

MILLENNIUM CHALLENGE COMPACT
BETWEEN
THE UNITED STATES OF AMERICA,
ACTING THROUGH
THE MILLENNIUM CHALLENGE CORPORATION
AND
THE KINGDOM OF LESOTHO,
ACTING THROUGH
THE MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL RELATIONS

MILLENNIUM CHALLENGE COMPACT

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MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this “*Compact*”) is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“*MCC*”), and the Kingdom of Lesotho, acting through the Ministry of Foreign Affairs and International Relations (the “*Government*”) (individually, a “*Party*” and collectively, the “*Parties*”). As used in this Compact, the terms listed in Annex V shall have the respective meanings provided therein.

Recalling that the Parties successfully concluded an initial Millennium Challenge Compact (which entered into force on September 17, 2008, and expired by its terms on September 17, 2013) that advanced the progress of Lesotho in achieving lasting economic growth and poverty reduction, demonstrated the strong partnership between the Parties, and was implemented in accordance with MCC’s core policies and standards;

Recognizing that the Parties are committed to the shared goals of promoting economic growth and the elimination of extreme poverty in Lesotho and that MCC assistance under this Compact supports Lesotho’s demonstrated commitment to strengthening good governance, economic freedom and investments in people;

Recalling that the Government consulted with the private sector and civil society of Lesotho to determine the priorities for the use of MCC assistance and developed and submitted to MCC a proposal for such assistance to achieve lasting economic growth and poverty reduction; and

Recognizing that MCC wishes to help Lesotho implement the program described herein to achieve the goal and objectives described herein (as such program description and objectives may be amended from time to time in accordance with the terms of this Compact, the “*Program*”).

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty through economic growth in Lesotho (the “*Compact Goal*”). MCC shall provide assistance in a manner that strengthens good governance, economic freedom, and investments in the people of Lesotho.

Section 1.2 Project Objectives. The Program consists of the four projects described in Annex I (each a “*Project*” and collectively, the “*Projects*”). The objective of each of the respective Projects (each a “*Project Objective*” and collectively, the “*Project Objectives*”) is:

(a) to improve health outcomes through strengthening Lesotho’s primary health care (PHC) system (the “*HSS Project Objective*”);

(b) to 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 “**MDIH Project Objective**”);

(c) to stimulate an increase in firm-level profits and formal employment from a pipeline of Firms supported by the Project, including MSMEs owned by women and youth and Firms in rural areas (the “**BETA Project Objective**”); and

(d) to facilitate DFC¹ investments in Lesotho (the “**ACFD Project Objective**”).

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 Program Funding.

Upon entry into force of this Compact in accordance with Section 7.3, MCC shall grant to the Government, under the terms of this Compact, an amount not to exceed Two Hundred Sixty-Nine Million Seven Hundred Thirty-Eight Thousand United States Dollars (US\$269,738,000) (“**Program Funding**”) for use by the Government to implement the Program. The multi-year allocation of Program Funding is generally described in Annex II.

Section 2.2 Compact Facilitation Funding.

(a) Upon the signing of this Compact, MCC shall grant to the Government, under the terms of this Compact and in addition to the Program Funding described in Section 2.1, an amount not to exceed Thirty Million Two Hundred Sixty-Two Thousand United States Dollars (US\$30,262,000) (“**Compact Facilitation Funding**” or “**CFF**”) under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the “**MCA Act**”), for use by the Government to facilitate implementation of this Compact, including for the following purposes:

- (i) financial management and procurement activities;
- (ii) administrative activities (including start-up costs such as staff salaries) and administrative support expenses such as rent, computers, and other information technology or capital equipment;
- (iii) monitoring and evaluation activities;
- (iv) feasibility, design, and other project preparatory studies; and
- (v) other activities to facilitate Compact implementation as approved by MCC.

¹ DFC or the US International Development Finance Corporation is the US Government’s development bank whose mission is to mobilize investments that produce positive developmental impacts in lower income countries.

The allocation of CFF is generally described in Annex II.

(b) In accordance with Section 7.5, this Section 2.2, and other provisions of this Compact applicable to CFF shall be effective, for purposes of CFF only, as of the date this Compact is signed by MCC and the Government.

(c) Each Disbursement of CFF (other than any Disbursement for the MCC Contracted CFF Activities) is subject to satisfaction of the conditions precedent to such disbursement as set forth in Annex IV.

(d) If MCC determines that the full amount of CFF available under Section 2.2(a) exceeds the amount that reasonably can be utilized for the purposes set forth in Section 2.2(a), MCC, by written notice to the Government, may withdraw the excess amount, thereby reducing the amount of the CFF available under Section 2.2(a) (such excess, the “**Excess CFF Amount**”). In such event, the amount of CFF granted to the Government under Section 2.2(a) shall be reduced by the Excess CFF Amount, and MCC shall have no further obligations with respect to such Excess CFF Amount.

(e) MCC, at its option by written notice to the Government, may elect to grant to the Government an amount equal to all or a portion of such Excess CFF Amount as an increase in the Program Funding, and such additional Program Funding shall be subject to the terms and conditions of this Compact applicable to Program Funding.

(f) Without limiting the generality of Section 2.2(a), the Government agrees that MCC shall directly administer and manage a portion of the Compact Facilitation Funding for the purpose of facilitating the hiring of MCA-Lesotho II staff and for such other purposes as may be agreed in writing by the Parties (the “**MCC Contracted CFF Activities**”). Notwithstanding anything to the contrary in this Compact or the Program Implementation Agreement, MCC shall utilize applicable United States Government procurement rules and regulations in any procurements it administers and manages in connection with MCC Contracted CFF Activities and shall disburse Compact Facilitation Funding from time to time for the MCC Contracted CFF Activities directly to the relevant providers upon receipt of valid invoices approved by MCC.

Section 2.3 MCC Funding.

Program Funding and CFF are collectively referred to in this Compact as “**MCC Funding**,” and includes any refunds or reimbursements of Program Funding or CFF paid by the Government in accordance with this Compact. The total amount of MCC Funding made available under this Compact shall not exceed Three Hundred Million United States Dollars (US\$300,000,000).

Section 2.4 Disbursement.

In accordance with this Compact and the Program Implementation Agreement, MCC shall disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a “**Disbursement**”). Subject to the satisfaction of all applicable conditions precedent,

Disbursements shall be made available to the Government, at MCC's sole election, by (a) deposit to one or more bank accounts established by the Government and acceptable to MCC (each, a "***Permitted Account***") or (b) direct payment to the relevant provider of goods, works or services for the implementation of the Program. MCC Funding may be expended only for Program expenditures.

Section 2.5 Interest. The Government shall pay or transfer to MCC, in accordance with the Program Implementation Agreement, any interest or other earnings that accrue on MCC Funding prior to such funding being used for a Program purpose.

Section 2.6 Government Resources; Budget.

(a) Consistent with the *Guidelines for Country Contributions*, the Government shall make a contribution of no less than Twenty-Two Million Two Hundred Seventy-Three Thousand United States Dollars (US\$22,273,000) over the Compact Term toward meeting the Project Objectives of this Compact (the "***Government Contribution***"). The yearly allocation of the Government Contribution is generally described in Annex II, and a more detailed allocation shall be described in the Program Implementation Agreement, along with additional terms and conditions applicable to the Government Contribution. The Government Contribution shall be subject to any legal requirements in Lesotho for the budgeting and appropriation of such contribution, including approval of the Government's annual budget by its legislature. During implementation of the Program, the Government Contribution may be modified with MCC approval as provided in the *Guidelines for Country Contributions*, provided that the modified contribution continues to advance the Project Objectives. In addition, the Government shall provide all funds and other resources, and shall take all other actions, that are necessary to carry out the Government's responsibilities under this Compact.

(b) The Government shall use its best efforts to ensure that all MCC Funding it receives or is projected to receive in each of its fiscal years is fully accounted for and identified in its annual budget for the duration of the Program.

(c) The Government shall not reduce the normal and expected resources that it would otherwise receive or budget from sources other than MCC for the activities contemplated under this Compact and the Program.

(d) Unless the Government discloses otherwise to MCC in writing, MCC Funding shall be in addition to the resources that the Government would otherwise receive or budget for the activities contemplated under this Compact and the Program.

Section 2.7 Limitations on the Use of MCC Funding. The Government shall ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing, including but not limited to the following purposes:

(a) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard, as further described in MCC's *Environmental Guidelines* and any guidance documents issued in connection with such guidelines (collectively, the "***Environmental Guidelines***"); or

(d) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.8 Taxes.

(a) Unless the Parties specifically agree otherwise in writing, the Government shall ensure that all MCC Funding is free from the payment or imposition of any existing or future taxes, duties, levies, contributions or other similar charges (but not fees or charges for services that are generally applicable in Lesotho, reasonable in amount and imposed on a non-discriminatory basis) ("***Taxes***") of or in Lesotho (including any such Taxes imposed by a national, regional, local or other governmental or taxing authority of or in Lesotho). Specifically, and without limiting the generality of the foregoing, MCC Funding shall be free from the payment of (i) any tariffs, customs duties, import taxes, export taxes, and other similar charges on any goods, works or services introduced into Lesotho in connection with the Program; (ii) sales tax, value added tax, excise tax, property transfer tax, and other similar charges on any transactions involving goods, works or services in connection with the Program, (iii) taxes and other similar charges on ownership, possession or use of any property in connection with the Program, and (iv) taxes and other similar charges on income, profits, or gross receipts attributable to work performed in connection with the Program, and related social security taxes and other similar charges on all natural or legal persons performing work in connection with the Program. For the avoidance of doubt, in the case of the foregoing clause (iv), natural and legal persons shall remain subject to taxation in their home jurisdictions (but excluding MCA-Lesotho II and any other entity formed for the purpose of implementing the Government's obligations hereunder).

(b) The mechanisms that the Government shall use to implement the tax exemption required by Section 2.8(a) for certain principal Taxes are set forth in Annex VI. Such mechanisms may include exemptions from the payment of Taxes that have been granted in accordance with applicable law, refund or reimbursement of Taxes by the Government to MCC, MCA-Lesotho II or to the taxpayer, or payment by the Government to MCA-Lesotho II or MCC, for the benefit of the Program, of an agreed amount representing any collectible Taxes on the items described in Section 2.8(a). For the avoidance of doubt, the identification (or lack of identification) of Taxes on Annex VI shall in no way limit the scope of the tax-free treatment required by this Section 2.8. In addition, the Government shall from time to time execute and

deliver, or cause to be executed and delivered, such other instructions, instruments or documents, and to take or cause to be taken such other actions as may be necessary or appropriate in the determination of MCC, in order to implement the provisions of this Section 2.8.

(c) Unless otherwise specifically provided herein or in the PIA, if a Tax has been paid contrary to the requirements of Section 2.8(a), the Government shall refund promptly to MCC (or to another party as designated by MCC) the amount of such Tax in United States dollars or the currency of Lesotho within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or MCA-Lesotho II) that such Tax has been paid. Failure to refund such amount within the specified time shall result in interest accruing on the unpaid amount in accordance with Section 5.4.

(d) The Government shall not apply any MCC Funding, any proceeds thereof or any Program Assets to satisfy its obligations under Section 2.8(c).

ARTICLE 3.

IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Parties shall enter into an agreement providing further detail on the implementation arrangements, fiscal accountability and disbursement, and use of MCC Funding and the Government Contribution, among other matters (the “**Program Implementation Agreement**” or “**PIA**”); and the Government shall implement the Program in accordance with this Compact, the PIA, any other Supplemental Agreement and any Implementation Letter.

Section 3.2 Government Responsibilities.

(a) The Government has principal responsibility for overseeing and managing the implementation of the Program.

(b) The Government hereby designates an entity to be established as an autonomous entity through an act of the Lesotho Parliament, as the accountable entity to implement the Program and to exercise and perform the Government’s right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Projects and their Activities, allocating resources, and managing procurements. Such entity shall be referred to herein as “**MCA-Lesotho II**,” and shall have the authority to bind the Government with regard to all Program activities. The Government hereby also designates MCA-Lesotho II to exercise and perform the Government’s right and obligation to oversee, manage, and implement the activities described in the Grant and Implementation Agreement, dated February 20, 2019, by and between the Government and MCC (as amended or otherwise modified, the “**CDF Agreement**”). The designation contemplated by this Section 3.2(b) does not relieve the Government of any obligations or responsibilities hereunder or under any related agreement, for which the Government remains fully responsible, and any provision of this Compact, the PIA or any Supplemental Agreement obligating MCA-Lesotho II to take any action or refrain from

taking any action, as the case may be, means the Government shall cause MCA-Lesotho II to take such action or refrain from taking such action, as the case may be. MCC hereby acknowledges and consents to the designation in this Section 3.2(b).

(c) The Government shall ensure that any Program Assets or services funded in whole or in part (directly or indirectly) by MCC Funding are used solely in furtherance of this Compact and the Program unless MCC agrees otherwise in writing.

(d) The Government shall take all necessary or appropriate steps to achieve each of the Project Objectives during the Compact Term (including, without limiting Section 2.6(a), funding all costs that exceed MCC Funding and are required to carry out the terms hereof and achieve such objectives, unless MCC agrees otherwise in writing).

(e) The Government shall ensure that the Program is implemented, and that the Government carries out its obligations hereunder, with due care, efficiency, and diligence in conformity with sound technical, financial, and management practices, and in conformity with this Compact, the Program Implementation Agreement, each Supplemental Agreement, each Implementation Letter, and the Program Guidelines.

(f) Subject to Section 3.6(b), the Government retains the ownership rights, including the right to use, all Intellectual Property developed under the Program; and also hereby grants to MCC a perpetual, irrevocable, royalty-free, worldwide license (including the right to assign such license) to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify, or make available) any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or hereafter developed, for any purpose whatsoever related to furthering its mission. MCC and the Government may describe any Intellectual Property developed during the Compact Term in an Implementation Letter. For the avoidance of doubt, the Government hereby waives any license fees and agrees that MCC shall have no financial liability to the Government for the license.

Section 3.3 Policy Performance. In addition to undertaking the specific policy, legal, and regulatory reform commitments identified in Annex I (if any), the Government shall seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the MCA Act, and the selection criteria and methodology used by MCC.

Section 3.4 Accuracy of Information. The Government assures MCC that, as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement with MCC on this Compact is true, correct, and complete in all material respects.

Section 3.5 Implementation Letters. From time to time, MCC may provide guidance to the Government in writing on any matters relating to this Compact, MCC Funding or implementation of the Program. The Government shall use such guidance in implementing the Program. The Parties may also issue jointly agreed upon writings to confirm and record their mutual understanding on aspects related to the implementation of this Compact, the PIA or other

related agreements, including any agreed upon revisions, exceptions or modifications that are permitted hereunder. Such writings are referred to herein as “**Implementation Letters.**”

Section 3.6 Procurement and Grants.

(a) The Government shall ensure that the procurement of all goods, works, and services to implement the Program shall be in accordance with MCC’s *Program Procurement Guidelines* (the “**Program Procurement Guidelines**”). Accordingly, neither the Lesotho Public Procurement Regulations of 2007 (as amended) nor any other laws, regulations or policies of Lesotho regarding procurements shall apply to procurements to implement the Program. The Program Procurement Guidelines include the following requirements, among others:

(i) open, fair, and competitive procedures must be used in a transparent manner to solicit, award, and administer contracts and to procure goods, works, and services;

(ii) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works, and services to be acquired;

(iii) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and

(iv) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, works, and services.

(b) The Government shall ensure that any grant issued in furtherance of the Program (each, a “**Grant**”) is awarded, implemented, and managed pursuant to open, fair, and competitive procedures in accordance with MCC’s *Program Grant Guidelines* (the “**Program Grant Guidelines**”).

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents, and other evidence relating to the Program adequate to show, to MCC’s satisfaction, the use of all MCC Funding and the Government Contribution to the implementation and results of the Program (“**Compact Records**”). In addition, the Government shall furnish or cause to be furnished to MCC, upon its request, originals or copies of such Compact Records.

(b) Accounting. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government’s option and with MCC’s prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Board, or (ii) then prevailing in Lesotho. Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for

such longer period, if any, required to resolve any litigation, claims or audit findings or any applicable legal requirements.

(c) Access. Upon MCC's request, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General of MCC ("***Inspector General***"), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review, or evaluation of the Program, the opportunity to audit, review, evaluate, or inspect facilities, assets, and activities funded in whole or in part by MCC Funding or the Government Contribution.

Section 3.8 Audits; Reviews.

(a) Government Audits. The Government shall, on at least an annual basis (or on such other intermittent basis as requested by MCC in writing), conduct, or cause to be conducted, financial audits and review engagements of all Disbursements of MCC Funding and the Government Contribution covering the period from signing of this Compact until the following March 31 or September 30 and covering each twelve-month period thereafter, through the end of the Compact Term, as well as the 120-day period following the expiration of the Compact Term. All such audits shall be performed in accordance with and subject to the terms of the *Accountable Entities Guidelines for Contracted Financial Audits* (the "***Audit Guidelines***") or such other processes and procedures as MCC may direct from time to time. In addition, the Government shall ensure that such audits are conducted by an independent auditor approved by MCC and selected in accordance with the Audit Guidelines. Each audit must be completed, and the draft audit report delivered to MCC no later than 120 days after the applicable audit period, or such other period as the Parties may otherwise agree in writing. Any changes to the period to be audited shall be included in an audit plan developed and implemented by MCA-Lesotho II in accordance with the Audit Guidelines and Program Implementation Agreement and as approved by MCC (the "***Audit Plan***") or as agreed by the Parties in writing.

(b) Audits of Other Entities. The Government shall ensure that MCC-financed agreements between the Government and any Covered Provider state that the Covered Provider is subject to audit in accordance with the Audit Guidelines.

(c) Corrective Actions. The Government shall use its best efforts to ensure that each Covered Provider (i) takes, where necessary, appropriate, and timely corrective actions in response to audits, (ii) considers whether the results of the Covered Provider's audits necessitate adjustment of the Government's records, and (iii) permits independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC shall have the right to arrange for audits of the Government's use of MCC Funding.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact.

ARTICLE 4.

COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact must be in writing and, except as otherwise agreed with MCC, in English. All such documents or communication must be submitted to the address of each Party set forth below or to such other address as may be designated by any Party in a written notice to the other Party.

To MCC:

Millennium Challenge Corporation
Attention: Vice President, Compact Operations
(with a copy to the Vice President and General Counsel)
1099 Fourteenth Street, NW Suite 700
Washington, DC 20005
United States of America
Facsimile: +1 (202) 521-3947
Telephone: +1 (202) 521-3600
Email: VPOperations@mcc.gov (Vice President, Compact Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Ministry of Finance
Attention: Minister of Finance
Finance House, Level 3
PO Box 395
Maseru
Lesotho
Telephone: +266 22 323703

To MCA-Lesotho II:

Upon establishment of MCA-Lesotho II, the Government shall notify the Parties of the contact details for MCA-Lesotho II.

Section 4.2 Representatives. For all purposes relevant to implementation of this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Minister of Finance of the Kingdom of Lesotho, and MCC shall be represented by the individual holding the position of, or acting as, Vice President, Compact Operations (each of the foregoing, a “**Principal Representative**”). Each Party, by written notice to the other Party, may designate one or more additional representatives of the Government or MCC, as appropriate (each, an “**Additional Representative**”) for all purposes relevant to implementation of this Compact except

for amending this Compact pursuant to Section 6.2(a). The Government hereby designates the future Chief Executive Officer (or equivalent officer) of MCA-Lesotho II as an Additional Representative for the Government. MCC hereby designates the Deputy Vice President, Department of Compact Operations (Africa) and the Resident and Deputy Resident Country Directors for Lesotho as Additional Representatives for MCC. A Party may change its Principal Representative to a new representative that holds a position of equal or higher authority upon written notice to the other Party.

Section 4.3 Signatures. Signatures to this Compact and to any amendment to this Compact shall be original signatures appearing on the same page or in an exchange of letters or diplomatic notes.

ARTICLE 5.

TERMINATION; SUSPENSION; EXPIRATION

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days' prior written notice. MCC may also terminate MCC Funding in part by giving the Government thirty (30) days' prior written notice.

(b) MCC may, immediately, upon written notice to the Government, suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC as a basis for suspension or termination (as notified to the Government in writing) has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) any statement, affirmation or assurance of the Government made or deemed made in this Compact, the PIA, any Supplemental Agreement, or in any certificate or other document delivered in connection with this Compact proves to have been incorrect or misleading as of the date when made or deemed made;

(iii) an event or series of events has occurred that makes it probable that any of the Project Objectives is not going to be achieved during the Compact Term, or that the Government is not going to be able to perform its obligations under this Compact;

(iv) a use of MCC Funding or continued implementation of this Compact or the Program violates applicable law or United States Government policy, whether now or hereafter in effect;

(v) the Government or any other person or entity receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(vi) an act has been committed or an omission or an event has occurred that would render Lesotho ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq.*), by reason of the application of any provision of such act or any other provision of law;

(vii) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Lesotho for assistance under the MCA Act;

(viii) Lesotho is classified as a Tier 3 country in the United States Department of State's annual Trafficking in Persons Report; and

(ix) a person or entity receiving MCC Funding or using Program Assets is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

Section 5.2 Consequences of Termination, Suspension or Expiration.

(a) Upon the suspension or termination, in whole or in part, of this Compact or any MCC Funding, or upon the expiration of this Compact, the provisions of Section 4.2 of the Program Implementation Agreement shall govern the post-suspension, post-termination or post-expiration treatment of MCC Funding, any related Disbursements, and Program Assets. Any portion of this Compact, MCC Funding, the Program Implementation Agreement or any other Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(b) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.3 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any Program Asset is used for any purpose in violation of the terms of this Compact, then MCC may require the Government to repay to MCC in United States Dollars the value of the misused MCC Funding, interest, earnings, or asset, plus interest thereon in accordance with Section 5.4 within thirty (30) days after the Government's receipt of MCC's request for repayment. The Government shall not use MCC Funding, proceeds thereof or any Program Assets to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under Section 5.3(a) to obtain a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.4 Late Payment Interest. If the Government fails to pay any amount under this Compact or the Program Implementation Agreement when due (including amounts under Sections 2.8(c) and 5.3(a)), the Government shall pay interest on such past due amount. Interest shall accrue on such amount at a rate equal to the then current US Treasury Current Value of Funds Rate, calculated on a daily basis and a 360-day year from the due date of such payment until such amount is paid in full. Any such payment shall first be credited against interest due, and once the interest due amount is extinguished, then payments shall be credited against outstanding principal.

Section 5.5 Survival. The Government's responsibilities under this Section and Sections 2.7 (Limitations on the Use of MCC Funding), 2.8 (Taxes), 3.2(f) (Government Responsibilities), 3.7 (Records; Accounting; Covered Providers; Access), 3.8 (Audits; Reviews), 5.2 (Consequences of Termination, Suspension or Expiration), 5.3 (Refunds; Violation), 5.4 (Late Payment Interest), and 6.4 (Governing Law) shall survive the expiration, suspension or termination of this Compact, provided that the terms of Sections 2.7 and 2.8 shall survive for only 120 days following this Compact's expiration.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

Section 6.1 Annexes. Each annex to this Compact constitutes an integral part hereof, and references to "Annex" mean an annex to this Compact unless otherwise expressly stated.

Section 6.2 Amendments and Modifications.

(a) The Parties may amend this Compact only by a written agreement. Such agreement shall specify how it enters into force.

(b) Notwithstanding subsection (a), the Parties agree that the Government and MCC may by written agreement, which shall enter into force upon signature, modify any Annex to, in particular, but without limitation (i) suspend, terminate or modify any Project or Activity, (ii) change the allocations of funds as set forth in Annex II, (iii) modify the implementation framework described in Annex I, (iv) add, change or delete any indicator, baseline or target or other information set forth in Annex III in accordance with the M&E Policy, (v) add, modify or delete any condition precedent described in Annex IV or (vi) modify the mechanisms for exempting MCC Funding from Taxes as set forth in Annex VI; *provided that*, in each case, any such modification (A) is consistent in all material respects with the Project Objectives, (B) does not cause the amount of Program Funding to exceed the aggregate amount specified in Section 2.1 (as may be modified by operation of Section 2.2(e)), (C) does not cause the amount of CFF to exceed the aggregate amount specified in Section 2.2(a), (D) does not reduce the Government's responsibilities or contribution of resources required under Section 2.6(a), and (E) does not extend the Compact Term.

(c) The Parties understand that any amendment of this Compact or any modification of any Annex pursuant to this Section 6.2 may be entered into by the Government without the

need for further action by the Government (including any parliamentary action), or satisfaction of any additional domestic requirements of Lesotho.

Section 6.3 Inconsistencies. In the event of any conflict or inconsistency between:

- (a) any Annex and any of Articles 1 through 7, such Articles 1 through 7, as applicable, shall prevail; or
- (b) this Compact and any other agreement between the Parties regarding the Program, this Compact shall prevail.

Section 6.4 Governing Law. This Compact is an international agreement and as such shall be governed by international law.

Section 6.5 Additional Instruments. Any reference to activities, obligations or rights undertaken or existing under or in furtherance of this Compact or similar language shall include activities, obligations, and rights undertaken by, or existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Unless expressly provided otherwise, any reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a document or information available on, or notified by posting on the MCC Website shall be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 References to Laws, Regulations, Policies and Guidelines; References to Compact Expiration and Termination; Government Successors.

(a) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a law, regulation, policy, guideline, or similar document shall be construed as a reference to such law, regulation, policy, guideline, or similar document as it may, from time to time, be amended, revised, replaced, or extended, and shall include any law, regulation, policy, guideline or similar document issued under or otherwise applicable or related to such law, regulation, policy, guideline or similar document.

(b) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a policy, guideline, guidance paper, or similar document shall be construed as a reference to an MCC policy, guideline, guidance paper, or similar document relating to the administration of MCC-funded assistance programs, in each case, as such may be posted from time to time on the MCC Website.

(c) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a Government ministry

shall be construed to include any successor ministry with the relevant subject matter or sector authority.

(d) Each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to the Compact's "expiration" refers to the date on which the Compact Term ends if the Compact is not terminated earlier, which in accordance with Section 7.4 is five (5) years after its entry into force. Each reference in any of the aforementioned documents to the Compact's "termination" refers to this Compact ceasing to be in force prior to its expiration in accordance with Section 5.1.

Section 6.8 MCC Status. MCC is a United States government corporation acting on behalf of the United States Government in the implementation of this Compact. MCC and the United States Government assume no liability for any claims or loss arising out of activities or omissions under this Compact. The Government waives any and all claims against MCC or the United States Government or any current or former officer or employee of MCC or the United States Government for all loss, damage, injury, or death arising out of activities or omissions under this Compact and agrees that it shall not bring any claim or legal proceeding of any kind against any of the above entities or persons for any such loss, damage, injury, or death. The Government agrees that MCC and the United States Government or any current or former officer or employee of MCC or the United States Government shall be immune from the jurisdiction of all courts and tribunals of Lesotho for any claim or loss arising out of activities or omissions under this Compact.

ARTICLE 7.

ENTRY INTO FORCE

Section 7.1 Domestic Procedures. The Government shall proceed in a timely manner to complete all of its domestic requirements for this Compact and the PIA to enter into force. The Parties understand that consistent with Lesotho law, prior to the Government sending the letter described in Section 7.3, this Compact and the PIA are to be submitted to and approved by the Lesotho Parliament.

Section 7.2 Conditions Precedent to Entry into Force. Each of the following conditions must be met to MCC's satisfaction before this Compact enters into force:

- (a) the Program Implementation Agreement is signed by the parties thereto;
- (b) The Government delivers to MCC:
 - (i) a letter signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, confirming that the Government has completed its domestic requirements necessary for this Compact to enter into force and that the other conditions precedent to entry into force in this Section 7.2 have been met;

(ii) a signed legal opinion from the Attorney General of Lesotho (or such other legal representative of the Government acceptable to MCC), in form and substance satisfactory to MCC;

(iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to the Government's domestic requirements necessary for this Compact and the PIA to enter into force, which MCC may post on its website or otherwise make publicly available;

(c) MCC determines that, after signature of this Compact, the Government has not engaged in a pattern of actions inconsistent with the eligibility criteria for MCC Funding; and

(d) The conditions set forth in Annex VII are satisfied.

Section 7.3 Date of Entry into Force. This Compact shall enter into force on the date of the letter from MCC to the Government in an exchange of letters confirming that MCC and the Government have completed their respective domestic requirements for entry into force of this Compact and that the conditions precedent to entry into force in Section 7.2 have been met to MCC's satisfaction.

Section 7.4 Compact Term. This Compact shall remain in force for five (5) years after its entry into force, unless terminated earlier under Section 5.1 (the "***Compact Term***").

Section 7.5 Provisional Application. Upon signature of this Compact, and until this Compact has entered into force in accordance with Section 7.3, the Parties shall provisionally apply the terms of this Compact; *provided that*, no MCC Funding, other than CFF, shall be made available or disbursed before this Compact enters into force.

SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned duly authorized by their respective governments have signed this Compact.

Done at Maseru, Lesotho, this 12th day of May, 2022.

FOR THE UNITED STATES OF AMERICA,
acting through THE MILLENNIUM
CHALLENGE CORPORATION

FOR THE KINGDOM OF LESOTHO, acting
through THE MINISTRY OF FOREIGN
AFFAIRS AND INTERNATIONAL
RELATIONS

/s/

/s/

Name: Alice P. Albright
Title: Chief Executive Officer

Name: Honorable 'Mats'epo Molise-Ramakoae
Title: Minister of Foreign Affairs and
International Relations

**SIGNATURE PAGE TO MILLENNIUM CHALLENGE COMPACT
BETWEEN THE UNITED STATES OF AMERICA
ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION
AND THE KINGDOM OF LESOTHO
ACTING THROUGH THE MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL RELATIONS**

ANNEX I

PROGRAM DESCRIPTION

This Annex I describes the Program to be funded with MCC Funding and the Government Contribution during the Compact Term.

A. **PROGRAM OVERVIEW**

1. **Background and Consultative Process.**

(a) **Background.**

The Kingdom of Lesotho is a mountainous, landlocked country approximately the size of Maryland and is surrounded entirely by South Africa. Of its two million inhabitants, approximately 60% live below the poverty line. In addition, the distribution of wealth and income within the country is highly unequal, with a GINI coefficient of .45, placing Lesotho in the top fifth of all countries. Several factors drive the poverty and economic inequality in Lesotho, including the mountainous geography which isolates rural areas from centers of economic activity, the persistent political instability, and pervasive gender discrimination.

To identify and prioritize the most significant of these drivers or the most binding constraints to economic growth in Lesotho, MCC and the Government's compact development team, the Lesotho Millennium Development Agency (LMDA) conducted a constraints analysis. From this analysis, two binding constraints to growth emerged, and through a consultative process further described below, MCC and the Government agreed to focus on one: ineffective policy planning, coordination, and execution. This constraint is characterized by the Government's ineffectiveness in delivering the public goods and services necessary to create private-sector led, poverty-reducing growth in Lesotho. Root cause analysis of the constraint revealed that Lesotho suffers from a cyclic system of an underdeveloped private sector, too small to demand quality public goods and services from a government that instead delivers those goods and services based on political and personal patronage, further retarding private sector growth. Additionally, institutionalized and systemic gender discrimination and a lack of meaningful employment opportunities for a burgeoning youth population further exacerbate the effects of the constraint.

MCC and the Government have designed a Program that seeks to address the root causes of the constraint of ineffective policy planning, coordination, and execution across three key sectors: health, agriculture, and access to finance. The Program aims to spur private sector growth by increasing workforce productivity through improved health outcomes, investing in the emerging and largely uncaptured horticulture sector, and supporting the creation and viability of private businesses. The Program's investments are also designed to target structurally disadvantaged populations, particularly the poor, women, and youth. The Parties expect that a stronger, more robust, and organized private sector constituency will be able to demand more effective and efficient goods and services from government. In turn, a more effective and efficient government can provide the public with the goods and services necessary to stimulate and sustain private-sector led, poverty-reducing growth.

(b) Consultative Process.

Beginning in early 2018 when Lesotho was reselected for compact development, MCC and LMDA conducted stakeholder workshops and other forms of stakeholder consultations that included all levels of government, civil society, private sector, donors, and regular citizens throughout the country. As the program design began to take shape, consultations were targeted towards those stakeholders who are likely to be engaged or affected by the Program's design and implementation. While the COVID-19 pandemic reduced MCC and LMDA's ability to host large workshops in 2020 and 2021, LMDA utilized virtual meetings, small stakeholder meetings, and television, radio, and print media to share information and solicit feedback on the program design.

2. Description of Program and Beneficiaries.

(a) Program Description.

The Program consists of four Projects, each designed to respond to the constraint of ineffective policy planning, coordination, and execution, align with the Government's national development priorities, and lead to poverty reduction and sustainable economic growth in Lesotho: (i) the Health Systems Strengthening Project, (ii) the Market Driven Irrigated Horticulture Project, (iii) the Business Environment and Technical Assistance Project; and (iv) the American Catalyst Facility for Development Project.

(b) Intended Beneficiaries.

The Program is projected to benefit a total of 2,591,000 people². This includes 1,429,000 beneficiaries defined as "poor" and 2,028,000 beneficiaries defined as "near-poor."³

Beneficiaries of the Health Systems Strengthening Project are expected to include roughly 2.5 million people representing all individuals who access public primary health care services over the course of the 20-year benefit time horizon considered for the cost-benefit analysis. A substantial share of benefits are expected to accrue through improved maternal and child health outcomes, and therefore disproportionately accrue to women and children.

Households of farmers participating in the Market Driven Irrigated Horticulture Project are primarily the beneficiaries of that Project. Assuming one household per farm, one farm per hectare, and five family members per household, the total number of direct beneficiaries is expected to be 10,000. In addition, for every dollar of additional production attributable to the Project, another 23 percent of indirect benefits can be expected due to multiplier effects. Therefore, depending on the employment patterns outside of irrigated horticulture, the number of

² 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/>.

³ These beneficiary categories are defined based on the following levels of consumption per day (in 2011 PPP international dollars): Extremely poor: less than \$1.90; Poor: less than \$3.20; Near-poor: between \$3.20 and \$5.50.

indirect beneficiaries of the Project could be an additional 2,300, for a total of 12,300 beneficiaries.

Beneficiaries of the Business Environment and Technical Assistance Project are primarily the households of the firms that receive technical assistance through the Project. Assuming one household per small firm, and 14 employees total, each leading a household, in the medium sized firms, and five family members per household, the total number of beneficiaries of the Project is approximately 6,000.

The American Catalyst Facility for Development Project will be a joint effort of the US International Development Finance Corporation (DFC), MCC and the Government. While DFC will appraise, oversee and monitor project activities, MCC and the Government expect to work closely with DFC during all phases of the Project from identifying activities to activity development and through implementation. It is expected that DFC will assess and report the benefits of all project activities using its Impact Quotient (IQ) system for measuring development impact, which measures the investment's impact on economic growth, potential job creation, inclusion, and innovation. MCC and DFC will collaborate to assess and quantify the benefits of the Project in a manner that is acceptable to all parties.

B. DESCRIPTION OF PROJECTS

Set forth below is a description of each Project that the Government agrees to implement, or cause to be implemented, using MCC Funding and the Government Contribution to advance the applicable Project Objective. In addition, specific activities to be undertaken within each Project (each, an “**Activity**”), including sub-activities, are also described.

1. Health Systems Strengthening Project

(a) Summary of Project and Activities.

The objective of the Health Systems Strengthening Project (the “**HSS Project**”) is set forth in Section 1.2 of this Compact. To accomplish the HSS Project Objective, the Project focuses on strengthening key elements of the primary health care (PHC) system in Lesotho, specifically increasing the capacity of Lesotho's Ministry of Health (MOH) in all ten districts, including all healthcare facilities receiving subventions from the Government, strengthening the patient registration and referral systems, improving clinical competencies and supervision, integrating budgeting and financial reporting systems, and increasing coordination across all levels of the health care system. The Project also supports improved information availability and utilization to contribute to greater transparency and accountability in the health sector.

The HSS Project is comprised of the following three Activities:

(i) Primary Health Care Service Provision Activity.

This Activity tackles the challenges to providing quality PHC, including gender-based violence (GBV) prevention and response, in Lesotho through an integrated approach that includes support to stakeholders at the national, district, and village levels.

Specifically, the Activity supports:

(A) expansion, improvement, and implementation of a standardized, transferable patient record system, interoperable with the national health information system (referred to as DHIS2), including software and IT hardware as required for system operation and to access patient medical records and aggregate patient data for decision-making;

(B) expansion, improvement, and implementation of a standardized patient registration, triage and referral process to ensure patients receive quality PHC services, including GBV services, at the lowest level of the health system that can safely and effectively provide the services;

(C) technical assistance to support the MOH in providing staff training on the improved patient record system and the improved patient referral and triage processes; and to support the MOH's integration of the systems into service delivery practice;

(D) establishment of a MOH-led quality assurance program to ensure clinical practice guidelines and standard operating procedures in the health-care system, including GBV prevention and response, are consistent with global evidence-based best practice, updated regularly, and consistently applied to enable a more standardized level of care and coordination among health care workers;

(E) training of health care workers, including pre-service students and in-service staff, in the use of the standardized clinical guidelines and operating procedures developed as part of the MOH-led quality assurance program;

(F) establishment of regional Centers of Excellence to model quality care, and provide mentorship and clinical competency-based training for health workers at lower levels of the health system;

(G) technical assistance to the MOH to implement the Counter Domestic Violence Law, including to establish policies and processes that strengthen delivery of GBV- related health services, referrals, and reporting;

(H) capacity building for local training institutions to provide pre- and in-service training to MOH professionals in (1) supportive supervision, a facilitative approach that promotes mentorship, joint problem-solving and communication between supervisors and supervisees, (2) administrative competencies in areas such as finance and human resource management, and (3) clinical competencies;

(I) establishment of a standardized system for utilizing village health workers (VHWs) in the delivery of PHC; and capacity building for health center staff who

support and supervise VHWs, including the ability of health center staff to report VHW data into the health information system;

(J) implementation research and technical assistance to the MOH to re-design, standardize and improve the use of community-based services (e.g., VHWs, health posts, and health outreaches) to deliver quality PHC; and

(K) technical assistance to the MOH to strengthen its internal and external communication capacity and efforts, including support for the design, development, and distribution of health information materials to healthcare workers and the public.

(ii) District Health Management Team Reform Activity.

This Activity focuses on improving the capacity of Lesotho's local-level healthcare management units, known as District Health Management Teams (DHMTs), to address local priorities and deliver high quality PHC services to the populations they serve. To accomplish this, the Activity supports expanding DHMT health financial systems and management capacity and bolstering the institutional support DHMTs receive from national and central level entities. The Parties expect that with adequate central-level support and resources, better trained DHMT staff, and the ability and autonomy to manage financial resources, DHMTs can provide a significantly higher quality of PHC.

Specifically, the Activity provides funding for:

(A) capacity building for local training institutions to provide management and skills training to DHMT staff in areas such as annual planning, financial management, personnel and equipment management, and data analysis;

(B) technical assistance to support MOH staff (central and DHMT) management capacity through on-the-job training and mentoring;

(C) technical assistance to Government ministry professionals and other health sector stakeholders in forming multi-disciplinary teams and/or technical working groups to identify administrative, managerial, and/or clinical problems in their respective practices and execute solutions;

(D) support to the Ministry of Finance (MOF) and MOH to extend financial management systems to the DHMT level, enabling district-level decision-makers to access funding and financial data in a timely manner, and better target expenditures by tracking finances and services delivered, as well as disease incidence and prevalence;

(E) an assessment of the interoperability of the DHMT financial and health information systems to determine how financial and health service data can be most efficiently accessed and analyzed for preparing and adjusting the annual operating plans (AOPs) of the DHMTs;

(F) technical assistance to strengthen DHMT capacity to involve stakeholders and partners in the planning and evaluation of programs, services, and

comprehensive AOPs, including an operations budget that is assessed and adjusted quarterly, allowing the measurement of district-level PHC service delivery, including GBV services, against targets;

(G) technical assistance to the MOH and MOF to establish an annual budgetary process for determining the annual budget and resource needs of the DHMTs, and allocating funds and resources in a timely manner based on the approved budget and plan in order to increase DHMT planning and financial autonomy;

(H) grants to DHMTs meeting established key performance indicators as a means of incentivizing financial reforms and improved PHC service delivery, including GBV services;

(I) technical assistance to support DHMTs to produce quarterly data and the MOH to revitalize the Annual Joint Review to measure performance against targets;

(J) technical assistance to support the MOH in tracking and managing health care worker training; and

(K) technical assistance to support the MOH in defining PHC staffing structures, roles and processes from the community to district levels, including GBV.

(iii) Digital Health Services Activity.

Access to reliable data and the ability to use it appropriately is critical in the health sector both for health system management and for providing quality clinical care. This Activity supports interventions aimed at making health data systems across Lesotho interoperable, improving data availability, confidentiality, analysis, and usability at all levels of the health system, and equipping the Government to improve its current and future workforce capacities to analyze and use health data.

Specifically, this Activity includes:

(A) integration, extension, and improvement of the existing health management system, providing decision makers at all levels with quality information to make clinical, management, and resource allocation decisions;

(B) identifying and addressing gender data gaps for public health services and administrative processes, and standardize gender-disaggregated data collection and reporting;

(C) expansion of the e-Register IT system currently limited to HIV and tuberculosis patients into a national electronic medical record system covering all PHC patients (including those who have experienced interpersonal violence) and linked to the patients' national identification documents;

(D) pre-service and in-service health worker training programs to offer nurses, facility administrators, ministry level staff and other health workers courses in health

information competencies, including adherence to confidentiality, and training on digital health applications to ensure all relevant stakeholders have the capacity necessary to utilize the integrated digital health systems, together with the creation of a joint MOH and the Ministry of Communication, Science and Technology (MOCST) capacity development master plan to structure and guide the training;

(E) technical assistance to MOH and MOCST to develop and implement standard operating procedures for provision of ICT technical support, including district- and facility-level maintenance and software support;

(F) establishment of a center of expertise in data analysis and visualization (1) to promote professional development in data analysis, (2) to assist the MOH, civil society and others deriving insights from available data sets, and (3) to provide small grants to civil society to promote innovation, transparency and accountability in health services, as well as to promote other Project Objectives of this Compact;

(G) technical assistance to help DHMTs develop mechanisms for periodic validation of data necessary to increase transparency in the use of resources and accountability through public verification;

(H) technical assistance to support implementation of the Data Protection Act and a government-wide data sharing policy, including development of a platform for sharing government data to facilitate the use of aggregate health data by academia, the private sector, development partners, and the public; and

(I) technical assistance to align reporting of health information with national development plans and M&E indicators.

(b) Environmental and Social Mitigation Measures.

The HSS Project is classified as a Category C project per the Environmental Guidelines. An Environmental and Social Impact Assessment (ESIA) is not planned for the Project as no major environmental, climate, or social impacts have been identified with the proposed health activities. A compact-wide Environmental and Social Management System (ESMS) will be developed and will outline any specific environmental and social risks and related management measures within the HSS Project. One area of possible risk is related to the IT equipment installation under the PHC Services Provision Activity which may require developing Environment and Social Management Plans (ESMPs) or Health and Safety Management Plans (HSMPs) depending on whether building or room upgrades are needed, or disposal of old equipment is required. Finally, the Project will need to be monitored for compliance with IFC Performance Standard 2 Labor and Working Conditions.

(c) Gender and Social Inclusion.

The HSS Project integrates gender and social inclusion across its activities. There is particular attention to providing local health services, including VHWs and health outposts that reach the most remote villages, and empowering health clinic managers, nurses, and VHWs to better collect and use data for health services and decision making at the local level. Coordination and

supportive supervision of VHWs is aimed at improving health care access for remote and underserved populations, and then better connecting these patients to higher levels of the health care system where they will benefit from improved health center services, referrals, patient data tracking, and district hospital services.

The Project integrates and highlights GBV response throughout the project design through its focus on providing better and expanded services for GBV survivors at PHC locations, addressing pre-service training of health staff, ensuring protocols for GBV are standardized in all health facilities, applying international best practices on tracking GBV in the health data system, and ensuring confidentiality, coordinating referrals both within the MOH as well as to and from other relevant government institutions and nongovernmental service providers, and promoting awareness in communities of GBV-related health services. The Counter Domestic Violence Law provides the legal framework for implementation of all the GBV treatment, referral work and reporting that is integrated throughout the HSS Project design.

The HSS Project does not involve large works, but nonetheless poses a risk for women working with foreign and Basotho contractors of being coerced into sexual relationships in exchange for maintaining employment and achieving better working conditions. Also, given the anticipated increase in internet access and usage as a result of e-government services and data use in the HSS Project, there is an increased risk of social media being used to find and lure victims into forced labor and sex trafficking. The Government will conduct a stand-alone, project-level trafficking-in-persons (TIP) risk assessment for the Project.

(d) Donor Coordination.

The HSS Project considers and connects elements of the work of multiple donors and lenders, principal among them the President's Emergency Plan for AIDS Response (PEPFAR), the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) and the World Bank. MCC's collaboration with PEPFAR is discussed below. In addition, the HSS Project utilizes certain standard operating procedures, including tele-mentoring and training tools in use by PEPFAR and the Global Fund. MCC will engage actively with Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) in the GBV Coordination Forum (GBVCF), a cross-ministerial and nongovernmental anti-GBV stakeholder group led by the Ministry of Gender Youth Sports and Recreation whose aim is to strengthen national GBV efforts and activities through increased coordination. The Project also builds on learning from a World Bank-funded performance-based finance approach to quality of care.

(e) USAID.

PEPFAR is the majority presence of USAID in Lesotho and Centers for Disease Control and Prevention (CDC) representatives are part of the Lesotho PEPFAR team. MCC has contributed \$800K to the Lesotho Demographic and Health Survey (DHS) via an interagency agreement with USAID Lesotho. MCC regularly coordinates with the Lesotho PEPFAR Country Chair, Lesotho USAID Country Director and PEPFAR team to ensure the HSS Project will sustain other USG investments and is not duplicative. Finally, the health program builds on the substantial work of PEPFAR/USAID/CDC in the e-Register system and connection to DHIS2, the national health information system, and the Project will extend both systems.

(f) Sustainability.

Sustainability of the HSS Project rests on four pillars. First, the Project interventions change systems and build capacity at the central or MOH-level and at district- and community-level health facilities across the country. Project interventions targeting these institutions are inherently sustainable to the extent they can improve the use of data and empower local actors to effectively deliver services independent of high-level political turnover. Second, the Project targets cost savings through decentralizing resources to the level at which they can be most efficiently used. These reforms and capacity building will result in more efficient use of existing resources, and the opportunity for the MOH to make reallocations based on where resources are most needed. Third, the Project is built around reforms aimed at fostering accountability at all levels within the health system. This approach ensures that performance improvements are driven by incentives within Government institutions rather than by outside parties, and increases the likelihood that improvements will be sustained beyond the Compact Term. Finally, the Government will assume financial responsibility for the operational and maintenance costs of the digital health and health communication investments during the final years of the Compact Term. This will ensure that the long-term recurring costs of maintenance and communications are part of the Government's regular and ongoing budget.

(g) Policy, Legal and Regulatory Reforms.

The HSS Project is a reform project at its core and will offer technical assistance and use results-based financing to achieve and incentivize behavior change. In addition, the Project addresses legal and regulatory reform through the following: (i) implementation of the Counter Domestic Violence Law, establishing policies and processes to strengthen the delivery of GBV related health services, referrals and reporting; and (ii) technical assistance to support implementation of the Data Protection Act and a government-wide data sharing policy.

2. Market Driven Irrigated Horticulture Project

(a) Summary of Project and Activities.

The objective of the Market Driven Irrigated Horticulture Project (the “**MDIH Project**”) is set forth in Section 1.2 of this Compact. The Project plans to achieve this objective by making a catalytic investment in irrigation in partnership with commercial investors, providing local capacity building and technical assistance, and supporting reforms in land, water, and gender with the expectation that these interventions will spur sustainable and inclusive private sector growth and investment in the horticulture sector.

The MDIH Project is comprised of the following three Activities and sub-activities:

(i) Institutional Reform Activity.

This Activity aims to ensure that strong legal and policy frameworks are in place in Lesotho to support the growth of irrigation throughout the country in an equitable and sustainable way. It achieves this goal by improving the capacity of Government and other institutions to deliver and sustain the services necessary for inclusive growth in irrigated horticulture. The Activity targets land, water, and gender-inclusive services in particular.

(A) Rural Land Registration Reform Sub-Activity

The irrigated land to be developed under the MDIH Project will be very valuable because of its productive potential. Providing strong and secure rights to this land will catalyze its productive use and protect the interests of the land holders. The strongest land rights available in Lesotho are leases registered with the Land Administration Authority (LAA). Funding under this sub-activity will support interventions aimed at improving Lesotho's rural land registration system so that rural land market participants, including holders of irrigated land, can obtain registered land leases in an efficient and cost-effective manner.

Specifically, this sub-activity includes:

(1) technical assistance to various Government entities at the national, regional, and local levels to support reforms to the rural land registration system. These are likely to include registration business processes, including collaboration across levels of government, land-survey reforms, land-use planning reforms, targeted information technology investments, training, and outreach to the beneficiary populations;

(2) addressing regulatory and administrative gaps that weaken women's land rights, and ensuring that women fully participate in and benefit from the registration reforms, including:

(A) technical assistance for reforms necessary to implement key provisions of the Harmonization Bill and inheritance legal reforms that impact compact gender objectives;

(B) technical assistance for regulatory and administrative reforms that address gaps in implementation of gender equality objectives in the Land Act, including those that enable and promote the practice of retroactively adding spouses' names to land titles issued before passage of the Legal Capacity of Married Person Act (LCMPA) or prior to marriage of the document holder, as allowed by law; and to enable joint or co-owners to be included on land titles;

(C) technical assistance for strengthening protections for vulnerable smallholders against inequitable land sales and leasing;

(D) an outreach, communication and social and behavior change (SBC) campaign on the gender and social reforms, designed for communities, local government, and the judiciary; and

(3) support for the integration of natural resources management into land use planning to the extent practical, through both formal structuring of land use plans at the national level, and through training and capacity building that will be implemented at the local level on grazing management and best land use practices for farmers in the Irrigated Perimeters along with community members, local chiefs, herd boys and local extension workers.

Interventions under this sub-activity are expected to be carried out in the local council jurisdictions where the Irrigated Perimeters are located, and in up to five additional jurisdictions

where the Government foresees future irrigation investments as set forth in its National Irrigation Master Plan (NIMP). District governments, and national-level institutions such as the LAA, the Ministry of Local Government and Chieftainship, and the Ministry of Law and Justice are expected to be key participants in this sub-activity.

(B) *Irrigation and Water Reform Sub-Activity*

The Irrigation and Water Reform Sub-Activity furthers the objective of the MDIH Project by reforming the laws, policies, and regulations governing Lesotho's irrigation sector and the institutions that oversee, administer, and implement them. The sub-activity includes:

(1) technical assistance to key Government ministries responsible for providing water and irrigation related services, including the Ministry of Water (MOW) and its office of the Commissioner of Water, and the Ministry of Agriculture and Food Security (MAFS) to expand, improve, and strengthen the legal and regulatory framework for irrigated agriculture and formalize the roles within these agencies to support improved governance of the irrigated agriculture and integrated water resources management sectors, with a focus on inclusion of reforms that support access and opportunities for women, youth, and vulnerable populations;

(2) technical assistance to MAFS to enact a national irrigation law and adoption of an irrigation policy that function jointly to provide, at a minimum, for the development and use of public irrigation infrastructure and the creation of independent farmer managed water user associations (WUAs) as a special type of legal form with effective fee recovery mechanisms;

(3) technical assistance to MOW to support revisions to the Lesotho Water Act (Act No. 15 of 2008) to (i) promote improved water resources management (WRM) and support the implementation of key WRM activities; (ii) strengthen the legal basis for integrated catchment management (ICM); (iii) foster and facilitate inter-ministerial collaboration; (iv) promote better data collection and management; and (v) address dam safety;

(4) cross-cutting measures delivered through training and capacity building within MAFS and participating farming communities that link pertinent policy reforms with local level implementation procedures, improve collaboration between relevant national and local level government agencies and farmers of Irrigated Perimeters, and foster replication of the MDIH Project success;

(5) technical assistance and capacity building to MAFS and MOW to implement new regulations, policies, strategies, and procedures using the Irrigation Infrastructure Development Activity as an example where practical; and

(6) providing climate and river basin monitoring equipment and institutional support to MOW to advance data collection and long-term monitoring within project affected catchment management areas.

(C) *Capacity Support for Inclusive Horticulture Services Sub-Activity*

This sub-activity targets the structurally disadvantaged populations of women, youth, and the poor with the goal of including them in the emerging high-value horticulture sector. It recognizes that government institutions supporting the sector have largely gender- and inclusion-blind policies and programs, and without a specifically focused intervention, women, youth, and the poor are at risk of falling further behind. To that end, this sub-activity will build capacity in the MAFS to provide services that respond to the needs of women, youth, and the poor enabling them to succeed in commercial horticulture. Priority areas include budgeting, data disaggregation and use, training methodologies and content (e.g., use of ‘gender transformational’ approaches), information dissemination and technology, and support for farmer’s organizations and aggregation. The sub-activity will also build capacity within the Ministry of Gender, Youth, Sports and Recreation (MOGYSR) to carry out its role in supporting gender and youth programming in other ministries with roles in supporting the horticulture sector beyond the Compact Term.

(ii) Irrigated Horticulture Support Services Activity.

This Activity focuses on helping smallholder farmers and landowners overcome the obstacles to sustaining their irrigation systems by providing relevant technical assistance and attracting experienced commercial farmers to help leverage smallholder efforts and sustain infrastructure investments. To maximize benefits, the Activity features interventions designed with SBC and gender and inclusion in mind, and MCC and the Government expect the interventions to directly contribute to the long-term sustainability and profitability of the Program’s investment in irrigation.

The Activity is comprised of the following sub-activities, and will be managed or coordinated by a team of expert consultants who will provide support, training and coordination of all capacity building interventions:

(A) *Land Rights Formalization Sub-Activity*

This sub-activity works in tandem with the Rural Land Registration Reform Sub-Activity by focusing on ensuring holders of land rights are able to secure those rights through leases registered with the LAA, taking advantage of the strongest form of land holding in Lesotho.

Specifically, this sub-activity includes: (1) technical assistance to the local councils to identify holders of land that will be developed into irrigated land by the Project and issue documentation evidencing these pre-existing land rights to such holders; (2) support to the local councils to lay out and survey the irrigated land parcels developed by the Project; (3) support to the land holders with pre-existing rights to decide how they want to use the irrigated land parcels they will receive through the Project (for example, direct farming of the land, transferring use rights to the land to an anchor farmer, or a combination of direct farming and anchor farmer use); and (4) support to the local councils and the LAA to prepare and issue registered land leases for each irrigated parcel in the names of the leaseholders.

Like the Rural Land Registration Reform Sub-Activity, this sub-activity will also focus on ensuring that women fully participate in and benefit from the intervention. Because women’s

land rights in rural Lesotho remain tenuous, a systematic process of documenting and registering leases in the Irrigated Perimeters that reflect women's rights will help to ensure full compliance with the law, address procedural or administrative barriers to documenting jointly held rights, and ensure that gender equitable standards are followed. Accordingly, this sub-activity will:

(1) At the start, carry out communications and outreach, SBC, and workshops using a gender transformative methodology (e.g., GALs). These will include information on the gender legal reforms, process for registration, making and disputing claims of rights, reasons for joint titling, and relevant gender issues;

(2) In delineation of rights and boundaries and land registration, use best practices to identify the rights of different vulnerable populations and address their land tenure security; and

(3) Apply best practices in securing women's land rights, including: (A) application forms and titles will be designed for more than one applicant and owner to allow for joint ownership, leaving no discretion to administrators; (B) land leases will be issued in joint ownership between spouses based on the default absolute community of property marital property regime found in the Land Act, the LCMPS as well as in custom; (C) widows will be presumed to have legal rights to a land parcel, with the burden of proof on the disputant to show cause for the land rights to be awarded otherwise; and (D) accessible adjudication processes/grievance procedures will be established that allow any party to dispute the rights that are claimed on a given parcel.

(B) *Scheme Management and Capacity Building Sub-Activity*

Successful management, operation and maintenance of the Irrigation Schemes will require new institutions that are designed for the context of Lesotho as well as a cadre of smallholder farmers and other community members skilled and trained to support those institutions. The Scheme Management and Capacity Building Sub-Activity seeks to provide these two key ingredients through the following interventions:

(1) support for the design and establishment of one or more of the following types of institutions:

(A) *Independent Farming Unit*: A farmer association of viable size with an elected management committee (or similar structure). This entity would enter into contractual agreements as a joint venture with an investor or anchor farmer for the operation of the Independent Farming Unit. Targets will be developed for significant participation by women and youth.

(B) *Water User Association or Scheme Management Entity*: A WUA or other scheme management entity will be necessary to control and manage the provision of water to each irrigated perimeter, including the operation and maintenance of bulk water use, storage, and provision. The leadership of each WUA will have significant representation from women and youth.

(C) *Scheme Governance Board*: Each scheme is proposed to have an overarching governance board to deal with issues that affect the entire scheme, for example water tariffs, approval of commercial joint venture partners, and common infrastructure issues. The scheme governance board will have significant representation from women and youth smallholders.

The design of these institutions will be further developed in consultation with communities, public sector agencies and international development partners in Lesotho and across Africa who have tried and tested various approaches. Moreover, goals will be established for each institutional type to provide for participation of women and youth.

(2) to jump-start farmer training and capacity building, an irrigated pilot area will be established on each project site in the first year of the Compact Term allowing the independent farming units and WUAs to be established and mobilized early. The pilot areas are also important to demonstrate irrigated horticulture's potential to farmers hesitant to grow irrigated horticulture products and prefer food security staples like maize;

(3) a training center at each project site to support classroom-based instruction for smallholders, new institutions, and other critical service providers such as agriculture extension staff. Training courses will include livelihood enhancement topics, with a focus on gender and youth inclusion, to address social, economic, and cultural challenges to achieving the full benefits of the MDIH Project. The training centers also will offer childcare within a dedicated space to ensure the participation of women; and

(4) to promote inclusion, opportunity, and equity across the schemes for women, youth, and poor smallholders:

(A) *Facilitation and promotion of inclusion*: (i) a community transaction advisor or other means of ensuring fair representation, secure land rights and equitable business arrangements for smallholders, including those who are poor and vulnerable, under the Irrigation Schemes, including equitable and clear contracts between smallholders and investors in leasing and other contractual farming arrangements; (ii) engagement of social and gender and SBC staff amongst the expert consultants located at each project site to address gender, social, and equity issues in the scheme; and (iii) engagement with a local organization, most likely an NGO, with a strong track record in law, rural development, and facilitation, to advise and represent women, youth and other poor and vulnerable scheme participants across the sites, helping them assess risks and opportunities, cope with social/gender challenges, and mediate conflict pertaining to land, contracts, intra-household, community and other disputes. This may be the same organization that provides outreach and support on social/gender land sub-activities under the Institutional Reform Activity and the Irrigated Horticulture Support Services Activity.

(B) *Training, capacity and economic participation*: (i) support for anchor farmers to employ a strategy to increase opportunities for women, youth, and poor farmers in the scheme; (ii) recruitment strategies and targets to facilitate participation of women and youth as trainers and pilot plot managers, smallholder plot managers, and contracts with anchor farmers; targets for women and youth participation will be set once benchmarked;

(iii) use of “gender transformative methodologies,” such as the Gender Action Learning System (GALS), as part of farmer training and recruitment, and other stakeholder outreach. (iv) training of local household members on relevant topics including conflict management, GBV, diet diversity for children, and potentially other priority areas identified; (v) programs to incentivize women and youth to take up opportunities in post-harvest handling (PHH) and Integrated Cold Chain (ICC); (vi) training of local household members on home gardens to safeguard food security during the transition to commercial horticulture; (vii) technical and financial assistance for a childcare mechanism at each project site.

(C) Financial Assistance Program Sub-Activity

This sub-activity is designed to address the immediate or short-term financial barriers that hinder small-holder farmers and small- to medium-sized commercial entities from participating in irrigated horticulture, such as the costs for mechanized equipment and the recurrent costs for inputs or maintenance and repair of equipment. To cover these costs and get small-holder farmers operating as soon as possible, this sub-activity provides grants to smallholder farmers to cover their capital requirements including costs of on-farm connections to the main irrigation systems and of mechanized machinery. Additionally, the sub-activity supports a cold chain innovation challenge that will award grants to small businesses that design energy efficient and affordable mobile products for precooling or the process of removing field heat from produce immediately after harvest to slowdown the deterioration and senescence processes thereby decreasing potential post-harvest loss. Given that post-harvest handling and cold chain management in particular are generally expensive and consume significant energy, the Parties expect that developing an affordable precooling system will work to reduce financial barriers of irrigated horticulture for smallholder farmers.

(iii) Irrigation Infrastructure Development Activity.

This Activity includes the development of up to 2,000 hectares of irrigated land at several sites near Leribe (Tsoili-Tsoili, Manka, Likhakeng) and Mohale’s Hoek (Phamong/Lithipeng) (the “***Irrigated Perimeters***”). Final site selection and size will be determined and agreed to by MCC and the Government in writing prior to EIF, and will be based upon feasibility and design studies to be completed as well as consultation with local communities, local authorities, and the private sector.

Following completion of final site selection, the Parties expect this Activity to include the following features:

(A) design and construction of irrigation infrastructure such as (1) intake structures at the main rivers (Caledon, Hlotse, and Senqu), (2) small dams on tributaries to create reservoirs, (3) pumps (including pump stations) and piped systems to bring water to hydrants located at the edge of farm fields, (4) secondary and tertiary distribution pipelines, (5) access roads, and (6) training centers;

(B) introduction of post-harvest facilities for sorting, grading, cleaning and packaging horticultural products, cold storage, and an associated training program for farmers to decrease the products’ value loss/degradation, thereby increasing their shelf-life;

(C) commercial investment in one or more of the Irrigated Perimeters by a commercially experienced firm or consortium upon demonstration of the economic sustainability of the perimeter investment; and

(D) expansion of the Government's existing national program in ICM to the Irrigated Perimeters.

(b) Environmental and Social Mitigation Measures.

The MDIH Project is classified as a Category A project under the Environmental Guidelines as it poses potentially significant environmental and social risks and/or impacts that are diverse, irreversible, or unprecedented.

The sites proposed for the Irrigated Perimeters and reservoirs considered potential environmental and social risks and endeavored to avoid or minimize impacts. Land acquisition and reallocation, wetland impacts and community safety in the vicinity of new dams are potentially significant and sensitive issues, and as such will require more complex interventions and mitigation measures to address. ESIA's and ESMPs for the Irrigated Perimeters, dams and water storage infrastructure will address cumulative impacts to watersheds and downstream ecosystems and communities. IFC Performance Standards 1- 6 will apply. A Resettlement Policy Framework (RPF) will be prepared, followed by Resettlement Action Plans (RAPs) and a Livelihood Restoration and Diversification Plan (LRDP).

A preliminary feasibility study for the Project indicates that river water sources are insufficient at the potential irrigation sites in all four areas, and tributary dams and water storage structures are essential. In addition to following South African Dam Safety Legislation, the Project's design requirements include employing a Professional Engineer for the design, approval of the design tender by the MOW, water use permits and approvals from the MOW, adherence to the Orange-Senqu River Basin Commission (ORASECOM) Agreement, an ESIA prior to construction, a Community Dam Safety Plan, and periodic safety inspections.

The Irrigation Schemes are themselves an important contribution to Lesotho's climate change adaptation and resilience as it provides for sustainable storage of water during periods of increasingly irregular rainfall and extended drought. Nevertheless, sustainability depends on ensuring that design proposals are conservative enough to account for such accelerating climate change impacts. A Rapid Climate Change Risk Analysis assessed potential impacts. Most crops will benefit from decreases in frost days, increased temperatures and longer growing seasons. Using regional data from ORASECOM and risk-based stochastic modelling of climate scenarios, infrastructure will be sized for increased water requirements and dams will have conservative spillway and freeboard design.

To ensure that there are no fatal flaw impacts on downstream ecosystems and communities, a Rapid Ecological Assessment of the Mohokare (Caledon) and Senqu rivers estimated ecological flow requirements, sedimentation volumes from upstream erosion, and potential risks to local populations, land use, flora and fauna. The downstream risks have been minimized in the design, except for a small wetland where the Manka flows into the Mohokare that must be studied in the ESIA and mitigation and management measures proposed in the ESMP. Current upstream risks

include land degradation, slope instability, and sedimentation that affects water quality and would reduce reservoir capacity and lead to larger land size requirements for inundation and land acquisition; reduced soil quality and waterway contamination from pesticides and fertilizers; and dam safety issues in construction, operations, and maintenance. These risks and related mitigation measures will be further explored during the ESIA.

Because MDIH Project-affected persons (PAPs) are also the intended beneficiaries, resettlement considerations are also opportunities for livelihood development and diversification.

Nevertheless, land acquisition, resettlement and livelihood restoration will pose significant challenges for project success. Aerial imagery and limited site visits have identified land access and social issues, including permanent physical displacement. A draft entitlement framework categorizes PAPs and provides initial cost estimates for land acquisition, livelihood restoration, and development. These estimates, like the current estimate of between 1,004 to 1,260 affected households, still contain significant assumptions and uncertainty. As more detailed information becomes available, cost estimates may increase.

Completion of an RPF to guide the subsequent preparation of RAPs and LRDPs will focus on key principles: 1) design to avoid and minimize land acquisition and resettlement wherever possible; 2) extensive stakeholder engagement; 3) fair compensation rates; and 4) structure and sequencing of design, ESIA, resettlement, and construction contracts. To avoid delays to construction start-up, project design and land acquisition must be closely coordinated and procurement and mobilization schedules well integrated.

Consultations at the proposed Irrigated Perimeters involved communities in preliminary planning and design through community meetings, focus group discussions and key respondent interviews with district and national government representatives. Community Scheme Planning Groups are being established to serve as focal points for community participation on each site. The main observations raised during the consultations include social issues as well as biophysical concerns. Further stakeholder engagement in the ESIA and RAP/LRDP studies will enable better understanding of community concerns and how to address them.

Given that the Institutional Reform Activity and Irrigated Horticulture Support Services Activity include limited physical works, it is not anticipated that the Activities would result in any significant environmental, health or safety hazard. As such, the Activities are classified as Category C under the Environmental Guidelines. These activities present numerous opportunities to improve environmental and social aspects within Lesotho's land, irrigation and water sectors. Continuation of stakeholder engagement is planned to ensure that reforms are sensitive to social and gender inclusion and representative of the interests of vulnerable groups. Compliance with IFC Performance Standard 1 will be important to achieving the success of these activities and providing a platform for grievances to be heard and resolved. The Irrigated Horticulture Support Services Activity includes a grant program which would be classified as Category D and undergo environmental and social screening, as would the associated grant projects if their scope/scale so warrant.

(c) Gender and Social Inclusion.

The MDIH Project offers significant potential to support employment of women and youth, particularly in the Irrigation Infrastructure Development Activity. The Activity offers short-term income earning opportunities and the chance to develop skills and work experience that participants can use in future employment, as well as in works maintenance. To facilitate these results, project engineering and construction firms will develop a plan for recruitment and retention of women and youth in construction and monitor results.

With respect to safeguards in the Irrigation Infrastructure Development Activity, MCC and the Government will focus on considerations in building infrastructure and carrying out resettlement in communities where gender norms are deeply entrenched, and many smallholders and community residents are poor and historically disempowered. Engineering and construction contracts will employ gender and social expertise to support development of protocols and ensure quality implementation and monitoring.

The quality and gender-responsiveness of the HIV and AIDS plan will be particularly robust in the context of a country with a 23 percent prevalence rate, despite significant recent successes in epidemic control. Particular attention will be on the quality of the TIP risk assessment and TIP risk management plan, in the context of the country's recent move from the State Department's Tier III list to the Tier II watch list. Child labor is also reported in construction work, and women employed on construction sites have been harassed by their Basotho and South African employers, which can increase vulnerability to sex trafficking. Given the high risk of TIP in Lesotho overall and the specific project risk for the irrigation infrastructure construction and increased horticultural labor, MCC and the Government will conduct a stand-alone project-level TIP risk assessment to augment the ESIA.

(d) Donor Coordination.

The MDIH Project builds on smaller donor programs that have introduced high-value horticulture production in Lesotho, including programs funded by the World Bank, European Union (EU), and Food and Agriculture Organization (FAO). The Irrigation Infrastructure Development Activity and the Irrigated Horticulture Support Services Activity align with a World Bank, International Fund for Agricultural Development (IFAD) and Japan International Cooperation Agency-funded Smallholder Agriculture Development Project (SADP) II, underway through 2026, which is building capacity for irrigated horticulture. Additionally, the MDIH Project will leverage the Government's and EU's efforts in ICM by expanding the EU-funded nation-wide program in ICM to the MDIH Project implementation. The MDIH Project will also partner with the EU and MOW to strengthen data collection and management for decision-making for WRM.

(e) USAID.

USAID Southern Africa Trade Hub provided support in the due diligence of the MDIH Project by conducting an agriculture market study and helping to organize and facilitate an agriculture investors conference in South Africa and Lesotho. USAID is not expected to have a role in the

implementation or monitoring of the Project but may continue to provide guidance on identifying appropriate investors in the region.

(f) Sustainability.

The MDIH Project is, by design, market driven and ensures that the private sector is the engine for sustainably developing the irrigated horticulture sector in Lesotho. By collaborating with a commercial anchor farmer, Basotho farmers will benefit from the technical resources and ancillary investments that the private sector partner will make in developing a skilled workforce, promoting optimal farming practices, and maximizing crop yields. Additionally, the Program's investments support the development of horticulture value chains and markets such as cold chain infrastructure and other post-harvest activities and, trucking and logistics, thereby enhancing the long-term viability of agribusinesses

The institutional reforms and government capacity building are also designed and expected to create a strong legal and regulatory framework that will support sustainability and enable the Project to be replicated in other areas of Lesotho. Training and capacity building of farmers and small landholders also bolsters the long-term sustainability of the Project.

(g) Policy, Legal and Regulatory Reforms.

The MDIH Project requires extensive reforms in gender, land and water to implement and sustain the Project and establish a conducive environment for the Government to replicate it. These reforms are described in detail in the Institutional Reform Activity. They include regulatory reform of the rural land registration system to make it work better for rural populations, changes to key laws and regulations to eliminate lingering gender-discriminatory language, and strengthening the capacity of key government ministries responsible for providing water and irrigation related services necessary for the Project's investments.

3. Business Environment and Technical Assistance Project

(a) Summary of Project and Activities.

The objective of the Business Environment and Technical Assistance Project (the “**BETA Project**”) is set forth in Section 1.2 of this Compact. The Parties expect inclusive, sustainable private sector growth in Lesotho will be stimulated by creating a robust pipeline of businesses and facilitating a public-private dialogue in which these private sector actors can engage with the Government and the Government can respond.

The BETA Project is comprised of the following three Activities:

(i) 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 (BDS) to support increased firm level profits and business maturation. Additionally, the Activity will provide grants to select women- and youth-owned businesses to facilitate business plan implementation.

Firms selected to receive technical assistance and BDS support are expected to be investment ready or near investment ready firms with high potential to scale and drive labor-intensive growth. The technical assistance will cover topics such as core business operations (e.g., financial literacy, accounting, marketing, market research, and legal compliance), soft skills, and fundraising. Additionally, technical assistance could include pre-investment support such as feasibility studies, including studies related to bridging information gaps and strengthening priority sector value chains. The technical assistance may be provided on a one-to-one basis for growth and mature stage firms or through a one-to-many training model or other instructional model for early-stage firms. The programming will be prioritized by business life-stage and tailored offerings reserved for larger firms prioritizing agri-business, high potential growth-oriented horticulture value chain (HVC) firms (e.g., post-harvest handling and cold chain), and entrenching gender and social inclusion components across the programming. The BETA Project aims to support up to approximately 50 mature stage and 500 early-stage firms.

Select early-stage firms and start-ups will receive assistance through an incubator and accelerator program. The incubator will provide training on core business operations, access to workspaces and other operating resources (e.g., computer labs), entrepreneurship skills, and personal initiative training. The incubator and accelerator program will be sector neutral and delivered to cohorts of firms by an established incubator with demonstrated experience successfully developing MSMEs. A grant will be provided to incentivize an incubator and accelerator with a demonstrable track record to expand into Lesotho. The grant funding may partially subsidize the cost of incubating MSMEs. Local BDS providers will receive training to build their capacity to improve the quality and effectiveness of services provided in Lesotho and sustainability of the BDS provider business model.

The Pipeline Development Activity also includes interventions for advancing opportunity to women- and youth-owned MSMEs and businesses from and serving remote rural communities. These include: (a) a needs assessment to determine factors that will constrain women, youth and those from rural, disadvantaged communities from applying and successfully accessing business support resources, including those provided under the BETA Project; (b) capacity building of BDS service providers to foster increased participation of women and youth, provide tailored services, and entrench gender and inclusion targets and metrics in their practices; (c) technical assistance to women- and youth-owned business that address the unique and specific needs of these businesses, including gender smart business models of technical assistance service delivery, and personal initiative training; (d) mentorship, incubation and acceleration interventions with a high target for and designed to serve women- and youth-owned SMEs, employing a portfolio of best practices; (e) market access and supplier development programs to access formal supply chains through e.g. formalization, cooperative schemes, compliance with quality standards, and potentially a ‘gender-smart’ label; (f) promotion of gender empowerment policies and practices that adopt improved working conditions, skills, productivity, and satisfaction of women employees; and (g) grants to approximately 100-125 early-stage women- and youth-owned MSMEs, accompanied by technical assistance offered under the BETA Project.

Furthermore, the Activity will enhance the competitiveness of local producers by working with government institutions such as Lesotho Standards Institute (LSI) and National University of

Lesotho (NUL) to build their capacity to facilitate compliance of local produce with the requirements of the local and export markets.

(ii) Business Ecosystem Strengthening Activity.

This Activity aims to increase private sector participation in public policy decision-making, thereby improving delivery of critical services for strengthening the business environments. To achieve this goal, the Activity will develop a Public-Private Dialogue (PPD) mechanism or platform for coordinating constructive dialogue between Government and private sector actors to identify and address critical barriers to business formation and growth.

Specifically, the Activity will support: (a) developing an agreed PPD framework with the key private sector entities that will establish the rules of engagement for collaboration between the Government and private sector in setting agendas for government action necessary to improve the business environment; (b) establishing a PPD coordinating unit within the Lesotho Chamber of Commerce and Industry (LCCI) to provide secretariat services for the dialogue and create and manage technical working groups (TWGs) to serve as a formal channel for private sector actors to determine areas of common interest and share their suggestions and recommendations with the Government; and (c) technical assistance to the TWG to help them identify and implement business environment and policy reforms that improve the investment climate in Lesotho and are prioritized through the PPD (e.g., a standards and certification regime).

The PPD mechanism also will (a) advance policies that remove barriers to women and youth owned MSME growth and (b) build capacity of supporting business and horticulture associations. The PPD Secretariat will include a gender and inclusion position as key personnel and a TWG focused on gender and inclusion will be established. In addition, the TWG will receive technical assistance to examine business enabling environment issues that are raised by members and implement solutions, work to embed a gender lens in investment priorities, and promote industry-wide adoption of practices that promote inclusion.

(iii) Financial Ecosystem Strengthening Activity.

This Activity will increase financing options for MSMEs and large firms by structuring financing vehicles that address access to credit issues for firms across the size spectrum, especially women and youth owned firms, and building the capacity of financial sector actors to develop and deliver innovative financial products.

To achieve this goal, the Activity will fund:

(A) technical experts or consultants to (1) design and launch financing vehicles that mobilize financing for MSME firms across the size spectrum, which may include an SME working and growth capital fund potentially anchored by the Lesotho Pension Fund, (2) provide technical assistance and grants to financial institutions to develop and pilot appropriate gender- smart financial products for micro enterprises, (3) create an innovative crowdfunding model that leverages women's savings groups to promote formalization and increase opportunities to leverage finance for MSMEs, (4) create a financing vehicle designed to provide equity capital to growth stage businesses not yet ready for commercial equity funding, and (5) assist larger firms in accessing financing from existing impact funds outside of Lesotho. The

Activity may also fund the costs of a credit guarantee to incentivize domestic investment in the SME working and growth capital fund;

(B) technical assistance to the Central Bank of Lesotho, other Government entities, and other public or private organizations engaged in the financial and business sector to strengthen the institutional, legal, and regulatory framework for SME financing in Lesotho and promote gender lens investing;

(C) technical assistance to key Government financial regulatory agencies and public and private financial institutions to (1) increase deliberate financial programming and products for women and youth, (2) organize financial sector convenings on gender lens investing, and (3) address specific barriers and challenges unique to women and youth owned businesses;

(D) capacity building for women's savings groups, to promote formalization, increase market opportunity to members, leverage finance and provide a catchment platform for target beneficiaries of the BETA Project; and

(E) data collection, impact measurement, and support for studying and measuring the effectiveness of specific interventions of the BETA Project at the firm level as well as the overall efficacy of the BETA Project and disseminating the results of such studies.

(b) Environmental and Social Mitigation Measures.

Based on the Environmental Guidelines, the BETA Project is categorized as a Category C project, given that it is comprised largely of technical assistance and is expected to have minimal direct environmental and social impacts. Many of the proposed activities, such as support to business incubation and pipeline development, will likely not imply any environmental or social impacts. However, there is an opportunity to develop environmental and social capacity with financial institutions and program beneficiaries by providing specific technical assistance in those areas and supporting each of them in the development of an ESMS appropriate to their organization. Also, the specific lines of intervention under the BETA Project will need to be sensitive to and avoid supporting firms that are engaged in activities known to be environmentally and socially harmful.

The BETA Project will be included in the compact-wide ESMS which will outline the management of any project-specific environmental and social impacts, risks, and opportunities. Additionally, the Project will benefit from the environmental and social expertise of an environmental and social oversight consultant (ESOC).

The Pipeline Development Activity's proposed grant programs would be categorized as a Category D project as grantee firms may use MCC Funding to fund activities that could potentially result in adverse environmental and social impacts. Under a Category D designation, MCC requires grant recipients to comply with minimum standards of impact analysis, IFC Performance Standards, on-going monitoring, and relevant laws and regulations of the host country. For those activities that could imply environmental and social impacts, such as support to infrastructure and value chain services, environmental and social screening, development of environmental and social impact assessments, management plans, and other mitigation measures

will be undertaken in accordance with the Environmental Guidelines and IFC Performance Standards.

(c) Gender and Social Inclusion.

The BETA Project was developed with input from several private sector and NGO partnerships to ensure the inclusion of women, youth, and rural communities. The design of the Project achieves this inclusion by directly targeting women- and youth-owned MSMEs, and businesses in and serving remote rural economies in each Activity. Each Activity is categorized as either gender accommodating, gender empowering or gender transformative.

Additionally, the BETA Project's learning agenda will seek to better understand which interventions are most effective with respect to women and youth-owned firm creation and growth as well as successfully addressing issues related to access to finance. GSI safeguards will be employed to reduce risks, including countering TIP.

(d) Donor Coordination.

Throughout project development, MCC and the Government collaborated with other development partners active in the agriculture and horticulture sectors and that are or have worked on private sector development in Lesotho. These development partners include the World Bank (SADP, SADP II and the Gender Innovation Lab) and the African Development Bank (AfDB) through PPD development and Lesotho Post Bank financial product development. In addition, the Financial Ecosystem Strengthening Activity was informed by partnerships with two local NGOs, Caritas and Care for Basotho, who work closely with local savings and lending groups.

The BETA Project is designed to build partnerships with multiple actors to increase financing options for firms in Lesotho, particularly women and youth owned MSMEs. MCC has been in discussions with several stakeholders about investing in a proposed SME working and growth capital investment vehicle for over two years. This includes the DFC, Innovation for Poverty Action (IPA), the African Development Bank (AfDB), local commercial banks and the Lesotho Pension Fund. MCC also has been in discussions with the World Bank's Gender Innovation Lab about developing a capacity building and access to credit program with micro-finance institutions and Lesotho Post Bank to develop and test gender-smart financial products. Collaboration is ongoing with the World Bank, AfDB, and EU who all have programs focused on private sector strengthening.

(e) USAID.

The USAID Southern Africa Trade hub provided early input and support into the development of the BETA Project and consultation and coordination with the hub is expected to continue during implementation of the Project.

(f) Sustainability.

Sustainability is built into the BETA Project in several ways. First, attracting existing incubators and accelerators to Lesotho that have demonstrable financially sustainable models will increase

the chances that private firm pipeline development and support can continue beyond the Compact Term. Second, the Financial Ecosystem Strengthening Activity focuses on “crowding in” capital to address access to finance challenges by providing catalytic design funding and de-risking the pipeline with technical assistance. Last, by focusing on building existing Government and non-Government institutions and addressing policy, regulatory and legal framework constraints, the Project will have a significant impact on the business operating environment and financial system in Lesotho well beyond the Compact Term.

(g) Policy, Legal and Regulatory Reforms.

Several reforms will be pursued to ensure the success of the BETA Project. These will include the establishment of a PPD mechanism, development of a policy, regulatory and institutional framework for horticulture standards and certification and quality conformity, and assessment and reform of the policy, regulatory and legal reforms that could enable greater access to finance for MSMEs.

4. American Catalyst Facility for Development Project

(a) Summary of Project and Activities.

The objective of the American Catalyst Facility for Development Project (the “*ACFD Project*”) is set forth in Section 1.2 of this Compact. Specific activities to be supported by the ACFD Project will be agreed to by the Parties in writing after receiving proposals from DFC.

(b) Environmental and Social Mitigation Measures.

The ACFD Project activities will be governed by guidelines agreed to by MCC and DFC.

(c) Gender and Social Inclusion.

The Parties will agree in writing to the applicable gender and social inclusion measures for each activity of the ACFD Project as activities are identified.

(d) Donor Coordination.

While DFC will appraise, oversee and monitor ACFD Project activities, MCC and the Government expect to work closely with DFC during all phases of the ACFD Project from identifying activities to developing, designing and implementing such activities.

(e) USAID.

To the extent relevant, MCC expects to coordinate with USAID on potential investments relevant to its programming as ACFD Project activities are identified.

(f) Sustainability.

The Parties will agree in writing to the sustainability measures for each activity of the ACFD Project as activities are identified.

(g) Policy, Legal and Regulatory Reforms.

The Parties will agree in writing to any applicable policy, legal, and regulatory reforms for each activity of the ACFD Project as activities are identified.

C. IMPLEMENTATION FRAMEWORK

1. MCA-Lesotho II

(a) Independence and Autonomy.

MCA-Lesotho II shall have operational and legal independence and full decision-making autonomy, including, inter alia, the ability, without consultation with, or the consent or approval of, any other party, to: (i) enter into contracts in its own name, (ii) sue and be sued, (iii) establish bank accounts with financial institutions in its own name and hold MCC Funding and the Government Contribution in those accounts, (iv) expend MCC Funding and the Government Contribution, (v) engage contractors, consultants and/or grantees, including, without limitation, procurement and fiscal agents, and (vi) competitively engage one or more auditors to conduct audits of its accounts. MCA-Lesotho II shall be governed and managed by a board of directors (the “**Board of Directors**”) and an operations unit (the “**Operations Unit**”) in accordance with the terms of its constitutive documents and internal regulations (which must be in form and substance satisfactory to MCC) and any related MCC policies.

(b) Board of Directors.

The Board of Directors shall have ultimate responsibility for the oversight, direction, and decisions of MCA-Lesotho II, as well as the overall implementation of the Program. As of the date hereof, it is comprised of 11 voting members and 6 non-voting members as follows:

Voting Members:

- Ministry responsible for water (one representative)
- Ministry responsible for agriculture and food security (one representative)
- Ministry responsible for local government and chieftainship (one representative)
- Ministry responsible for health (one representative)
- Ministry responsible for finance (one representative)
- Ministry responsible for gender, youth, sports and recreation (one representative)
- Two civil society representatives (one representing youth organizations and one representing organizations serving people with disabilities)
- Three private sector representatives (one of which shall represent women’s business organizations)

Non-voting Members:

- Ministry responsible for trade and industry (one representative)
- Ministry responsible for small business (one representative)
- Ministry responsible for labor and employment (one representative)
- Ministry responsible for law and justice (one representative)
- Ministry responsible for tourism and environment (one representative)
- Chief Executive Officer of MCA-Lesotho II

The number and composition of voting members may be changed through amendments to and in accordance with MCA-Lesotho II's constitutive documents and internal regulations with MCC's approval. The members of the Board of Directors may be represented by alternates appointed pursuant to the Governing Documents. The non-Government representatives shall be selected through an open and transparent process in form and substance satisfactory to MCC. Other non-voting members may be included as named in the Governing Documents. In addition, MCC's resident country director in Lesotho shall serve as a non-voting observer of the Board.

(c) Operations Unit.

The Operations Unit consists of the employees and consultants of MCA-Lesotho II who have responsibility for the day-to-day activities and operation of the Program and for assisting the Board of Directors with implementation of the Program. The Operations Unit shall be led by a chief executive officer and shall be composed of the directors, officers and other staff as agreed between the Parties and selected after an open, competitive, and non-discriminatory recruitment and selection process (or its equivalent).

2. Implementing Entities.

Subject to the terms and conditions of this Compact, the Program Implementation Agreement, and any other related agreement entered into in connection with this Compact, the Government intends to engage one or more entities of the Government to assist with implementing any Project or Activity (or a component thereof) (each, an ***"Implementing Entity"***). The appointment of any Implementing Entity shall be subject to review and approval by MCC. The Government shall ensure that the roles and responsibilities of each Implementing Entity and other appropriate terms are set forth in an agreement, in form and substance satisfactory to MCC (each an ***"Implementing Entity Agreement"***).

3. Fiscal Agent and Procurement Agent.

Unless MCC agrees otherwise in writing, the Government shall engage an individual or firm with expertise in financial management and reporting to serve as fiscal agent (the ***"Fiscal Agent"***), and an individual or firm with expertise in public procurement and contract management to serve as procurement agent (the ***"Procurement Agent"***). It is expected that the

Fiscal Agent and Procurement Agent, respectively, shall help the Government ensure that all Program-related financial management activities and procurements are conducted in strict compliance with the principles, rules, and procedures set out in this Compact and related MCC policies, procedures, or guidance. The duties of the Fiscal Agent and Procurement Agent, respectively, shall include those set forth in the Program Implementation Agreement, as well as those set forth in the respective agreements, each in form and substance satisfactory to MCC, entered into between the Government and each agent.

ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

A multi-year financial plan summary (“*Multi-Year Financial Plan Summary*”) for the Program is attached to this Annex as Exhibit A.

By such time as specified in the Program Implementation Agreement, the Government shall adopt, subject to MCC approval, a multi-year financial plan that includes, in addition to the multi-year summary of estimated MCC Funding and the Government Contribution of funds and resources, the annual and quarterly funding requirements for the Program (including administrative costs) and for each Project, projected both on a commitment and cash requirement basis.

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EXHIBIT A TO ANNEX II
MULTI-YEAR FINANCIAL PLAN SUMMARY

Component	Compact Facilitation Funds (CFF)	Year 1	Year 2	Year 3	Year 4	Year 5 + Program Closure	TOTAL COMPACT FUNDS
1. Health Systems Strengthening Project	2,099,000	12,472,000	14,661,000	14,661,000	15,391,000	16,121,000	75,405,000
1.1 PHC Service Provision	879,000	5,011,000	5,892,000	5,892,000	6,185,000	6,479,000	30,338,000
1.2 DHMT Reform	931,000	3,677,000	4,322,000	4,322,000	4,537,000	4,752,000	22,541,000
1.3 Digital Health	289,000	3,784,000	4,447,000	4,447,000	4,669,000	4,890,000	22,526,000
2. Market Driven Irrigated Horticulture Project	13,877,000	20,949,000	20,949,000	20,949,000	20,949,000	20,949,000	118,622,000
2.1 Institutional Reform	3,025,000	3,835,000	3,835,000	3,835,000	3,835,000	3,835,000	22,200,000
2.2 Irrigated Horticulture Support Services	4,890,000	4,844,000	4,844,000	4,844,000	4,844,000	4,844,000	29,110,000
2.3 Irrigation Infrastructure Development	5,962,000	12,270,000	12,270,000	12,270,000	12,270,000	12,270,000	67,312,000
3. Business Environment and Technical Assistance Project	4,500,000	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000	62,000,000
3.1 Pipeline Development	2,000,000	5,400,000	5,400,000	5,400,000	5,400,000	5,400,000	29,000,000
3.2 Strengthening the Business Ecosystem	1,500,000	3,700,000	3,700,000	3,700,000	3,700,000	3,700,000	20,000,000
3.3 Financial Ecosystem Strengthening	1,000,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	13,000,000
4. American Catalyst Facility for Development	-	-	3,000,000	-	-	-	3,000,000
4.1 American Catalyst Facility for Development	-	-	3,000,000	-	-	-	3,000,000
5. Monitoring and Evaluation	200,000	200,000	400,000	600,000	800,000	800,000	3,000,000
5.1 Monitoring and Evaluation	200,000	200,000	400,000	600,000	800,000	800,000	3,000,000
6. Program Administration and Control	9,586,000	5,233,000	5,341,000	5,373,000	5,343,000	7,097,000	37,973,000
6.1 MCA-Lesotho II Administration	7,686,000	3,333,000	3,441,000	3,473,000	3,443,000	4,577,000	25,953,000
6.2 Fiscal Agent	900,000	900,000	900,000	900,000	900,000	1,200,000	5,700,000
6.3 Procurement Agent	900,000	900,000	900,000	900,000	900,000	1,200,000	5,700,000
6.4 Audits	100,000	100,000	100,000	100,000	100,000	120,000	620,000
TOTAL COMPACT PROGRAM INVESTMENT	30,855,000	54,690,000	60,187,000	57,419,000	58,319,000	60,803,000	322,273,000
MCC Funding	30,262,000	50,354,000	55,851,000	53,083,000	53,983,000	56,467,000	300,000,000
Government of Lesotho Contribution	593,000	4,336,000	4,336,000	4,336,000	4,336,000	4,336,000	22,273,000

ANNEX III

COMPACT MONITORING & EVALUATION SUMMARY

This Annex III summarizes components of the monitoring and evaluation plan for this Compact (“**M&E Plan**”). The actual structure and content of the M&E Plan, which may differ from those specified in this Annex III, shall be agreed to by MCC and the Government in accordance with MCC’s *Policy for Monitoring and Evaluation of Compacts and Threshold Programs* (the “**M&E Policy**”). In addition, the M&E Plan may be modified from time to time as described in the M&E Policy without requiring an amendment to this Annex III. The M&E Plan shall be posted publicly on the MCC Website and updated as necessary.

1. Objective

MCC and the Government shall formulate and agree to, and the Government shall implement or cause to be implemented, an M&E Plan that explains in detail how and what MCC and MCA-Lesotho II shall (i) monitor to determine whether the Projects are on track to achieve their intended results (“**Monitoring Component**”), and (ii) evaluate to assess implementation strategies, provide lessons learned, compare costs to benefits, and estimate the impact of compact interventions (“**Evaluation Component**”). The M&E Plan shall summarize all indicators that must be reported to MCC on a regular basis, as well as a description of any complementary data to be collected for evaluation of the Program. The M&E Plan shall also include any monitoring and evaluation (“**M&E**”) requirements that MCA-Lesotho II must meet in order to receive Disbursements and shall serve as a communication tool so that MCA-Lesotho II staff and other stakeholders clearly understand the objectives and targets MCA-Lesotho II is responsible for achieving. The results of M&E activities, measured by monitoring data and evaluations, shall be made publicly available on the website of MCA-Lesotho II and on the MCC Website.

2. Program Logic

The program logic is an explanatory model that demonstrates how specific interventions lead to the expected outcomes, objectives, and goal of a compact program. This model reflects the design and implementation plans of a program, noting planned activities and outputs and the sequencing of results. Secondly, it reflects the economic logic, which forms the basis of the cost-benefit analysis that produces the Economic Rate of Return (**ERR**). Lastly, it notes critical risks and assumptions related to achieving results. The program logic forms the basis of the M&E Plan.

It should be noted that because DFC will appraise, oversee and monitor the specific activities or interventions under the ACFD Project, the M&E Policy shall not be applied to those activities and interventions. MCC and the Government have agreed to the indicator set forth in this Annex III to measure progress toward and success of the ACFD Project Objective. In addition, MCC and the Government expect that DFC will monitor and evaluate the project activities in accordance with its Operating Principles for Impact Management and use its Impact Quotient (IQ) system, LabIQ, and such other measurement tools as DFC may determine.

2.1 Logic Models

A description of the logic underlying each Project is included below:

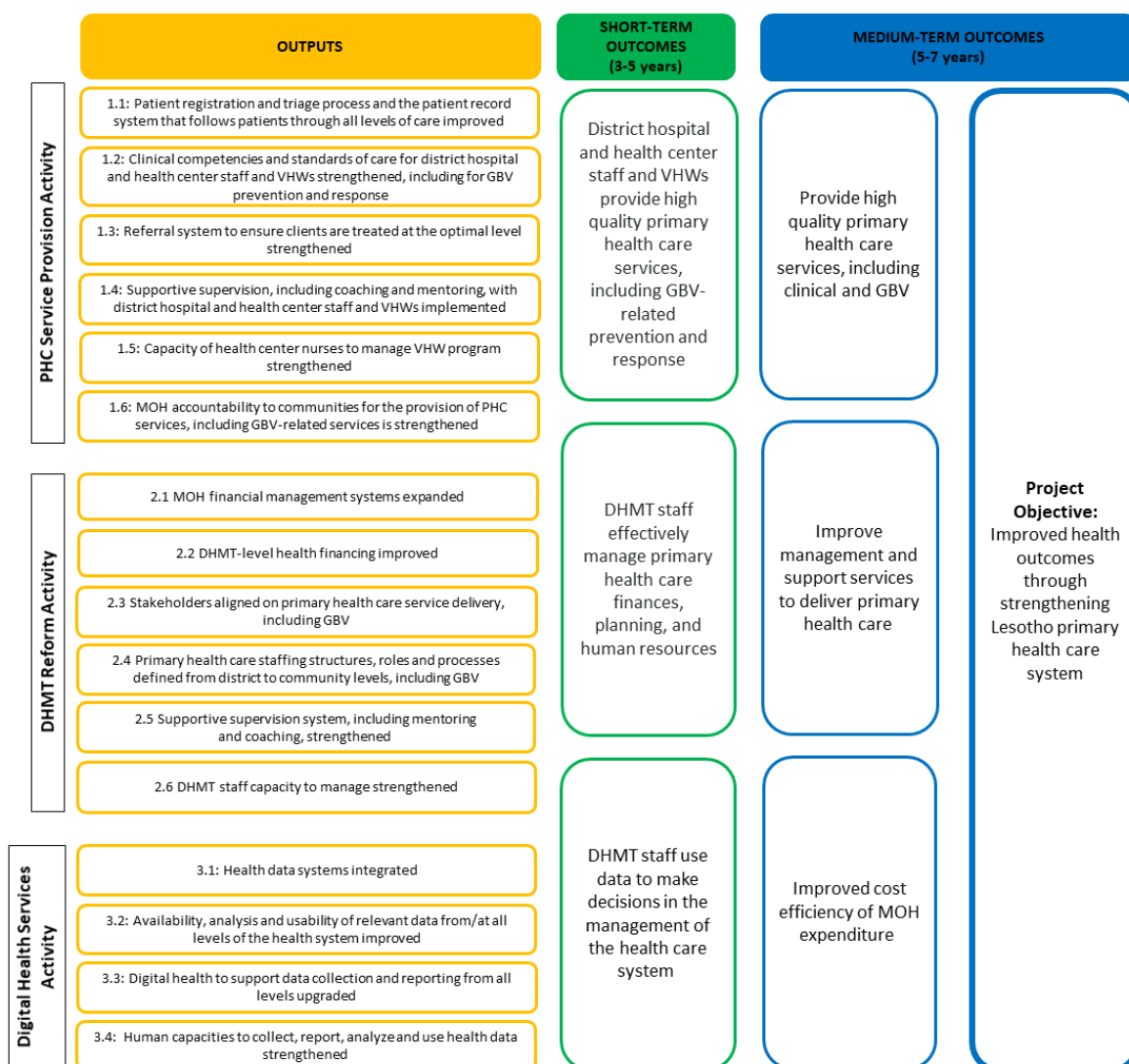
Project 1: Health Systems Strengthening Project

The objective of the Health Systems Strengthening Project is to improve the delivery of health services and management of the primary health care system in Lesotho resulting in improved health outcomes.

The project's theory of change, as shown below, starts with selecting interventions to change critical institutional behavioral factors of key people in the health system. The project aims to improve the patient registration and referral systems by improving staff competencies and supervision, integrating budgeting and financial systems, and improving coordination across all levels of health care staff in Lesotho. District level health staff will have the capacity and be empowered to make more effective use of health resources and use data for decision making. In addition, because of the improved referral system, those seeking health services will find care more easily and will not have to seek harder and more expensive to access care at central hospitals. Finally, the HSS Project will utilize Results Based Financing to promote accountability and incentivize improved quality of primary health care services. This will improve the ability of staff at all levels to deliver better primary care services.

Key assumptions have to do with the institutional change within the Ministry of Health (MOH). The theory of change assumes that the central MOH will disburse funds to the district levels in a timely and organized manner, and that they will implement the supportive supervision components. We also assume that the performance incentives are structured correctly to catalyze change in the way the MOH implements primary health. We also assume that these improvements to the primary health care system will lead to observable improvements in health outcomes for people in Lesotho. In the long term, this is expected to lead to increased labor productivity, improved cost efficiency of MOH expenditure, and a reduction in household medical and associated expenses. These expected long term outcomes will not be measured as part of the evaluation.

Health Systems Strengthening Project Logic



Project 2: Market Driven Irrigated Horticulture Project

The objective of the MDIH Project is to increase rural incomes related to commercial horticulture, including for women and youth and establish a sustainable and inclusive model of irrigation, water resource, and land management.

The underlying logic of the irrigated horticulture project posits that by building the irrigation infrastructure and facilitating commercial investments on part of the irrigated land, the project will spur growth and investment in the horticulture sector. To further support the long-term objective of equitable growth in the horticulture sector, MCC will support reforms related to land registration and land rights, coordination in the water sector, including to Water Users Associations (WUAs), integrated catchment management (ICM), and capacity support for inclusive service delivery. It is expected that these reforms will not only make the project more

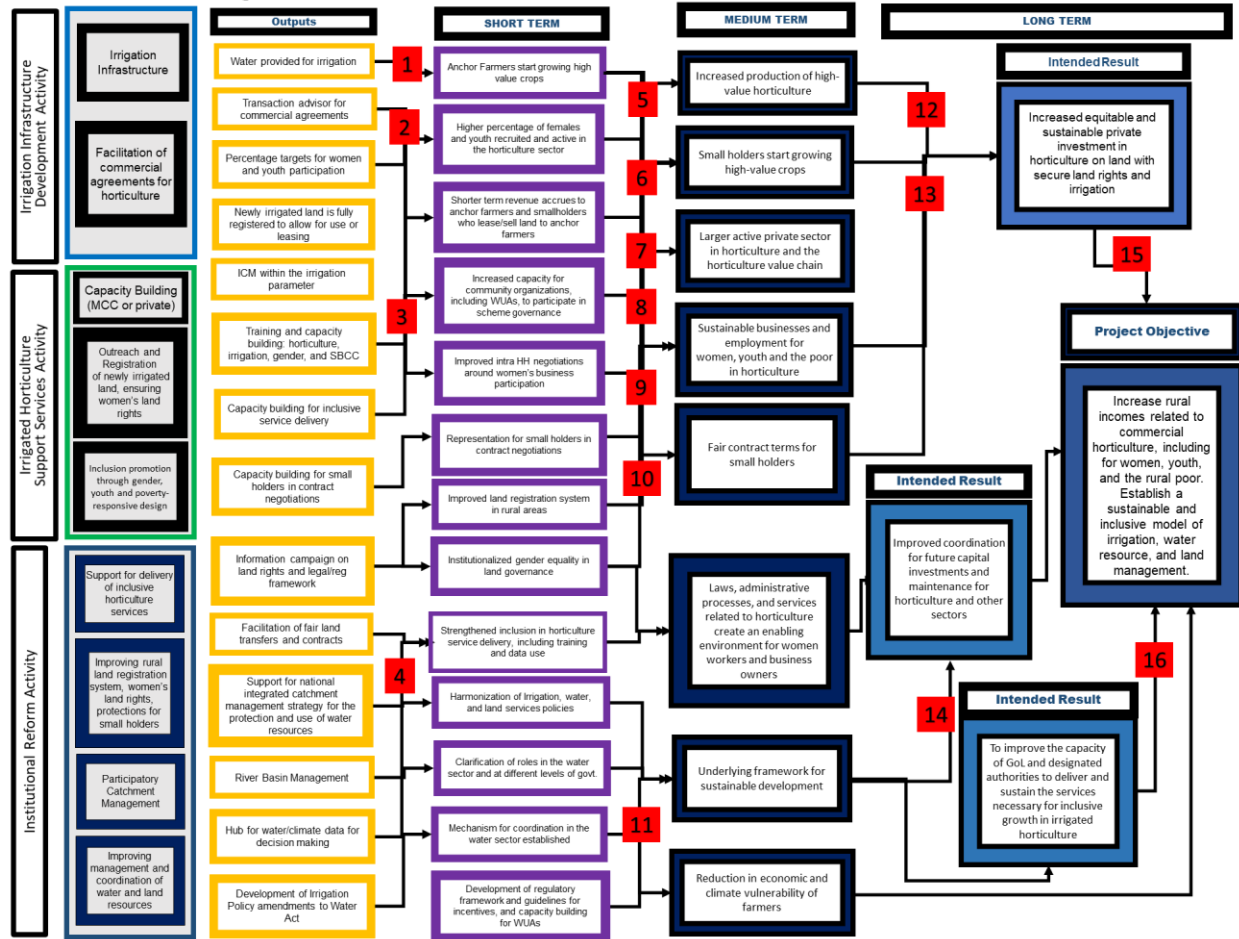
viable during the life of this Compact, but also more sustainable in terms of economic growth and climate resilience.

The key assumptions in the logic are that suitable anchor farmers will be identified to invest in the schemes and willing to accept contract terms that support inclusive growth, and that the small-holder farmers on the remaining hectares use the water to cultivate high-value crops, and that this change happens within the life of this Compact. In addition, we assume the completion of the irrigation infrastructure can be timed correctly with the roll out of the capacity building, gender and social interventions. and social and behavior change components. An additional assumption is that the necessary legal reforms will be passed early enough such that women can own land and participate in and benefit from the scheme. Finally, a major assumption in the economic model is that the new high-value crops replace South African imports and farmers receive an acceptable price for their crops.

Assumptions (numbered in red in the visual)

1. We will be able to bring in an anchor farmer who will organize the farmers to help the transition to high-value horticulture
2. Women will participate in horticulture in higher numbers when recruited
3. Farmers can acquire and use the necessary skills for horticulture, and we can time the capacity building correctly with infrastructure completion
4. There is enough water and other inputs to sustain commercial farming
5. Farmers will use the water for productive uses and sell their extra produce, and this change happens in five years
6. On average, there will only be 5% of revenue lost due to post-harvest loss
7. The irrigation systems will be maintained
8. Farmers have access to the markets for horticulture products and sufficient logistics networks to get products to consumers
9. The benefits of a strong horticulture sector will accrue to women
10. Improved land registration will lead to more productive use of land
11. Water resources will be well-managed
12. There will be a market for the horticulture products, new businesses in the horticulture value chain can make a profit
13. South African firms will sell Lesotho products at lower price
14. The MDIH Project will be successful as a demonstration and the Government will invest in further irrigation infrastructure and other capital investments to sustain economic growth
15. Growth in the horticulture sector will lead to better livelihoods
16. The reforms identified will lead to more economic activity in horticulture

Market Driven Irrigated Horticulture



Project 3: Business Environment and Technical Assistance Project

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 firms supported by the Project, including for micro, small, and medium enterprises (MSMEs) and MSMEs owned by women and youth and in rural areas.

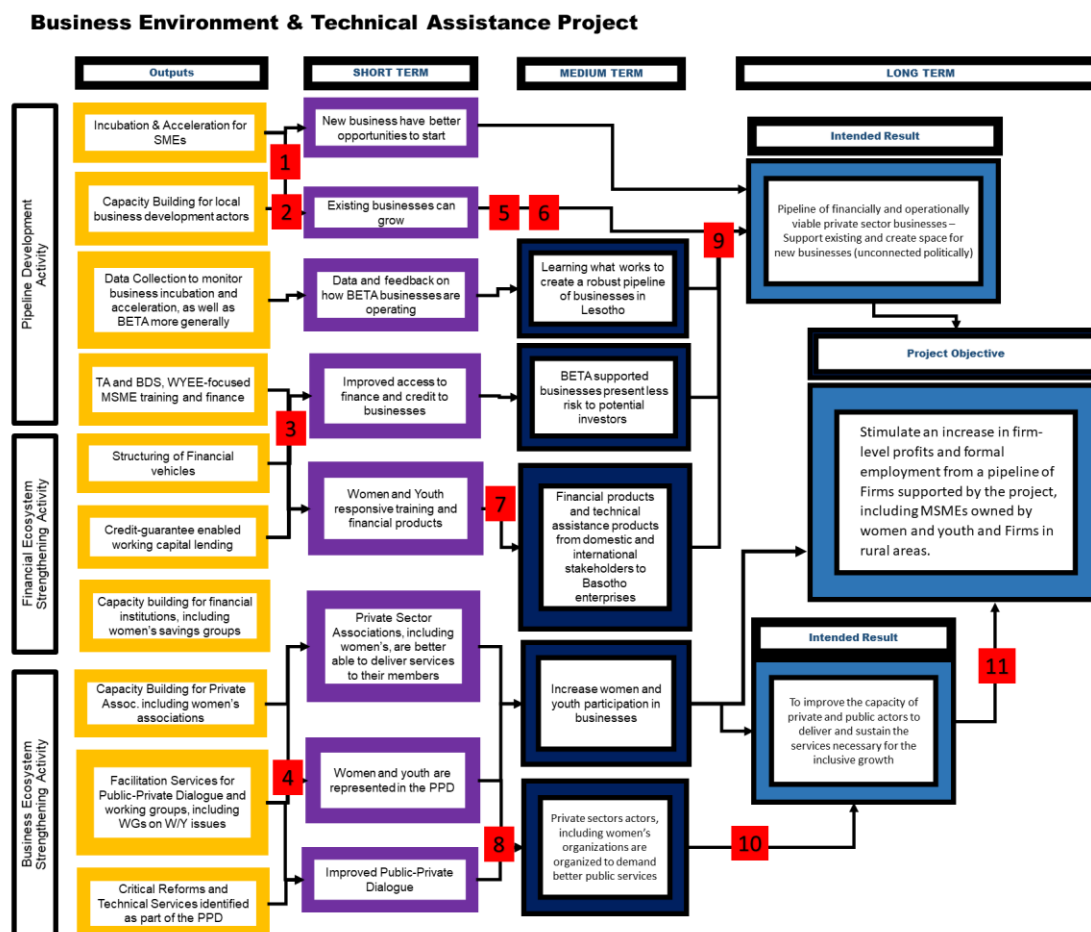
To achieve this result, there must be a pipeline of viable private sector businesses, and these businesses must be organized to demand better services from the government. In turn, the government should respond to the needs of the private sector by providing goods and services that are critical for growth. The business pipeline must also be inclusive of women owned and youth owned businesses. The BETA Project will improve access to finance and improve the general business ecosystem to support pipeline development. Given the focus of this Compact, this pipeline should include a sizeable number of horticulture value chain (HVC) firms that cover a range of activities such as input provision, integrated cold chain, and post-harvest handling

services. The BETA Project's three activities are designed to contribute to this result at the end of this Compact as well as sustain the gains after this Compact ends.

The key assumptions in the BETA Project logic are that BETA-supported businesses will be able to grow in a timely manner and that growth in the pipeline is robust. It is also assumed that the new firms will be able to start up and become revenue positive in a timely manner. It is assumed that growing the private sector in this manner will lead to firms organizing and demanding better services from the Government, and that the Government will respond. It is assumed that a strengthened private sector will have political leverage with respect to Government. It is assumed that there is sufficient appetite within the Government to implement meaningful reforms to enable private sector development. The goal is to reduce patronage and make the Government more effective, but this inherently takes power away from those in office and within the bureaucracy. It is assumed that the reforms can produce change within a 5–10 year timeline. Finally, it is assumed that if the Public-Private Dialogue (PPD) is successful, it will be sustained after this Compact ends. In other compacts that include similar mechanisms, political support and ongoing resources have been necessary for sustainability. After compact closure it will be hard to ensure these efforts continue with the same enthusiasm. Given Lesotho's high political turnover, this presents a large risk to the program logic.

Assumptions (numbered in red in the visual)

1. Basotho businesses will apply for the grants and understand the process under BETA
2. Technical assistance is enough to get women owned businesses ready to take on financing, technical assistance is sufficient for these businesses
3. The de-risking components of BETA will lead to greater private investment
4. There are enough private sector (domestic and foreign) firms in horticulture to apply for technical assistance
5. Participants will use finance to invest in their business' growth (the finance is not diverted to non-productive uses such as consumption)
6. Given economic opportunities the private sector will organize and demand more of the Government
7. The Government will respond to the private sector and make its processes more efficient and responsive
8. Barriers to starting a new business do not prevent new businesses from forming



2.2 Risks and Assumptions

The M&E Plan shall also outline key assumptions and risks that underlie the accomplishment of the theory of change summarized in the program logic. However, such assumptions and risks shall not excuse any Party's performance unless otherwise expressly agreed to in writing by the other Party. The known assumptions and risks are included above in Section 2.1 Logic Models.

2.3 Projected Economic Benefits and Beneficiaries

The economic analysis of compact programs consists of a cost-benefit analysis, which is summarized by an estimated ERR and a beneficiary analysis. This analysis for the Program is summarized below.

2.3.1 Projected Economic Benefits

Cost-Benefit Analysis (CBA) is completed to determine the cost effectiveness of MCC investments. A threshold of 10% is typically used to inform investment decisions.

The underlying economic logic of the CBA model(s) follow(s) the Project Logic depicted above. Additionally, several of the variables included in the model become key indicators to monitor the

Program and evaluate whether the Program reached the intended outcomes, as well as determining its cost effectiveness. Each model includes estimated benefits and the total estimated costs to reach those intended benefits, whether costs are incurred by MCC, another donor, the Government, or another entity. These are typically examined over a 20-year period, unless otherwise noted.

The table below provides a summary of the estimated ERRs across this Compact's projects. The text following the table describes the general methodology and logic of the CBA model(s), as well as the key benefit streams, costs, assumptions, risks, etc. for each of the calculated ERRs.

Project/Activity	Estimated Economic Rates of Return
Health Systems Strengthening	15%
Market Driven Irrigated Horticulture	4%
Business Environment and Technical Assistance	12%
Total	8.9%

Project 1: Health Systems Strengthening Project

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 (CBA) applies the Value of Statistical Life concept to value forecast mortalities averted and a cost-of-illness approach to value forecast morbidities averted (reduction in non-fatal illnesses) because of the investment. The CBA explicitly incorporates the benefits of GBV prevention and treatment expected to result from the investment.

Project 2: Market Driven Irrigated Horticulture Project

The MDIH Project addresses the root cause of the binding constraint by supporting medium-to-large-scale Basotho investors in irrigated horticulture, and targeting structurally excluded rural smallholders, including further disadvantaged groups among them, particularly women and youth, to join the pipeline supported by the BETA Project. The assumptions in the MDIH Project ERR pertain to how the three activities of the Project support a sustainable pipeline of the targeted investors:

- Based on lessons learned from past irrigation projects, irrigated horticulture farmers need access to:

- Land
- Water
- Fewer institutional obstacles for women and youth
- Finance
- Business environment services
- Irrigation infrastructure
- Hands-on training and other social and behavior change support
- Product aggregation
- Cold chain technology
- Markets
- The Institutional Reform Activity will address land, water, and gender/youth sustainability issues that resolve the constraint.
- In addition to providing irrigation infrastructure, the MDIH Project will have pilot and demo plots to provide hands on training and will attract anchor investors to help small scale farmers with product aggregation, access to cold chain technology, and access to markets. This investment is a result of lessons learned from past MCC and the Government irrigation projects.

The assumption that anchor investors will be attracted to the Project that can solve the problems of access to finance, access to markets, and logistics infrastructure, is critical to the success of the project.

In addition to supporting the pipeline of targeted investors, the land reforms, water reforms, and gender/youth interventions in the IRA will generate benefits outside of horticulture that are not included in the current ERR. The data needed to calculate benefits for the land reforms is being collected by IFPRI now.

The calculation of benefits from the targeted intervention in irrigated horticulture measures agricultural productivity to calculate gross margins from horticulture production of two categories of producers – the anchor investors and the small-scale farmers. Anchor investors are assumed to be successful commercial producers who will be able to maximize production of horticulture products immediately after the land improvements made by this Compact become available. Eighty percent of small-scale investors are assumed to take 10 years to adopt the new irrigation technology, consistent with lessons learned from previous MCC irrigation projects. The default assumption in the ERR is that anchor farmers control production on 50 percent of the intervention area.

The benefit streams for the targeted intervention also include:

- Indirect (multiplier) benefits, calculated in collaboration with the International Food Policy Research Institute (IFPRI)
- Environmental benefits, calculated in collaboration with University of Massachusetts / PEGASYS

At present, the Lesotho II ERR calculation includes ecosystem service benefits related to seeding and revegetation of bare land in micro-catchments immediately adjacent to MCC's investments in irrigation infrastructure, covering 1,100 ha of land. MCC and UMASS believe that there are additional environmental and ecosystem service benefits that can be derived from investments in integrated catchment management (ICM), not only at the micro-catchment level but also at the sub-catchment level. It is likely that what has been identified and incorporated into the CBA is only a small representation of the total benefits that are likely to accrue to the project and its beneficiaries over the lifetime of its implementation. Other ecosystem service benefits that could accrue to the project that have not yet been valued include ground water recharge, pest control and ecotourism, amongst others.

There are two key parameters that drive the value of the ERR:

1. The share of land controlled by the anchor farmer. This parameter can range from 10 to 100 percent. For the reported ERR it is assumed a value of 50 percent. Higher values of this parameter result in a higher ERR.
2. The share of land sewn under apples, ranging from 0 to 30 percent. Higher values of this parameter result in a lower ERR.

The ERR for the Irrigation Infrastructure Development Activity is 5.9 percent. For the overall MDIH Project, the ERR is 4.1 percent.

Project 3: Business Environment and Technical Assistance Project

The objective of the BETA Project is to stimulate an increase in firm-level profits and formal employment from a pipeline of firms supported by the Project, including for micro, small, and medium enterprises (MSMEs) and MSMEs 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. The project will intentionally target women and youth, who face relatively high barriers to investment. The ERR for the BETA Project has two main benefit streams: the increase in returns to factors of production (land, labor, capital) that can be attributed to the BETA Project, and the increase in GDP growth that results from major reforms because of the PPD component of the BETA Project.

The BETA Project will provide one-on-one assistance to approximately 50 companies in the pipeline, and one-to-many assistance to another estimated 500 companies over the course of this Compact. MCC used estimates of company turnover from consultant studies and parameter values for growth of profits and firm employment estimated in the economics literature to calculate the incremental profit and employment compensation attributable to the compact investment.

The PPD is expected to identify and raise important regulatory, coordination or other issues affecting the ability of the private sector to be productive and grow. Because the desire is to have the issues identified through a facilitated PPD, it is unknown at this stage exactly what reform activities will be carried out. There is evidence that such reforms should lead to economic benefit

and provide parameters for estimating this benefit that can be adjusted to Lesotho's context.⁴ Thus, the key parameters for this activity are the number of consequential reforms accomplished by the PPD throughout the compact period and valuation of those benefits.

The key parameters for the BETA Project are the average number of employees in the baseline, the growth rate of profit and labor compensation over time, and the number of significant regulatory reforms that will be accomplished by the PPD over the course of this Compact. The ERR assumes the BETA Project will result in a 7.1 percent increase in employment, a 5.1 percent increase in annual profits for firms in the pipeline, and 4 consequential reforms (one for each year after the BETA Project is up and running in year two). The ERR based on these assumptions is 11.6 percent.

2.3.2 Projected Program Beneficiaries

The M&E Plan shall also define the persons or entities expected to benefit from the Program. Beneficiary analysis is an extension of the CBA and seeks to disaggregate the total increase in income to determine specifically which segments of society will benefit from the Projects and Activities. MCC considers beneficiaries of Projects and Activities to be those people who experience better standards of living as a result of the Project or Activity (as the case may be) through higher real incomes.⁵ For definitional purposes it is important to note that not all MCC project participants are necessarily project beneficiaries. The "Program Overview" section of Annex I presents the projected number of beneficiaries of this Compact.

3. Monitoring Component

As defined in the M&E Policy, monitoring is the continuous, systematic collection of data on specified indicators to provide indications of progress toward objectives and the achievement of intermediate results along the way. To monitor progress toward the achievement of results of this Compact, the Monitoring Component of the M&E Plan shall identify (i) the Indicators (as defined below), (ii) the definitions of the Indicators, (iii) the sources and methods for data collection, (iv) the frequency for data collection, (v) the party or parties responsible for collecting and analyzing relevant data, and (vi) the timeline for reporting on each Indicator to MCC. It should be noted that some indicators shall continue to be tracked after the Compact Term as necessary.

3.1 Goal, Outcome, Output, and Process Indicators

The full M&E Plan shall measure the results of the Program using quantitative, objective, and reliable data ("**Indicators**").

⁴ Balázs Égert, Peter Gal (2016) The Quantification of Structural Reforms in OECD Countries: A New Framework OECD Journal: Economic Studies, issue 1, p. 91 – 108.

⁵ As used in this Compact, the term "beneficiary" has the meaning described in the *Guidelines for Economic and Beneficiary Analysis*.

3.1.1 Baselines

The full M&E Plan shall establish baselines for every Indicator (each a, “***Baseline***”). An Indicator’s Baseline should be established prior to the start of the corresponding Project, Activity and/or Sub-Activity. Baselines demonstrate that the problem can be specified in measurable terms and are thus a pre-requisite for adequate intervention design. The Government shall collect Baselines on the selected Indicators or verify already collected Baselines where applicable.

3.1.2 Benchmarks and Targets

The full M&E Plan shall establish a benchmark for each Indicator that specifies the expected value and the expected time by which the result shall be achieved (“***Target***”).

3.1.3 Disaggregation of Indicators

The full M&E Plan shall indicate which Indicators shall be disaggregated by gender, income level, and age, and beneficiary types to the extent practical and applicable.

3.1.4 Goal Indicators

According to the M&E Policy, a “Goal Indicator” measures the economic growth and poverty reduction that occurs during or after implementation of the program. This is typically a direct measure of local income.

3.1.5 Outcome, Output, and Process Indicators

Outcome, output and process Indicators are all defined in the M&E Policy.

3.1.6 Common Indicators

MCC’s Common Indicators (as described in the M&E Policy) shall also be included as relevant.

3.1.7 Revisions to Indicators and Targets

Subject to prior written approval from MCC and in accordance with the M&E Policy, the Government may add Indicators or refine the definitions and Targets of existing Indicators.

3.1.8 Indicator Tracking Table

MCA-Lesotho II must report to MCC on monitoring Indicators in the M&E Plan on a quarterly basis using an Indicator Tracking Table (ITT) in the form provided by MCC. No changes to Indicators, Baselines or Targets may be made in the ITT until the changes have been approved in the M&E Plan. Additional guidance on Indicator reporting is contained in the *MCC Guidance to Accountable Entities on the Quarterly Disbursement Request Package*. In the case that MCA-Lesotho II submits a six-month disbursement request, the ITT must still be submitted quarterly.

The M&E Plan shall contain the monitoring Indicators listed in Schedule A.

4. Evaluation Component

While good program monitoring is necessary for program management, it is not sufficient for assessing ultimate results. MCC therefore advocates the use of different types of evaluations as complementary tools to better understand the effectiveness of its programs. As defined in the M&E Policy, evaluation is the objective, systematic assessment of a program's design, implementation, and results. MCC is committed to making its evaluations as rigorous as warranted in order to understand the causal impacts of its programs on the expected outcomes and to assess cost effectiveness.

4.1 Independent Evaluations

Every Project must undergo a comprehensive, independent evaluation (impact and/or performance) in accordance with the M&E Policy. The Evaluation Component of the M&E Plan shall describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. All independent evaluations must be designed and implemented by independent, third-party evaluators. If the Government wishes to engage an evaluator, the engagement shall be subject to the prior written approval of MCC. Contract terms must be acceptable to MCC and ensure non-biased results and the publication of results.

For each independent evaluation, MCA-Lesotho II is expected to review and provide feedback to independent evaluators on the evaluation design reports, evaluation materials (including questionnaires), baseline report (if applicable), and any interim/final reports in order to ensure proposed evaluation activities are feasible, and final evaluation products are technically and factually accurate.

Project 1: Health Systems Strengthening Project

MCC will implement a mixed-methods performance evaluation to learn if we can impact health outcomes using the systems strengthening approach and how we can best implement policy reform to improve the primary health care system.

The evaluation questions are as follows:

- Was the Health Systems Strengthening Project implemented according to plan (in terms of quantity and quality of outputs)?
- Did the Health Systems Strengthening Project achieve its targeted outcomes, particularly its stated objective, in the timeframe and magnitude expected? Why or why not? *This question links to the following outcome indicators: Improved health outcomes (i.e. maternal deaths averted, total under-five deaths averted, and reduction in deaths from cardiovascular disease).*
- Do the results of the Health Systems Strengthening Project justify the allocation of resources towards it?

Project 2: Market Driven Irrigated Horticulture Project

The evaluation will be a performance evaluation that looks at the changes in income of the targeted beneficiaries, investment in horticulture on the targeted hectares, and distribution of the expected benefits across our targeted sub-groups. We hope to learn if the anchor farmer model works to stimulate growth and help motivate farmers to cultivate higher value crops. We also hope to understand if the reforms in the water and land sectors help promote women and youth economic empowerment and environmentally sustainable livelihoods.

The evaluation questions are as follows:

- Was the Market Driven Irrigated Horticulture Project implemented according to plan (in terms of quantity and quality of outputs)?
- Did the Market Driven Irrigated Horticulture Project achieve its targeted outcomes, particularly its stated objective, in the timeframe and magnitude expected? Why or why not? *This question links to the following outcome indicators: Income from land agreements with the anchor farmers; and Income related to irrigated horticulture (Small-Holders).*
- Do the results of the Market Driven Irrigated Horticulture Project justify the allocation of resources towards it?

Project 3: Business Environment and Technical Assistance Project

The BETA Project will be evaluated through a performance evaluation. The evaluator will assess the establishment and strengthening of the PPD, the efficacy of the mechanism in incentivizing the Government to provide critical services to the private sector, and private sector representation within the PPD as it relates to women and youth owned MSMEs and businesses unconnected politically. In addition, the evaluation will assess the success of the BETA-supported businesses in terms of their profits, long-term viability, and representation of women and youth owned MSMEs. We hope to test the biggest assumption that creating a pipeline of businesses and facilitating a public-private dialogue will reduce patronage and make the Government more efficient in its provision of infrastructure and services.

The evaluation questions are as follows:

- Was the Business Environment and Technical Assistance Project implemented according to plan (in terms of quantity and quality of outputs)?
- Did the Business Environment and Technical Assistance Project achieve its targeted outcomes, particularly its stated objective, in the timeframe and magnitude expected? Why or why not? *This question links to the following outcome indicators: Increased profit of private businesses in the BETA pipeline; and business environment issues raised by the private sector that are resolved by working groups and/or the government.*

- Do the results of the Business Environment and Technical Assistance Project justify the allocation of resources towards it?

The M&E Plan shall contain the evaluation Indicators listed in Schedule A.

The results of all evaluations shall be made publicly available in accordance with the M&E Policy.

5. Data Quality Reviews.

Data Quality Reviews (DQR) are a mechanism to review and analyze the utility, objectivity, and integrity of performance information. DQRs are to cover: a) quality of data, b) data collection instruments, c) survey sampling methodology, d) data collection procedures, e) data entry, storage and retrieval processes, f) data manipulation and analyses and g) data dissemination. MCC requires that an independent entity conduct the DQR, such as a local or international specialized firm or research organization, or an individual consultant, depending on the size of the program or project in review. The frequency and timing of data quality reviews must be set forth in the M&E Plan; however, MCC may request a DQR at any time. DQRs should be timed to occur before or early enough in the Compact Term that meaningful remedial measures (if any) may be taken depending on the results of the review. The methodology for the review should include a mix of document and record reviews, site visits, key informant interviews, and focus groups.

6. Other Components of the M&E Plan.

In addition to the monitoring and evaluation components, the full M&E Plan shall include the components described in this Section 6.

6.1 Data Management System.

The M&E Plan shall describe the information system that shall be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the Program information collected and verified pursuant to the M&E Plan is accessible and useful to those who wish to use it.

6.2 Budget.

A detailed cost estimate for all components of the M&E Plan.

7. Responsibility for Developing the M&E Plan.

MCC desires to “[refrain] from requesting the introduction of performance indicators that are not consistent with countries’ national development strategies.”⁶ For this reason, primary responsibility for developing the M&E Plan lies with the M&E directorate of MCA-Lesotho II with support and input from MCC’s M&E and economist staff. The M&E Plan must be

⁶ Busan Partnership for Effective Development Cooperation, Busan Outcome Document, 1 December 2011, p. 5.
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developed in conjunction with key stakeholders, including MCA-Lesotho II leadership and sector leads, the MCC Resident Country Mission, and other MCC staff (such as cross-cutting leads), as well as external stakeholders, as applicable. While the entire M&E Plan must be developed collaboratively, MCC and MCA-Lesotho II Project/Activity leads are expected to guide the selection of Indicators at the process and output levels that are particularly useful for management and oversight of Projects and Activities.

8. Approval and Implementation of the M&E Plan.

The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Implementation Agreement, any other relevant Supplemental Agreement and the M&E Policy. All M&E Plan modifications proposed by MCA-Lesotho II must be submitted to MCC for prior written approval. The M&E Plan may undergo peer review within MCC before the beginning of the formal approval process. Evaluation activities under the M&E Plan are expected to continue beyond the end of the Compact Term and MCA-Lesotho II shall identify the individuals and organizations that shall support these activities through completion.

Table 1: Indicators

The table below lists the preliminary set of monitoring and evaluation indicators linked to each result in the Project Logic. Key Indicators that can be reported on at least an annual basis shall be included in quarterly monitoring indicator reports, while Indicators that require survey data or a longer time period to track shall be included in evaluation reports.

Table 1.1: Health Systems Strengthening (HSS) Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Objective Indicators: Long-term outcomes						
Objective: Improved health outcomes through strengthening Lesotho primary health care system	Maternal deaths averted	The number of maternal deaths per year averted as estimated by a model. Maternal death is defined as woman's death during pregnancy, labor and delivery and for up to 1 year following delivery, although some countries measure up to 6 weeks	Number	Value: 0 Year: 2022	Value: 7 Year: CED	<i>N</i>
	Under-five deaths averted	The number of under-five deaths per year averted as estimated by a model. Under-five deaths are those occurring in children between the age of 0 and 59 months	Number	Value: 0 Year: 2022	Value: 85 Year: CED	<i>N</i>
	Age one-five deaths averted	The number of age one-five deaths per year averted as estimated by a model. Age one-five deaths are those occurring in children between the age of 12 and 59 months	Number	Value: 0 Year: 2022	Value: TBD Year: CED	<i>N</i>
	Infant deaths averted	The number of infant deaths averted per year as estimated by a model.	Number	Value: 0 Year: 2022	Value: TBD Year: CED	<i>N</i>

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		Infant deaths are those deaths occurring in children between the age of 0 and 11 months				
	Neonatal deaths averted	The number of age neonatal deaths averted per year as estimated by a model. Neonatal deaths are defined as deaths occurring during the first 28 completed days of life	Number	Value: 0 Year: 2022	Value: 48 Year: CED	<i>N</i>
	Reduction in number of deaths between ages 30 and 70 years due to cardiovascular disease	Number of deaths between the ages of 30 and 70 years from cardiovascular diseases reduced per year, as estimated by a model	Number	Value: 0 Year: 2022	Value: 321 Year: CED	<i>N</i>
	Reduction in number of deaths between ages 30 and 70 years due to diabetes	Number of deaths between the ages of 30 and 70 years from diabetes per year, as estimated by a model	Number	Value: 0 Year: 2022	Value: 1 Year: CED	<i>N</i>
	Still Birth Total: Reduction in number of fetuses and infants born per year with no sign of life and born after 28 weeks gestation or weighing $\geq 1000\text{g}$	The number of still births reduced per year, as estimated by a model. Number of stillbirths defined as third trimester fetal deaths ($\geq 1000\text{ g}$ or ≥ 28 weeks)	Number	Value: 0 Year: 2022	Value: 27 Year: CED	<i>N</i>
	Still Birth Fresh: Reduction in number of fetuses and infants born per year that are categorized as fresh still births	The number of fresh stillbirths reduced per year, as estimated by a model. Fresh stillbirths defined as third trimester fetal deaths where the fetus is alive (heartbeat detected) on admission to	Number	Value: 0 Year: 2022	Value: TBD Year: CED	<i>N</i>

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		hospital but dead upon delivery				
	Still Birth Macerated: Reduction in number of fetuses and infants born per year that are categorized as macerated births	The number of macerated stillbirths reduced per year, as estimated by a model. Macerated stillbirths defined as third trimester fetal deaths where the fetus is dead (no heartbeat) on admission to hospital and therefore dead upon delivery	Number	Value: 0 Year: 2022	Value: 0 Year: CED	N
Medium-Term Outcome Indicators						
Outcome: Provide high quality primary health care services, including clinical and GBV	Facilities that meet standards of care for specific PHC services	Percentage of health facilities offering specific PHC services that meet minimum standards of care on the basis of a set of select criteria for specific services	Percentage	Value: TBD Year: TBD	Value: 7TBD Year: CED	N
Outcome: Improve management and support services to deliver primary health care	DHMTs with approved Annual Operating Plans (AOPs) corresponding to MOH guidelines	The percentage of DHMTs with AOPs which correspond to MOH updated guidelines divided by total number of DHMTS with completed AOPs. (AOPs are required in all 10 DHMTs)	Percentage	Value: 0% Year: 2022	Value: 90% Year: CED	N
	Total approved DHMT budget expended as per AOP	Percentage of budgeted expenditures (according to the DHMTs' AOPs) divided by actual expenditures, disaggregated by district	Percentage	Value: 0% Year: 2022	Value: 90% Year: CED	N
Outcome: Improved cost efficiency of MOH expenditure	Increase in services delivered at primary care level	The percent increase of people receiving services at primary health care providers (community, outreach, primary	Percentage	Value: 0% Year: 2022	Value: 10% Year: CED	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		care facility, secondary hospital, and tertiary/specialty hospital*), disaggregated by service *As available				
Short-Term Outcome Indicators						
Short-term Outcome: District hospital and health center staff and VHWs provide high quality primary health care services, including GBV-related prevention and response	PHC services provided at the district and community level	Services provided at the district and community level (community, outreach, primary care facility, secondary hospital, and tertiary/specialty hospital*), disaggregated by service *As available	Percentage	Value: TBD Year: 2022	Value: 15% Year: CED	N
Short-term Outcome: DHMT staff effectively manage primary health care finances, planning, and human resources	Planning DHMT staff who demonstrate the ability to develop plans for their districts based on identified community needs	Percentage of DHMT staff who demonstrate the ability to develop plans, based on a standardized assessment tool	Percentage	Value: TBD Year: 2022	Value: 80% Year: CED	N
Short-term Outcome: DHMT staff use data to make decisions in the management of the health care system	DHMT staff who demonstrate the ability to analyze and use data for health care system management decision-making	Percentage of DHMT staff who demonstrate the ability to analyze and use data for health care system management decision-making, based on a standardized assessment tool	Percentage	Value: TBD Year: 2022	Value: TBD Year: CED	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output Indicators						
HSS Compact Indicators: Outputs for Short-term Outcome 1.1: District hospital and health center staff and VHWs provide high quality primary health care services, including GBV-related prevention and response						
Output 1.1: Patient registration, triage process, and patient record system that follows a patient through all levels of care improved	Patient record system operating as designed in health facilities	Percentage of health facilities with patient record systems operating as designed, based on a standardized assessment tool. Health facilities refer to health facilities receiving MOH funding.	Percentage	Value: 0%	Value: 80% Year: CED	Y
Output 1.2: Clinical competencies and standards of care for DH and HC staff and VHWs strengthened, including for GBV prevention and response	Staff trained in requisite clinical competencies and standards of care	Percentage of staff trained in requisite clinical competencies and standards of care, based on a standardized assessment tool.	Percentage	Value: 0%	Value: TBD Year: CED	Y
Output 1.3: Referral system to ensure clients are treated at the optimal level strengthened	Referral system operating as designed	Percentage of health facilities with referral system operating as designed, based on a standardized assessment tool	Percentage	Value: 0%	Value: 65% Year: CED	Y
	GBV referral system operating as designed	Percentage of health facilities with GBV referral system operating as designed, based on a standardized assessment tool	Percentage	Value: 0%	Value: 65% Year: CED	Y
Output 1.4: Supportive supervision, including coaching and mentoring, with district hospital and health center staff and VHWs implemented	Planned supportive supervision visits conducted	Percentage of on-site visits conducted using developed supervision tools with staff being supervised, disaggregated by district, type of facility and gender	Percentage	Value: 0%	Value: 75% Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output 1.5: Capacity of health center nurses to manage VHW program strengthened	Operational guidelines for each level of the VHW program (hospital, health center, community) developed and disseminated	Number of operational guidelines for each level of the VHW program developed and disseminated. Guidelines detail how to function on a day-to-day basis, including data collection, reporting, organization of staffing, etc.	Number	Value: 0	Value: 1 Year: CED	N
Output 1.6: MOH accountability to communities for the provision of PHC services, including GBV-related services is strengthened	Small grants awarded that increase community engagement with health data generated by GOL systems.	Grants awarded, disaggregated by gender and age	Number	Value: 0	Value: 10 Year: CED	Y
HSS Compact Indicators: Outputs for Short-term Outcome 2.1: DHMT staff effectively manage primary health care finances, planning, and human resources						
Output 2.1: MOH financial management systems expanded	Districts where district-level integrated IFMIS operating as designed	Percentage of districts where district-level integrated IFMIS operating as designed, based on a standardized assessment tool	Percentage	Value: 0%	Value: 100% Year: CED	Y
Output 2.2: DHMT-level health financing improved	Results based financing (RBF) funds disbursed to districts	Percentage of RBF funds disbursed annually to districts based on GOL meeting minimum access conditions and district performance targets divided by the total amount of RBF funds possible for districts to receive, disaggregated by district.) RBF = program or intervention that provides rewards to individuals or institutions after	Percentage	Value: 0%	Value: 70% Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		agreed-upon results are achieved and verified				
Output 2.3: Stakeholders aligned on PHC service delivery, including GBV	Stakeholders who have honored their Memos of Understanding	<p>Percentage of stakeholders who signed MOUs who have honored their MOUs, based on a standardized assessment tool</p> <ul style="list-style-type: none"> Stakeholders = any organization, implementing partners, etc. who is providing a PHC service in Lesotho and operating at the district level Memo of Understanding = statement that within a certain timeframe a stakeholder will eliminate duplicity of services and activities and work with DHMT to make a comprehensive PHC service delivery package available in Lesotho Honored = eliminated duplicity of services and activities and who have demonstrated integration of services 	Percentage	Value: 0%	Value: 80% Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output 2.4: PHC staffing structures, roles and processes defined from district to community levels, including GBV	Standardized staff job descriptions developed for the DHMT, district hospitals, health centers, and health posts	Percentage of job descriptions developed that delineate specific roles and responsibilities of each category of staff member as well as clear supervisory responsibilities when appropriate divided by the total number of job categories at the DHMT, district hospitals, health centers, and health posts.	Percentage	Value: 0%	Value: 90% Year: CED	Y
Output 2.5: DHMT staff capacity to manage strengthened	Percentage of relevant DHMT staff trained on PHC financial management	Percentage of relevant DHMT staff trained on PHC financial management, based on a standardized assessment tool. Training may consist of formal pre-service and in-service online and offline courses/workshops to augment skills and on-the-job activities designed to improve use of learned skills	Percentage	Value: 0%	Value: 85% Year: CED	Y
Output 2.6: Supportive supervision system, including mentoring and coaching, strengthened	Supportive supervision system operating as designed	Supportive supervision system operating as designed, based on a standardized assessment tool	Date	Value: N/A	Value: TBD Year: CED	Y
HSS Compact Indicators: Outputs for Short-term Outcome 2.2: DHMT staff use data to make decisions in the management of the health care system						
Output 3.1: Health data systems integrated	Health facility registry operating as designed	Health facility registry operating as designed, based on a standardized assessment tool.	Date	Value: N/A	Value: TBD Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		Health facility registry: a complete listing of health facilities, including a set of administrative and identifying information for each facility and basic information on the service capacity of each facility.				
	Health facilities where an electronic health register is operating as designed	Percentage of health facilities where an electronic health register is operating as designed, based on a standardized assessment tool. Electronic health register =) an organized, <u>electronic</u> system that collects uniform data (clinical and other)	Percentage	Value 0%	Value: 75% Year: CED	Y
Output 3.2: Availability, quality and use of relevant data from/at all levels of the health system improved	Automated information system operating as designed	Automated information system operating as designed, based on a standardized assessment tool	Date	Value: N/A	Value: TBD Year: CED	Y
Output 3.3: eHealth to support data collection and reporting from all levels upgraded	Districts where IT/architecture maintenance (helpdesk) operating as designed	Percentage of districts where IT/architecture maintenance (helpdesk) operating as designed, based on a standardized assessment tool	Percentage	Value: 0%	Value: TBD Year: CED	N
Output 3.4: Capacities to collect, report, analyze and use HMIS data strengthened	Mechanism for building capacity operating as designed	Mechanism for building capacity operating as designed, based on a standardized assessment tool	Date	Value: N/A	Value: TBD Year: CED	N

Table 1.2: Market Driven Irrigated Horticulture (MDIH) Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Objective Indicators						
Project Objective: Increase rural incomes related to commercial horticulture, including for women, youth, and the rural poor. Establish sustainable and inclusive model of irrigation, water resource, and land management	Income from land leasing agreements	Income accrued to all Basotho landholders (disaggregated by women, youth, and the rural poor) in the irrigated perimeter from leasing land t	US Dollars	Value: \$0 Year: 2022 Value for Women, Youth, and the Rural Poor: TBD	Value: \$7,008,833 Year: Compact End Date (CED) Value for Women, Youth, and the Rural Poor: TBD	N
	Income related to horticulture and subsistence farming in the irrigated perimeter (Small-Holders)	Net income accrued to all small holder farmers from horticulture and subsistence farming from within the irrigated perimeter (disaggregated by women, youth, and the rural poor). Baseline income per hectare is based on the value of maize crop.	US Dollars	Value: \$266,000 Year: 2022 Value for Women, Youth, and the Rural Poor: TBD Baseline for Women, Youth, and the Rural Poor: TBD	Value: \$1,401,767 Year: 2 years post construction completion Value: \$7,008,833 Year: Ten years from completion of construction Value for Women, Youth, and the Rural Poor: TBD	N
Long-Term Outcome Indicators						
Increased equitable and sustainable private investment in horticulture on land with secure land rights, irrigation	Dollars invested in inputs to horticulture on hectares supported by the Compact	Dollars invested in inputs and equipment by Anchor Farmers on our hectares	US Dollars	Value: \$0 Year: 2022	TBD	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
	Women and youth owned horticulture plots	Proportion of women and youth owned plots engaged in commercial horticulture, with or without anchor farmer contracts	Percentage	Value: TBD Year: 2022	TBD	Y
Output Indicators						
Activity 1: Irrigation Infrastructure						
Output: Water Provided for Irrigation	(AI-8) Hectares under improved irrigation	The number of hectares served by existing or new irrigation infrastructure that are either rehabilitated or constructed with MCC funding.	Hectares	Value: 0 Year: 2022	Value: TBD Year: CED	Y
Output: Transaction Advisor for Commercial Agreements	TBD	TBD	TBD	TBD	TBD	TBD
Output: Percentage targets for women and youth participation	Women and youth on contracts with anchor farmers	Percentage of the commercial farming contracts signed with women and youth farmers and landowners.	Percentage	Value: 0%	Value: 50% Year: CED	Y
Output: Newly Irrigated Land is Fully Registered to Allow for Use or Leasing	TBD	TBD	TBD	TBD	TBD	TBD
Output: Integrated Catchment Management (ICM) within the irrigation parameter	Hectares of land within a parameter where we are implementing integrated catchment management	Number of Hectares of land within a parameter where we are implementing integrated catchment management	Hectares	Value: 0	Value: TBD Year: CED	Y
Risk/Assumption: Post-harvest loss	Amount of revenue lost before selling crops at market	Percentage of revenue from high-value crops lost before selling them at market	Percentage	Value: TBD	Value: 5% Year: CED	N
Risk/Assumption: Anchor	Income related to irrigated	Net income per hectare of Anchor	US Dollars	Value: \$0 Year: 2022	Value: \$5,750	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
farmers will invest and start cultivated high-value crops immediately upon their investment	horticulture (Anchor Farmers)	Farmers from horticulture within the irrigation project perimeter			Year: CED	
Activity 2: Irrigated Horticulture Support Services						
Output: Training and capacity building: horticulture, irrigation, gender, and SBCC	(AI-6) Farmers trained (disaggregated by gender and age group <35)	The number of primary sector producers (farmers, ranchers, fishermen, and other primary sector producers) receiving technical assistance or participating in a training session (on improved production techniques and technologies, including post-harvest interventions, developing business, financial, or marketing planning, accessing credit or finance, or accessing input and output markets).	Number	Value: 0	Value: TBD Year: CED	Y
Output: Training and capacity building: horticulture, irrigation, gender, and SBCC	(AI-7) Enterprises assisted	The number of enterprises; producer, processing, and marketing organizations; water users associations; trade and business associations; and community-based organizations receiving assistance.	Number	Value: 0	Value: TBD Year: CED	Y
Output: Training and capacity building: horticulture, irrigation, gender, and SBCC	(AI-11) Farmers who have applied improved practices as a result of training	The number of primary sector producers (farmers, ranchers, fishermen, and other primary sector producers) that are applying new production or	Number	Value: 0 Year: 2022	Value: TBD Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		managerial techniques introduced or supported by MCC training or technical assistance, such as input use, production techniques, irrigation practices, post-harvest treatment, farm management techniques, or marketing strategies. (Disaggregated by women and youth)				
Output: Training and capacity building: horticulture, irrigation, gender, and SBCC	(AI-12) Hectares under improved practices as a result of training	The number of hectares on which farmers are applying new production or managerial techniques introduced or supported by MCC, such as input use, production techniques, irrigation practices, post-harvest treatment, farm management techniques, or marketing strategies.	Hectares	Value: 0	Value: TBD	Y
Output: Training and capacity building: horticulture, irrigation, gender, and SBCC	(AI-13) Enterprises that have applied improved techniques	The number of rural enterprises; producer, processing, and marketing organizations; water users associations; trade and business associations; and community-based organizations that are applying managerial or processing techniques introduced or supported by MCC.	Number	Value: 0	Value: TBD Year: CED	Y
Activity 3: Institutional Reform						

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output: Information campaign on land rights and legal/reg framework	(L-6) Land rights formalized	The number of household, commercial and other legal entities (e.g., NGOs, churches, hospitals) receiving formal recognition of ownership and/or use rights through certificates, titles, leases, or other recorded documentation by government institutions or traditional authorities at national or local levels.	Number	Value: 0	Value: TBD Year: CED	Y
Output: Facilitation of fair land transfers	(L-3) Stakeholders trained	The number of public officials, traditional authorities, project beneficiaries and representatives of the private sector, receiving formal on-the-job land training or technical assistance regarding registration, surveying, conflict resolution, land allocation, land use planning, land legislation, land management or new technologies.	Number	Value: 0	Value: TBD Year: CED	Y
Output: Facilitation of fair land transfers	(L-5) Parcels corrected or incorporated in land system	The number of parcels with relevant parcel information corrected or newly incorporated into an official land information system (whether a system for the property registry, cadastre or an integrated system).	Parcels	Value: 0	Value: TBD Year: CED	Y
Output: Facilitation of	Local councils with enhanced	The number of local councils whose	Number	Value: 0	Value: 8	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
fair land transfers	land registration capacity	capacity to process requests for Certificates of Land Allocation (Form Cs) and Registered Land Leases is upgraded through improved business processes, equipment, training, and sustainability plans.				
Output: Facilitation of fair land transfers	Local council land-use plans adopted or revised	The number of local councils who receive support to improve their ability to produce quality land-use plans, who prepare or revise those plans, and who have those plans approved for implementation in accordance with the law.	Number	Value: 0	Value: 8 Year: CED	Y
Output: Improved River Basin Management	Adoption of River Basin Management Plans	The number of river basin management plans developed and adopted by relevant stakeholders within Government	Number	Value: 0	Value: 2 Year: CED	Y
Output: Improved Collection and Management of Water/Climate Data for Decision Making	Operationalizing and institutionalizing water and climate data management system	A defined process for collecting, managing, and reporting on water and climate data including equipment, software, training and technical support developed and adopted by relevant stakeholders within GOL	TBD	TBD	TBD	TBD
Output: Development and adoption of water and irrigation reforms	Adoption of an Irrigation Policy, enactment of an Irrigation Act, and amendments to the Water Act	The number of specific pieces of legislation or implementing regulations adopted by the Compact country and	Number	Value: 0	3	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		attributable to Compact support.				
Output: Training and capacity building: horticulture, irrigation, integrated catchment management, gender, and SBCC	Government staff trained	<u>The number of public officials having completed formal on-the-job agriculture-related training or technical assistance regarding crop selection, planting, crop irrigation, fertilizer usage, harvesting, crop storage and sales, new farming technologies, integrated catchment management, and other training directly related to compact implementation.</u>	Number	Value: 0	TBD	Y
Outcome Indicators: Short Term						
Activity 1: Irrigation Infrastructure						
Outcome: Anchor Farmers Start Growing High Value Crops	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Higher Percentage of Females and Youth Recruited and Active in the Horticulture Sector	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Shorter Term Revenue Accrues to Anchor Farmers and to Landholders Who Lease/Sell Land to Anchor Farmers	TBD	TBD	TBD	TBD	TBD	TBD
Activity 2: Irrigated Horticulture Support Services						

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Outcome: Increased Capacity for Community Organizations, including WUAs, to Participate in Scheme Governance	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Improved Intra HH Negotiations around Women's Business Participation	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Representation for Smallholders in Contract Negotiations	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Improved Land Registration System in Rural Areas	TBD	TBD	TBD	TBD	TBD	TBD
Activity 3: Institutional Reform						
Outcome: Strengthened inclusion in horticulture service delivery, including training and data use	New gender/inclusion initiatives adopted by the MAFS	Examples of initiatives are: GSI strategy, workplans and M&E plans; Gender and youth-responsive training-including GALS/Aggregators/organizations engaged; Inclusion and gender budget; Organizational assessment and audits Changed functional organization; Disaggregated data for planning; Information dissemination and IT.	Number	Value: 0	Value: 8 Year: CED	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Outcome: Harmonization of Irrigation, Water, and Land Services Policies	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Clarification of Roles in the Water Sector and at Different Levels of Government	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Strengthened Mechanisms for Coordination in the Water and Irrigation Sectors Established	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Development of regulatory framework and guidelines for incentives, and capacity building for Water Users Associations (WUAs)	Establishment and operationalization of WUAs	Number of WUAs established (i.e. legally established, elected a board, opened a bank account) and operational under the Compact	Number	Value: 0	TBD	Y
Outcome Indicators: Medium Term						
Activity 1: Irrigation Infrastructure						
Outcome: Increased Production of High-Value Horticulture	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Smallholders Start Growing High-Value Crops	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Larger Active Private Sector in Horticulture and the Horticulture Value Chain	TBD	TBD	TBD	TBD	TBD	TBD

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Activity 2: Irrigated Horticulture Support Services						
Sustainable businesses and employment for women and youth in horticulture	People employed on farms within the Irrigated Perimeter	People employed by Anchor and small-holder farmers (non-family labor) (disaggregated by women and youth)	Number	Value: 0 Year: 2022	TBD	N
Outcome: Fair Contract Terms for Smallholders	TBD	TBD	TBD	TBD	TBD	TBD
Activity 3: Institutional Reform						
Outcome: Laws, Administrative Processes, and Services Related to Horticulture Create an Enabling Environment for Women Workers and Business Owners	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Underlying Framework for Sustainable Development	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Reduction in Economic and Climate Vulnerability of Farmers	TBD	TBD	TBD	TBD	TBD	TBD

Table 1.3: Business Environment and Technical Assistance (BETA) Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Outcome Indicators						
BETA Project						
Project Objective: Stimulate an increase in firm-level profits and formal	Profit per private business in the BETA pipeline	Total profit per private firm (per year) supported by the BETA. A private business is defined as anything that is	US Dollars	Value: Small business*: \$ 1,729	Value: Small business: •Men-owned: \$1,816.10	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
employment from a pipeline of Firms supported by the project, including MSMEs owned by women and youth and Firms in rural areas.		not government owned and does not have majority government ownership. Disaggregated by firm size, and women and youth ownership, and rural.		Medium business*: \$ 4,378 *Baseline applies to all firms, including women- and youth-owned firms Year: 2022	•Women-owned: \$1,925.07 Medium business: •Men-owned: \$4,599.51 •Women-owned: \$4,875.48 Target for youth: TBD Year: CED	
	Growth in employment from the BETA Pipeline	Percentage growth per year in people employed by BETA-supported firms. These include only newly generated jobs, and the person must be employed full-time for six months.	Percentage	Value: 0%	Value: 7% ⁷ Year: CED	N
Activity 1: Pipeline Development						
Outcome: New business have better opportunities to start	New firms created by the BETA project	TBD	TBD	TBD	TBD	TBD
Outcome: Existing businesses can grow	Firms supported by BETA	Number of businesses supported by BETA (disaggregated by women-owned, youth-owned, size of business, and rural)	Number	Value: 0 Year: 2022	Value: Small businesses: 500 Medium businesses: 50 Year: CED	Y
Outcome: Data and feedback on how BETA businesses are operating	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Improved access to finance and credit to businesses	Funding raised by (1) BETA firms, and (2) firms using BETA financial products	Total cumulative funding from formal financial institutions/financial products raised by BETA firms, and other firms that availed themselves of the financial	US Dollars	\$0 Year: 2022	TBD	TBD

⁷ The 7% target applies to labor compensation growth in medium-sized firms.

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
		products designed and rolled out with the support of BETA.				
Outcome: Learning what works to create a robust pipeline of businesses in Lesotho	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: BETA supported businesses present less risk to potential investors	TBD	TBD	TBD	TBD	TBD	TBD
Activity 2: Financial Ecosystem Strengthening, Especially for Women and Youth						
Outcome: Women and youth responsive training and financial products	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Financial products and technical assistance products from domestic and international stakeholders to Basotho enterprises	TBD	TBD	TBD	TBD	TBD	TBD
Activity 3: Business Ecosystem Strengthening, Especially for Women and Youth						
Outcome: Private Sector Associations, including women's, are better able to deliver services to their members	TBD	TBD	TBD	TBD	TBD	TBD
Outcome: Women and Youth are	Reforms that support SMEs and women	Number of reforms that support SMEs and women and	Number	Value: 0 Year: 2022	Value: 5 Year: CED	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
represented in the Public-Private Dialogue	and youth owned businesses	youth owned businesses that are identified through the PPD. Examples of this could be a gender certification for businesses akin to a star rating for tourism lodges.				
Outcome: Improved Public Private Dialogue	Business environment issues raised by the private sector that are resolved by TWGs and/or govt.	Number of business environment issues raised by the private sector that are resolved by TWGs and/or govt.	Number	Value: 0 Year: 2022	Value: 1 per year Year: CED	N
Outcome: Private sector actors, including women's organizations, are organized to demand better public services	TBD	TBD	TBD	TBD	TBD	TBD
Output Indicators						
Activity 1: Pipeline Development for Businesses						
Output: Incubation and acceleration for SMEs	TBD	TBD	TBD	TBD	TBD	TBD
Output: Increase women and youth participation in businesses	Percentage of BETA-supported businesses that are women and/or youth owned	Percentage of BETA-supported businesses where women and/or youth have a 50% ownership stake in the business.	Percentage	Value: 0% Year: 2022	Value: 60% Year: CED	N
Output: Capacity building for local business development actors	TBD	TBD	TBD	TBD	TBD	TBD
Output: Data collection to monitor business incubation and acceleration, as	TBD	TBD	TBD	TBD	TBD	TBD

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
well as BETA more generally						
Output: Technical Assistance and Business Development Services (BDS), Women- and Youth-focused MSME training and finance	TBD	TBD	TBD	TBD	TBD	TBD
Activity 2: Financial Ecosystem Strengthening, Especially for Women and Youth						
Output: Structuring of Financial Vehicles	Total amount of capital lent from BETA lending instruments	Total amount of capital lent to new and existing businesses from BETA lending instruments using a competitive process	US Dollars	\$0	Value: TBD	N
Output: Credit-guarantee enabled working capital lending	TBD	TBD	TBD	TBD	TBD	TBD
Output: Capacity building for financial institutions, including women's savings groups	TBD	TBD	TBD	TBD	TBD	TBD
Activity 3: Business Ecosystem Strengthening, Especially for Women and Youth						
Output: Private business engage with the government and the government responds	PPD meetings	Number of PPD plenary level council meetings	Number	Value: 0	Value: 2-4 per year Year: CED	Y
	Technical Working Group meetings	Number of Technical Working Group meetings per working group	Number	Value: 0	Value: 12-24 per year Year: CED	Y
Output: Capacity building for private associations including women's associations	TBD	TBD	TBD	TBD	TBD	TBD

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output: Facilitation services for Public Private Dialogue and working groups, including working groups on women and youth issues	TBD	TBD	TBD	TBD	TBD	TBD
Output: Critical reforms and technical services identified as part of the Public Private Dialogue (PPD)	TBD	TBD	TBD	TBD	TBD	TBD

Table 1.4: American Catalyst Facility for Development (ACFD) Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Objective Indicators						
Project Objective: Facilitate DFC investments in Lesotho.	ACFD-supported DFC investments that reach financial close	Number of signed legal agreement(s) recording DFC's financial commitment to an ACFD-supported project	Number	Value: 0 Year: 2022	Value: 1 Year: CED	Y

ANNEX IV

CONDITIONS PRECEDENT TO DISBURSEMENT OF COMPACT FACILITATION FUNDING

This Annex IV sets forth the conditions precedent applicable to Disbursements of Compact Facilitation Funding (other than any Disbursement for the MCC Contracted CFF Activities) (each a “*CFF Disbursement*”).

Capitalized terms used in this Annex IV and not defined in this Compact shall have the respective meanings assigned thereto in the Program Implementation Agreement. Once the Program Implementation Agreement is signed, each CFF Disbursement shall be subject to all of the terms of the Program Implementation Agreement except that the only conditions to disbursements of CFF shall be those set forth in this Annex IV.

1. Conditions Precedent to Initial CFF Disbursement.

Unless waived or deferred in writing by MCC, each of the following conditions must be met to MCC’s satisfaction before the initial CFF Disbursement:

- (a) The Government (or MCA-Lesotho II) has delivered to MCC:
 - (i) an interim fiscal accountability plan acceptable to MCC
 - (ii) an CFF procurement plan acceptable to MCC
 - (iii) an Interim Bid Challenge System (IBCS); and
 - (iv) Interim Procurement Operations Manual (IPOM).

(b) Designation of an entity or individual to provide procurement agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete copy of the Procurement Agent Agreement, duly executed and in full force and effect, and the Procurement Agent engaged thereby is mobilized.

2. Conditions Precedent to all CFF Disbursements (Including the Initial CFF Disbursement).

Unless waived or deferred in writing by MCC, each of the following conditions must be met to MCC’s satisfaction before each CFF Disbursement:

- (a) The Government (or MCA-Lesotho II) has delivered to MCC the following documents, in form and substance satisfactory to MCC:
 - (i) a completed Disbursement Request, together with the applicable Periodic Reports, for the applicable Disbursement Period, all in accordance with the Reporting Guidelines;

(ii) a certificate of the Government (or MCA-Lesotho II), dated as of the date of the Disbursement Request, in such form as provided by MCC;

(iii) if a Fiscal Agent has been engaged, a Fiscal Agent Disbursement Certificate; and

(iv) if a Procurement Agent has been engaged, a Procurement Agent Disbursement Certificate.

(b) If any proceeds of the CFF Disbursement are to be deposited in a bank account, MCC has received satisfactory evidence that (i) the Bank Agreement has been executed and (ii) the Permitted Accounts have been established.

(c) Appointment of an entity or individual to provide fiscal agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete copy of a Fiscal Agent Agreement, duly executed and in full force and effect, and the fiscal agent engaged thereby is mobilized.

(d) Appointment of an entity or individual to provide procurement agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete copy of the Procurement Agent Agreement, duly executed and in full force and effect, and the procurement agent engaged thereby is mobilized.

(e) MCC is satisfied, in its sole discretion, that (i) the activities being funded with such CFF Disbursement are necessary, advisable or otherwise consistent with the goal of facilitating the implementation of this Compact and shall not violate any applicable law or regulation; (ii) no material default or breach of any covenant, obligation or responsibility by the Government, MCA-Lesotho II or any Government entity has occurred and is continuing under this Compact or any Supplemental Agreement; (iii) there has been no violation of, and the use of requested funds for the purposes requested shall not violate, the limitations on use or treatment of MCC Funding set forth in Section 2.7 of this Compact or in any applicable law or regulation; (iv) any Taxes paid with MCC Funding through the date 90 days prior to the start of the applicable Disbursement Period have been reimbursed by the Government in full in accordance with Section 2.8(c) of this Compact; and (v) the Government has satisfied all of its payment obligations, including any insurance, indemnification, tax payments or other obligations, and contributed all resources required from it, under this Compact and any Supplemental Agreement.

(f) For any CFF Disbursement occurring after this Compact has entered into force in accordance with Article 7: MCC is satisfied, in its sole discretion, that (i) MCC has received copies of any reports due from any technical consultants (including environmental auditors engaged by MCA-Lesotho II) for any Activity since the previous Disbursement Request, and all such reports are in form and substance satisfactory to MCC; (ii) the Implementation Plan Documents and Fiscal Accountability Plan are current and updated and are in form and substance satisfactory to MCC, and there has been progress satisfactory to MCC on the components of the Implementation Plan for any relevant Projects or Activities related to such CFF Disbursement; (iii) there has been progress satisfactory to MCC on the M&E Plan and Social and Gender Integration Plan for the Program or relevant Project or Activity and substantial compliance with

the requirements of the M&E Plan and Social and Gender Integration Plan as defined in the PIA (including the targets set forth therein and any applicable reporting requirements set forth therein for the relevant Disbursement Period); (iv) there has been no material negative finding in any financial audit report delivered in accordance with this Compact and the Audit Plan, for the prior two quarters (or such other period as the Audit Plan may require); (v) MCC does not have grounds for concluding that any matter certified to it in the related MCA Disbursement Certificate, the Fiscal Agent Disbursement Certificate or the Procurement Agent Disbursement Certificate is not as certified; and (vi) if any of the officers or key staff of MCA-Lesotho II have been removed or resigned and the position remains vacant, MCA-Lesotho II is actively engaged in recruiting a replacement.

(g) MCC has not determined, in its sole discretion, that an act, omission, condition, or event has occurred that would be the basis for MCC to suspend or terminate, in whole or in part, this Compact or MCC Funding in accordance with Section 5.1 of this Compact.

ANNEX V

ACRONYMS & DEFINITIONS

ACRONYMS

ACRONYM	DEFINITION
ACFD	American Catalyst Facility for Development
AfDB	African Development Bank
AOP	Annual Operating Plan
BETA	Business Environment and Technical Assistance
BDS	Business Development Services
CDC	Centers for Disease Control and Prevention
CFF	Compact Facilitation Funds
DFC	United States International Development Finance Corporation
DHMT	District Health Management Team
EIF	Entry into Force
ESOC	Environmental and Social Oversight Consultant
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
ESMP	Environmental and Social Management Plan
EU	European Union
FAO	Food and Agriculture Organization
GALS	Gender Action Learning System
GBV	Gender-Based Violence
GBVCF	Gender-Based Violence Coordination Forum
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GSI	Gender and Social Inclusion
HSMP	Health and Safety Management Plan
HSS	Health Systems Strengthening
HVC	Horticulture Value Chain
ICM	Integrated Catchment Management
IFAD	International Fund for Agricultural Development
LAA	Land Administration Authority
LCCI	Lesotho Chamber of Commerce and Industry
LCMPA	Lesotho Capacity of Married Persons Act
LMDA	Lesotho Millennium Development Agency
LRDP	Livelihood Restoration and Diversification Plan
MAFS	Ministry of Agriculture and Food Security
MDIH	Market Driven Irrigated Horticulture
MOCST	Ministry of Communications, Science and Technology
MOF	Ministry of Finance
MOGYSR	Ministry of Gender, Youth, Sports and Recreation
MOH	Ministry of Health
MOW	Ministry of Water

MSME	Micro, Small, and Medium-sized Enterprises
NGO	Non-Governmental Organization
ORASECOM	Orange-Senqu River Basin Commission
PAP	Project Affected Person
PEPFAR	President's Emergency Plans for AIDS Response
PHC	Primary Health Care
PPD	Public Private Dialogue
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SBC	Social and Behavior Change
TIP	Trafficking in Persons
TWG	Technical Working Group
USAID	United States Agency for International Development
USG	United States Government
VHW	Village Health Worker
WRM	Water Resource Management
WUA	Water User Association

DEFINITIONS

ACFD Project has the meaning provided in Part B of Annex I.

ACFD Project Objective has the meaning provided in Section 1.2.

Activity has the meaning provided in Part B of Annex I.

Additional Representative has the meaning provided in Section 4.2.

Audit Guidelines has the meaning provided in Section 3.8(a).

Audit Plan has the meaning provided in Section 3.8(a).

Baseline has the meaning provided in paragraph 3 of Annex III.

BETA Project has the meaning provided in Part B of Annex I.

BETA Project Objective has the meaning provided in Section 1.2.

Board of Directors has the meaning provided in Part C of Annex I.

CDF Agreement has the meaning provided in Section 3.2(b).

CFF has the meaning provided in Section 2.2(a).

CFF Disbursement has the meaning provided in Annex IV.

Compact has the meaning provided in the Preamble.

Compact Facilitation Funding has the meaning provided in Section 2.2(a).

Compact Goal has the meaning provided in Section 1.1.

Compact Records has the meaning provided in Section 3.7(a).

Compact Term has the meaning provided in Section 7.4.

Counter Domestic Violence Law means the legislation enacted by the Government that substantially includes the protections and provisions of the draft Counter Domestic Violence Bill presented to the Lesotho Parliament on April 6, 2021.

Covered Provider has the meaning provided in the Audit Guidelines.

Disbursement has the meaning provided in Section 2.4.

Environmental Guidelines has the meaning provided in Section 2.7(c).

Environmental and Social Impact Assessment or ESIA means a process for predicting, identifying, and assessing the potential environmental and social impacts of a proposed business activity or project, evaluating alternatives and designing appropriate mitigation, management and monitoring measures.

Environmental and Social Management Plan or ESMP means a documented plan or strategy specifying the measures that shall be taken to ensure that social and environmental impacts, risks and liabilities identified during the ESIA process are effectively managed during the construction, operation and closure of the proposed project.

Environmental and Social Management System or ESMS means a set of policies, procedures, tools and internal capacity to identify and manage an institution's exposure to the environmental and social risks of its clients, investees or stakeholders.

Evaluation Component has the meaning provided in paragraph 1 of Annex III.

Excess CFF Amount has the meaning provided in Section 2.2(d).

Final Evaluations has the meaning provided in paragraph 4(b) of Annex III.

Firm means a for-profit business organization of any size, including micro, small, and medium enterprises.

Fiscal Agent has the meaning provided in Part C of Annex I.

Gender Policy means the MCC Gender Policy (including any guidance documents issued in connection with such policy).

Government has the meaning provided in the Preamble.

Government Contribution has the meaning provided in Section 2.6(a).

Grant has the meaning provided in Section 3.6(b).

Health and Safety Management Plan means a documented plan or strategy specifying identified hazards and safe work procedures to mitigate, reduce or control the hazards identified.

HHS Project has the meaning provided in Part B of Annex I.

HHS Project Objective has the meaning provided in Section 1.2.

IFC Performance Standards means the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation, as in effect from time to time.

Implementation Letters has the meaning provided in Section 3.5.

Implementing Entity has the meaning provided in Part C of Annex I.

Implementing Entity Agreement has the meaning provided in Part C of Annex I.

Income Tax Exempt Person has the meaning provided in Annex VI.

Indicators has the meaning provided in paragraph 3 of Annex III.

Inspector General has the meaning provided in Section 3.7(c).

Intellectual Property means all registered and unregistered trademarks, service marks, logos, names, trade names and all other trademark rights; all registered and unregistered copyrights; all patents, inventions, shop rights, know how, trade secrets, designs, drawings, art work, plans, prints, manuals, computer files, computer software, hard copy files, catalogues, specifications, and other proprietary technology and similar information; and all registrations for, and applications for registration of, any of the foregoing, that are financed, in whole or in part, using MCC Funding.

Irrigated Perimeters has the meaning provided in Part B of Annex I.

Irrigation Scheme means, with respect to any Irrigated Perimeter, the irrigated land area together with the associated infrastructure (including, for example, intakes, transmission mains, reservoirs and training centers) some of which infrastructure may be located outside of the irrigated area.

Land Act means the Lesotho Land Act, 2010 (Act No. 8 of 2010), as the same may be amended or otherwise modified.

Land Administration Authority Act means the Land Administration Authority Act, 2010 (Act No. 9 of 2010) providing for the establishment of the Land Administration Authority as the main body responsible for land administration, land registration, cadastre, mapping and surveying and matters incidental thereto, as the same may be amended or otherwise modified.

Legal Capacity of Married Person Act means the Lesotho Legal Capacity of Married Persons Act, 2006 (Act No. 9 of 2006), as amended or otherwise modified.

Livelihood Restoration and Diversification Plan or LRDP means a plan that establishes the entitlements (e.g., compensation, other assistance) of affected persons and/or communities who are economically displaced by a project, in order to provide them with adequate opportunity to reestablish their livelihoods.

M&E has the meaning provided in the first paragraph of Annex III.

M&E Plan has the meaning provided in the preamble to Annex III.

M&E Policy has the meaning provided in the preamble to Annex III.

MCA Act has the meaning provided in Section 2.2(a).

MCA-Lesotho II has the meaning provided in Section 3.2(b).

MCC has the meaning provided in the Preamble.

MCC Contracted CFF Activities has the meaning provided in Section 2.2(f)Section 2.2(f).

MCC Funded Agreement has the meaning provided in Annex VI.

MCC Funding has the meaning provided in Section 2.3.

MCC Website means the MCC website at WWW.MCC.GOV.

MDIH Project has the meaning provided in Part B of Annex I.

MDIH Project Objective has the meaning provided in Section 1.2.

Monitoring Component has the meaning provided in paragraph 1 of Annex III.

Multi-Year Financial Plan Summary has the meaning provided in Annex II.

Operations Unit has the meaning provided in Part C of Annex I.

Party and Parties have the respective meanings provided in the Preamble.

Permitted Account has the meaning provided in Section 2.4.

Principal Representative has the meaning provided in Section 4.2.

Procurement Agent has the meaning provided in Part C of Annex I.

Program has the meaning provided in the Preamble to this Compact.

Program Assets means any assets, goods or property (real, tangible or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding.

Program Closure Guidelines means the MCC Program Closure Guidelines (including any guidance documents issued in connection with such guidelines).

Program Funding has the meaning provided in Section 2.1.

Program Grant Guidelines has the meaning provided in Section 3.6(b).

Program Guidelines means collectively the Audit Guidelines, the Environmental Guidelines, the Policy on Accountable Entities and Implementation Structures, the Program Grant Guidelines, the Program Procurement Guidelines, the Reporting Guidelines, the M&E Policy, the Cost Principles for Government Affiliates Involved in Compact Implementation, the Program Closure Guidelines, the Gender Policy, the MCC Gender and Social Inclusion Milestones and Operational Procedures, the Guidelines for Economic and Beneficiary Analysis, the Standards for Global Marking, the Guidelines for Country Contributions, Counter-Trafficking in Persons Policy, and any other guidelines, policies or guidance papers relating to the administration of MCC-funded assistance programs, in each case, as such may be posted from time to time on the MCC Website.

Program Implementation Agreement and PIA have the meaning provided in Section 3.1.

Program Procurement Guidelines has the meaning provided in Section 3.6(a).

Project(s) has the meaning provided in Section 1.2.

Project Objective(s) has the meaning provided in Section 1.2.

Provider means any natural or legal person who provides any goods, works, or services in connection with the Program.

Reporting Guidelines means the MCC Guidance to Accountable Entities on the Quarterly Disbursement Request Package.

Resettlement Action Plan or RAP means a plan designed to mitigate the negative impacts of the physical displacement of persons caused by project implementation.

Resettlement Policy Framework or RPF means a broad plan or scheme prepared for a project, based on the principles of IFC Performance Standard No.5, that sets forth and defines the principles, organizational arrangements, and design criteria to be applied to regulate all circumstances regarding resettlement that may occur in implementation of the project.

Social and Gender Integration Plan has the meaning provided in Part A of Annex I.

Stakeholder Engagement Plan means a plan designed to guide consultations and communications with stakeholders of a project throughout the life of the project for the purpose

of engaging with stakeholders in a culturally appropriate manner, all as more particularly described in IFC Performance Standard No. 1.

Supplemental Agreement means any agreement between (a) the Government (or any Government affiliate, including MCA-Lesotho II) and MCC (including, but not limited to, the PIA), or (b) MCC and/or the Government (or any Government affiliate, including MCA-Lesotho II), on the one hand, and any third party, on the other hand, in each case, setting forth the details of any funding, implementing or other arrangements in furtherance of, and in compliance with, this Compact.

Target has the meaning provided in paragraph 3 of Annex III.

Taxes has the meaning provided in Section 2.8(a).

United States Dollars or USD or US\$ means the lawful currency of the United States of America.

Water Act means the Lesotho Water Act, 2008 (Act No. 15 of 2008), as the same may be amended or otherwise modified.

youth means, as used with respect to the BETA Project or the MDIH Project, an individual between the ages of 18 and 35.

Zero-rated VAT Invoice has the meaning provided in Annex VI.

ANNEX VI

TAX EXEMPTION MECHANISMS

This Annex and its schedules set forth the mechanisms or procedures that the Government shall implement to comply with the tax exemption required by Section 2.8 of this Compact.

MCA-Lesotho II and all persons (natural and legal) entitled to the tax exemption shall be required to follow the procedures set forth herein to claim the exemption. No additional procedures or requirements shall apply, unless agreed by the Parties in writing. The Lesotho Tax and Revenue Authority (LRA) within the Government is the point of contact for implementing the tax exemption.

SCHEDULE A
VALUE ADDED TAXES

Legal Basis for Exemption

Section 2.8 of this Compact

Beneficiaries of Exemption

MCC, MCA-Lesotho II, Providers

Procedure to Claim Exemption

1. Purchases by MCA-Lesotho II

MCA-Lesotho II shall not be required to pay or collect value added taxes (VAT) on any goods, works, or services purchased by MCA-Lesotho II in connection with the Program. To claim the exemption, the Ministry of Finance shall ensure that MCC and MCA-Lesotho II are included in Schedule I of the Value Added Tax Act, 2001 (Act No. 9 of 2001), as amended or replaced, for exempt Public International Organizations.

2. Purchases by Providers

Providers that purchase goods, works, or services in connection with the Program shall pay all applicable VAT and when invoicing MCA-Lesotho II shall issue an invoice with VAT at zero percent (“***Zero-rated VAT Invoice***”) to MCA-Lesotho II. To claim a refund of the VAT paid, the Provider shall submit to LRA (i) evidence of the VAT paid, (ii) evidence of the Zero-rated VAT Invoice issued to MCA-Lesotho II, and (iii) banking details of the Provider for purposes of receiving the refund. Within 30 days of receiving the complete application LRA shall refund the VAT.

3. Indirect imports by MCA-Lesotho II and Providers

For goods indirectly imported into Lesotho in connection with the Program by MCA-Lesotho II or any Provider, the beneficiary shall pay the applicable VAT in the jurisdiction where the goods were purchased (as applicable). Upon entry into Lesotho, the beneficiary shall provide to LRA customs officials at the boarder a copy of the invoice showing the VAT paid and LRA will refund the VAT to the beneficiary within 30 days.

4. Direct imports

For goods directly imported into Lesotho in connection with the Program, the beneficiary shall issue a Zero-rated VAT invoice showing MCA-Lesotho II as the recipient of the goods and provide a copy of such invoice to LRA customs officials at the border.

5. Temporary imports

Goods imported into Lesotho in connection with the Program on a temporary basis shall not accrue or be liable for any VAT.

SCHEDULE B

CUSTOMS DUTIES AND EXCISE TAXES

Legal Basis for Exemption

Section 2.8 of this Compact

Beneficiaries of Exemption

MCC, MCA-Lesotho II, Provider

Procedure to Claim Exemption

Goods Imported by MCA-Lesotho II and Providers

MCA-Lesotho II and Providers shall not be required to pay any customs duties on any goods imported by MCA-Lesotho II or Providers in connection with the Program. The LRA shall register MCA-Lesotho II as an exempt entity within the terms of Schedule IV of the Customs & Excise Act, 1982 (Act No. 10 of 1982), as amended or replaced, for purposes of exemption from customs duties. To claim the exemption, the beneficiary shall declare the imported goods with the customs officials of LRA using MCA-Lesotho II's allocated code as a Schedule IV exempt entity.

Within 5 days of receiving the declaration form setting forth the MCA-Lesotho II allocated code, LRA shall ensure that the goods are cleared through customs.

SCHEDULE C

INCOME AND WITHHOLDING TAX

Legal Basis for Exemption

Section 2.8 of this Compact

Beneficiaries of Exemption

Subject to Section 2.8 of this Compact, MCA-Lesotho II and any natural or other legal person who provides any goods, works, or services in connection with the Program (collectively, *“Income Tax Exempt Persons”*)

Procedure to Claim Exemption

1. MCA-Lesotho II

The Ministry of Finance shall ensure that MCA-Lesotho II is included as an exempt entity in Schedule I of the Income Tax Act for Public International Organizations, 1993 (Act No. 9 of 1993), as amended or replaced.

2. Income Tax Exempt Persons

a. Compact-Related Income Only

- i. Any Income Tax Exempt Person whose income or earnings in Lesotho in any given fiscal year is derived solely in connection with the Program shall not pay any Taxes on such income or earnings and need declare such income or earnings in its year-end filing with LRA solely for informational purposes.
- ii. Any entity or person who employs an Income Tax Exempt Person described in clause (a) above shall not be required to withhold any Taxes on the income or earnings of such Income Tax Exempt Person earned in connection with the Program nor be required to submit any filings, registrations, or reports in relation to such income or earnings.

b. Compact-Related and Other Income

Any Income Tax Exempt Person whose income or earnings in Lesotho in any given fiscal year is derived in connection with the Program and from other activities in Lesotho must submit and register with LRA each agreement between such Income Tax Exempt Person and the Government that is funded by MCC Funding (each, an *“MCC Funded Agreement”*), together with a certification from MCA-Lesotho II confirming that the goods, services or works to be provided under such agreement form a part of the Program. At the end of any such fiscal year, the Income Tax Exempt Person may exclude

the gross income derived from any MCC Funded Agreement(s) (as verified by the registered MCC Funded Agreement(s)) for the purposes of determining its income tax liability in Lesotho for such fiscal year. The Income Tax Exempt Person need only declare such gross income in its year-end tax filing with LRA solely for informational purposes.

SCHEDULE D
PROPERTY TAXES

Legal Basis for Exemption

Section 2.8 of this Compact

Beneficiaries of Exemption

MCA-Lesotho II and Providers

Procedure to Claim Exemption

MCA-Lesotho II and Providers shall not be required to pay or collect any Taxes applicable to ownership, transfer of ownership, mortgage of land, houses or properties, or registration of legal documents relating to property (collectively, “***Property Taxes***”). To claim the exemption, MCA-Lesotho II shall apply to the relevant Government department (e.g. Urban Councils and Land Administration Authority) in charge of collecting the Property Taxes for an exemption letter on behalf of the applicable beneficiary by submitting the following documents to such Government department:

- Application for exemption by beneficiary, which references this Compact as the basis for the exemption;
- a letter from MCA-Lesotho II confirming that the transaction is undertaken in connection with the Program and the name of the beneficiary of the exemption; and
- Other documents setting out the nature of the transaction for which Property Taxes apply (if applicable).

Within 10 days of receiving the complete application, the relevant Government department shall issue a letter confirming the exemption. The tax departments in charge of collecting such taxes shall exempt the beneficiaries from paying any Property Taxes after receiving the documents.

SCHEDULE E

OTHER NATIONAL TAXES

Legal Basis for Exemption

Section 2.8 of this Compact

Beneficiaries of Exemption

MCA-Lesotho II and Providers

Procedure to Claim Exemption

In the case of any national tax not described in the Schedules to this Annex, whether administered by LRA or another Government authority, MCA-Lesotho II shall apply for an exemption on behalf of the beneficiary by submitting to the relevant tax collecting authority, a letter referencing this Compact as the basis for the exemption and an official letter from the MOF confirming the exemption. Upon receipt of such documentation, the tax collecting authority shall issue a letter confirming its exemption of the Taxes.

ANNEX VII

ADDITIONAL CONDITIONS PRECEDENT TO ENTRY INTO FORCE

In addition to the conditions precedent set forth in Section 7.2 of this Compact, unless waived or deferred in writing by MCC, each of the following conditions must be met to MCC's satisfaction before this Compact enters into force:

(a) The Government must have enacted legislation that substantially includes the protections and provisions of the Harmonization Bill, which is intended to align provisions of the Laws of Lerotholi 1903 with the Legal Capacity of Married Persons Act, 2006 (Act No. 9 of 2006) (LCMPA), thus removing the minority status of women married under custom and providing them full protection of the economic rights conferred by the LCMPA.

(b) The Government must have enacted inheritance reforms that (1) repeal section 14(1) of the Laws of Lerotholi 1903, which excludes women and girls from inheritance, (2) amend property and inheritance laws to remove gender discriminatory provisions and enhance the rights of women making them certain, clear and enforceable, and (3) repeal section 3(b) of the Administration of Estate Proclamation to eliminate the "mode of life" test and give full freedom of testation to Basotho.

(c) The Government must have enacted legislation that substantially includes the protections and provisions of the draft Counter Domestic Violence Bill presented to the Lesotho Parliament on April 6, 2021.

(d) The Government must have enacted (1) legislation that substantially includes the protections and provisions of the draft 2021 Labor Bill prepared by the Ministry of Labor and Employment; and (2) a health and safety law to protect workers and improve working conditions, especially in informal sectors, and including agriculture, in compliance with ILO labor conventions.

(e) MCC and the Government must have reached an agreement in writing establishing baselines and targets for the indicators that will measure progress toward the objective of increasing income for women, youth, and the rural poor under the MDIH Project.

(f) The Government must have developed and adopted an Environmental and Social Management System, including a Stakeholder Engagement Plan, each in accordance with the Environmental Guidelines.