact

The compact program will require passage of several reforms that are important to the success of all projects. Three of the reforms aim to address gender equality issues and rights. This includes passage of the Harmonization Bill to close legal gaps that allow rural women to be treated as legal minors, adoption of key inheritance reforms to allow women and daughters to inherit land and assets from their parents or spouse, and enactment of the Counter Domestic Violence Bill which addresses gaps in legal protections for women by defining domestic violence, ascribing penalties, and outlining the responsibilities of ministries and police in responding. The Counter Domestic Violence Bill is directly linked to the planned gender-based violence interventions in the HSS Project. Finally, the compact program will require passage of the Labor Bill which includes worker rights and health and safety requirements. All of these legal actions are in final form and are actively supported by donor institutions. The Government has committed to establishing an Investment Climate Cabinet Sub-committee dedicated to overseeing progress on the compact related reform commitments and is currently working on an action plan to achieve these reforms by entry into force.

The HSS Project is a reform project and will offer technical assistance and use results-based financing to achieve and incentivize reforms. Digital health technical assistance will offer the data and analysis tools required for the Ministry of Health to make evidence-based technical and resource decisions. The project will support system, policy, and behavioral reforms to incentivize the improved management and provision of high-quality primary health care services.

Several reforms will be pursued to ensure the success of the BETA Project. This will include the establishment of a public-private dialogue mechanism, development of policy, regulatory and institutional framework for horticulture standards and certification and quality conformity, and assessment of the policy, regulatory and legal reforms that could enable greater access to finance for micro, small, and medium enterprises by strengthening financial institutions.

The MDIH Project requires extensive reforms in gender, land, and water in order to implement and sustain the project and establish a conducive environment for the Government to replicate the project. The reforms to be implemented during the compact term are described in the Institutional Reform Activity as well as the Irrigated Horticulture Support Services Activity. There are several conditions precedent for the MDIH Project that include: gender equity reforms, labor reforms, and a Letter of Intent from experienced commercial farmers in the form of anchor farmers or joint venture partnerships that express their intent to participate in the irrigation infrastructure. The compact program offers extensive technical assistance in achieving the reform agenda. Using remaining compact development funds, MCC's counterpart office in Lesotho is offering assistance to the Ministry of Trade and Industry to revise their Business and Licensing Regulations in order to achieve the common goals of protecting and promoting small

Basotho-owned businesses while also attracting large foreign direct investment particularly in the horticulture sector.

Update and Sustainability of the 2008 Lesotho Compact

The \$362 million Lesotho Compact concluded in September 2013 and invested in the health and water sectors as well as in private sector development. Through the compact's health and water projects, MCC and the Government trained health practitioners in infection, prevention, and disease control, renovated over 130 health centers, and built or rehabilitated infrastructure to provide clean water and sanitation services, including water reservoirs, pumping stations, latrines, and wetlands water retention structures. The private sector project led to improvements in the volume of land transactions, the time taken to conduct land transactions, and the number of women holding land leases.

The Government has contracted routine maintenance of the health clinics rehabilitated by the compact to ensure their sustainability. MCC continues to engage the Government to stress the importance of sustaining compact investments; this year, the Government committed to level funding for clinic maintenance despite severe pressures on the Government's budget resulting from the pandemic. However, the Government has consistently struggled to fully fund the maintenance activities and some services have been reduced to emergency-response only. The Lesotho Land Administration Authority (LAA), established under the private sector project, continues to operate, as does the System for Open Land Administration land information system. Monitoring data shows there is continued demand for land transactions at the LAA, including first-time land leases and secondary transactions, and continued participation by women. The LAA, however, is not financially independent and still relies on Government allocations for its operations.