

MILLENNIUM CHALLENGE CORPORATION

[MCC FR 07-07]

Notice of Entering Into a Compact With the Government of the Kingdom of Lesotho

AGENCY: Millennium Challenge Corporation.

ACTION: Notice.

SUMMARY: In accordance with Section 610(b)(2) of the Millennium Challenge Act of 2003 (Pub. L. 108-199, Division D), the Millennium Challenge Corporation (MCC) is publishing a summary and the complete text of the Millennium Challenge Compact between the United States of America, acting through the Millennium Challenge Corporation, and the Government of the Kingdom of Lesotho. Representatives of the United States Government and the Government of the Kingdom of Lesotho executed the Compact documents on July 23, 2007.

Dated: July 26, 2007.
William G. Anderson Jr.,
Vice President & General Counsel,
Millennium Challenge Corporation.

Summary of Millennium Challenge Compact With the Government of the Kingdom of Lesotho

A. Introduction

Lesotho is strategically located within the rapidly growing Southern African Development Community which will become a common market in 2008. It could benefit greatly from the expected economic upsurge in the region led by the private sector, but it will miss this opportunity if it is unable to unlock the potential of its two greatest resources—its water and its people. Without immediate and sustainable interventions to harness its abundant water resources and to improve the health of the productive workforce, Lesotho has limited prospects of achieving economic growth. Another critical element to Lesotho’s future economic growth is a dynamic private sector. In recent years, the Government

of Lesotho (“GoL”) has embarked on a major reform program developed jointly with the World Bank and other bilateral donors, to remove legal and regulatory impediments to private sector growth, improve access to credit and increase the participation of women in the economy.

B. Program

1. Goal and Objectives

The \$362.6 million Compact focuses on water, health and private sector development (the “Program”), as summarized in the table below. The Program is focused on improving the provision of water supplies for industrial and domestic use, improving health outcomes and productivity through strengthening the health infrastructure, and removing barriers to foreign and local private sector investment. The Compact is designed to have a high economic growth impact, and its potential impact on poverty reduction is significant and widespread due to its broad geographical scope.

Multi-year financial plan (by project)	Totals including contingencies (in millions USD)						
	CIF	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Water Sector Project	4.913	21.092	24.233	49.074	47.878	16.838	164.028
2. Health Sector Project	4.436	17.961	27.927	37.616	24.846	9.612	122.398
3. Private Sector Development Project	0.710	7.142	10.906	8.525	5.47	3.352	36.105
4. Monitoring & Evaluation	0.5	2.605	0.684	0.755	0.664	2.6	7.808
5. Program Management and Oversight	5.109	4.173	5.395	6.196	6.926	4.413	32.212
Total MCC Contribution	15.668	52.973	69.145	102.166	85.784	36.815	362.551

C. Program Description

1. Water Sector Project (\$164 million)

The Water Sector Project is aimed at improving water supply for industrial and domestic needs. With respect to the industrial sector, the Project will provide infrastructure to deliver water to garment and textile operations. Domestic users in selected urban and rural areas will benefit from water system upgrades and expansion to achieve better sanitation and a reliable supply of water. Finally, the Project is designed to enhance rural livelihoods through improved watershed management.

The Water Sector Project activities include: (a) Construction of a bulk water conveyance system and establishment of a program management unit for the Metolong Dam construction activity; (b) extension and rehabilitation of the urban and peri-urban water network; (c) provision of improved sanitation services to rural households through construction of ventilated improved pit

latrines and water systems; and (d) restoration of degraded wetlands at three areas in the highland pastures and preparation of a strategic environmental assessment to support development of a national watershed management and wetlands conservation plan.

2. Health Sector Project (\$122 million)

Approximately 24 percent of adults ages 15–49 in Lesotho are Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (“HIV/AIDS”) positive, the third highest prevalence rate in the world. The Health Sector Project is designed to mitigate the negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis (“TB”) and other diseases by substantially strengthening the country’s health care infrastructure. MCC funding will support the GoL’s efforts to significantly increase access to life-extending anti-retroviral therapy (“ART”) by providing a sustainable platform to deliver this and other essential health services throughout the

country. This has the potential to result in a measurable extension of productive life-years for people living with HIV/AIDS, TB and other debilitating diseases.

A major issue in Lesotho, as in the rest of southern Africa, is the crisis in human health resources. The country has difficulty retaining nurses and clinicians due to opportunities outside the country and poor working conditions in Lesotho. Extensive studies have been conducted on improving the retention of health care workers. Top concerns are salary levels, physical working conditions and supervision and career management structures. Together with the GoL, the President’s Emergency Plan for AIDS Relief (“PEPFAR”), and other donor efforts, the Health Sector Project is designed to address these issues. Currently the GoL is proposing salary reforms and PEPFAR is providing assistance to improve training curricula and programs, reduce red tape in hiring new graduates, and rationalize Ministry of Health and Social Welfare

(“MoHSW”) staff positions. The Project is designed to improve health sector infrastructure, including residences for rural health staff, improve supervision and management of staff, increase the number of nurses and allied health professionals trained, and provide opportunities for staff to build skills and competencies through continuing education. These efforts are designed to increase production and retention of health workers for delivery of essential health services.

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

3. Private Sector Development (“PSD”) Project (\$36 million)

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

The PSD Project activities include: (a) Reform of the civil legal system through the development of the Commercial Court, including creation of case management systems for courts, and promotion of alternative dispute resolution; (b) support for the production and issuance costs of national identification cards as well as establishment of the necessary legal and regulatory reforms for data privacy and establishment and operations of a cross-border credit bureau; (c) support for implementation of a new payments and settlement system in Lesotho; (d)

technical assistance to the GoL in the development of land policy in Lesotho, and funding for the implementation of a systematic land regularization program for urban and peri-urban areas and development of a new land administration authority; and (e) implementation of a training and public awareness program dedicated to implementing gender equality in economic rights and building of local capacity to continue advocacy.

D. Impacts

The Program, if successfully implemented, could nearly double GDP growth by the end of the Compact implementation period (using a baseline of 2.6 percent). The acceleration of GDP growth is expected to continue beyond Compact completion, propelling growth towards seven percent per annum within five years after Compact completion. This acceleration is required to reduce poverty significantly in line with the objectives of the GoL’s Poverty Reduction Strategy Papers (“PRSP”).

The Water Sector Project is expected to benefit urban and rural communities through each of the four activities: (1) The Metolong Dam—Bulk Water Conveyance System activity is expected to preserve existing industrial production and 28,000 jobs and create an additional 6,000 jobs by the end of the Compact; (2) The Urban and Peri-Urban Water Network activity has the potential to benefit approximately 304,000 people or 50,700 households by Compact end; (3) The Rural Water Supply and Sanitation activity has the potential to directly benefit approximately 150,000 people or 25,000 households; and (4) The Wetlands Restoration and Conservation activity has the potential to improve rangeland productivity and benefit rural livelihoods for an estimated 55,000 people who live within a 16 kilometer radius of the three target wetland sites.

The Health Sector Project is designed to directly improve delivery of health care services to the entire population. The health center activity is designed to improve service quality and availability for health center clients, including: Most of the 90 percent of pregnant women who seek prenatal care; the more than 90 percent of infants and young children who are immunized against childhood infectious diseases; the approximately 9,000 TB patients treated at the health center level each year; and the 34,000 persons expected to have ART services follow up at the health center during the life of the Project. The ART clinic activity is designed to reduce waiting times and

TB co-infection of clients seeking care at an OPD, particularly the predicted additional 17,000 new clients seeking ART services during the Compact, the 80 percent of those clients expected to be co-infected with TB, and the clients of other OPD services in these 14 hospitals. This activity is designed to complete national coverage of ART services at the hospital level. The central laboratory and blood transfusion activities are designed to benefit all Basotho by expanding the capacity of the MoHSW to conduct needed laboratory tests and assuring access to safe blood. The NHTC activity is designed to expand the number of graduates in the health field, filling some of the numerous vacancies in rural areas for community nurses and allied health professionals. As a result, more than 1.3 million individuals in the rural areas are more likely to have an adequate level of service provision at the local health center level. The health systems strengthening and medical waste management activities are designed to impact the quality and level of services provided, particularly at the health center level and improve environmental health and safety conditions throughout the health sector. All activities focus on improving physical working conditions and safety for health workers and on human resources management.

The Private Sector Development Project has the potential to benefit approximately 2,000 persons and companies operating in the formal sector through more efficient commercial court procedures. Through the Land Administration Reform activity, potentially up to 55,000 urban households may benefit from having formally recognized titles. The National ID activity has the potential to directly benefit the entire national population by providing an identification card and/or unique identification number to every citizen within the country, improving the availability of credit and other financial services to a wider cross-section of the population. Finally, the Payments and Settlements system has the potential to directly benefit more than 86,000 government pensioners and more than 98,000 employed outside Lesotho by lowering the costs of receiving and sending money.

E. Program Management

1. Governance Structure

The GoL will establish an autonomous body within the Ministry of Finance and Development Planning known as MCA-Lesotho that will serve as the accountable entity responsible for

the implementation of the Program. The MCA-Lesotho board of directors will be made up of government officials representing each of the GoL ministries associated with the Program as well as private sector and civil society members representing constituencies impacted by the Program. This board will have independent decision making authority and will be the final authority with respect to implementation of the Compact. It will provide oversight and be responsible for the success or failure of the Program.

A management unit will support the board of directors in implementing the Program and will be responsible for the day-to-day management and operations of MCA-Lesotho. A stakeholders committee will inform the various constituent groups about Program implementation, provide advice and input to MCA-Lesotho concerning the Program, and select the private sector members of the board of directors.

External procurement and fiscal agents will be used during Compact implementation. A procurement process is currently underway with a target date of August 2007 to sign contracts for these services.

2. Implementation Arrangements

Line ministries, project implementation units and the Central Bank of Lesotho will serve as implementing entities (“IEs”) and service providers for the various projects related to the Compact under contractual relationships with MCA-Lesotho. IEs will be responsible for developing the operational requirements for the Projects and performance monitoring of contractors. Teams will be located within the IEs to ensure institutional strengthening and close collaboration and communication. To help ensure Program success, the Compact has budgeted nearly \$75 million for technical assistance, capacity building, and institutional strengthening. In addition, competitively selected external service providers will perform the Procurement and Fiscal Agent functions. MCA-Lesotho will remain ultimately responsible for the successful implementation of the Program.

F. Other Highlights

1. Transformational Change

The Program has the potential for significant transformational change to help unlock the economic potential of the country by providing additional water supplies for industrial and domestic use, improving health outcomes and productivity and by

removing barriers to foreign and domestic investment. Overall the Program is expected to impact a broad cross-section of the country through its various activities. In addition, the Compact is designed to have a substantive impact on extending full economic rights to women in Lesotho.

2. Consultative Process

The Program builds upon the GoL’s PRSP and the Lesotho Vision 2020. The consultative processes associated with these two initiatives identified the following as top priorities for poverty reduction and economic growth: (a) Private sector development; (b) provision of infrastructure; (c) natural resource management; and (d) improved access to health care.

Shortly after Lesotho was selected as an MCC-eligible country in 2004, the GoL established a consultative proposal development process that included the private sector, non-governmental organizations (“NGOs”) and civil society organizations. Recognizing that consultations are ongoing and must be meaningful, timely and participatory, the MCA-Lesotho Core Team within the Ministry of Finance and Development Planning was proactive in developing an outreach and consultative process strategy in early 2007 to plan for consultations and outreach activities beyond Compact signing and into implementation.

3. Government Commitment and Effectiveness

The 2006 enactment of the Legal Capacity of Married Persons Act was a strong signal of the GoL’s commitment to remove barriers to married women’s full participation in the economy, thereby enhancing the Program’s prospects of successful implementation and sustainability. This significant commitment to gender equality was recently acknowledged by resolutions adopted by both the U.S. Senate and the U.S. House of Representatives. Prior to first disbursement of Compact funds, the GoL will submit to its Parliament legal reforms designed to assure that economic rights achieved in the Legal Capacity of Married Persons Act are not contradicted in other laws.

The GoL has agreed with the World Bank on a comprehensive water sector reform program. In the rural water and sanitation sub-sectors, the GoL—consistent with its policy on decentralization—is divesting financial management, project planning, supervisory services and asset ownership to locally elected water committees.

In 2000, the GoL embarked on a ten year plan to improve health service delivery. The GoL has successfully piloted decentralized health services in three districts and is expanding decentralized management to the remaining seven districts. New financial management and procurement systems have been put in place, and a new human resources system is being developed. The Health Sector Project is designed to complement other donor funded activities. Despite the HIV/AIDS epidemic, Lesotho has met both MCC eligibility indicators on immunization and health expenditure which signals the GoL’s commitment to good performance in the health sector.

The GoL, as chair of the Southern Africa Development Community, has committed to regional integration of financial systems. They also have initiated the process of implementing policy reforms to improve the business and investment climate with the support of donors such as the World Bank. In order to realize the maximum economic benefits for the PSD Project activities, the GoL must continue this policy reform momentum and harmonize its legislation with other Common Monetary Area countries, especially South Africa.

G. Sustainability

The Program is designed to enhance the sustainability of its benefits by: (a) Supporting policy reforms in relevant sectors; (b) ensuring adequate funding will be allocated to fully cover additional recurrent costs; (c) requiring adherence to environmental and social standards; (d) building capacity within the GoL to facilitate implementation of the Program and to develop long-term management capabilities of GoL institutions; (e) assuring improved maintenance programs to maintain the economic life of assets; and (f) promoting participation of a large cross section of Basotho, especially women and the poor.

1. Water Sector

The sustainability of the Water Sector Project activities depends on the GoL’s pace of implementation of sector policy reforms and its commitment to ensure that tariff levels provide for cost recovery of operations and maintenance costs. Disbursements of Compact funding will be tied to agreed progress on implementing water sector reforms.

2. Health Sector

The sustainability of health services is a critical issue, particularly given the increase of donor-supported provision of ART. In partnership with donors, the

GoL is developing a national health financing strategy to identify the costs of the essential health services package, including ART, and gaps and potential sources of funds. This strategy will be jointly monitored by MCC and other health donors.

3. Private Sector Development

The sustainability of several PSD Project activities is expected to be enhanced because they will be carried out with the assistance of established private sector entities with a successful track record in the Southern African region. Compact funding also is designed to help establish sustainable improvements in land administration through an active capacity building, training, and public education effort.

4. Environmental and Social Impacts

The assessment, management, and monitoring of potential environmental and social impacts is an integral part of the Compact. The Compact will fund several measures to: (a) Mitigate the adverse effects of infrastructure construction or rehabilitation; (b) promote natural resource management and environmental conservation consistent with the priorities of the GoL's PRSP; (c) assure women's participation in the economy and as beneficiaries in the Compact; and (d) integrate HIV/AIDS awareness programs into all construction contracts. The Compact will also support measures to strengthen the regulatory framework and build institutional capacity required to improve occupational health and safety and waste management practices in the health sector.

The Metolong Dam activity is a Category A project under MCC's Environmental Guidelines due primarily to the potential environmental and social risks associated with the project, which include loss of communal resources, loss of traditional access routes across the river, inundation of cultural resources and alteration of downstream surface water hydrology. The entities funding the dam have agreed that the entire project, including advanced infrastructure, the dam and reservoir and downstream bulk water conveyance system, will be designed and constructed according to common standards that meet MCC's Environmental Guidelines, the MCC Gender Policy, GoL law, and World Bank Operational Policy 4.12 on Involuntary Resettlement. Compact funding for the bulk water conveyance system will be conditioned on strict adherence with the larger project's environmental management plan ("EMP") and resettlement action plan

("RAP"), completed earlier this year with World Bank funding. The urban, peri-urban and rural water activities are considered Category B and Category C projects under MCC's Environmental Guidelines and do not pose significant adverse environmental and social impacts. Standard EMPs will be developed for each activity to assure compliance with MCC's Environmental Guidelines and GoL laws. The wetlands restoration and conservation activity is expected to result in mostly positive environmental and socioeconomic impacts by rehabilitating three severely degraded wetland areas which support livestock grazing and other rural livelihood benefits.

The Health Sector Project consists of both Category A and Category B projects under MCC's Environmental Guidelines due to greenfield construction and concerns regarding current medical waste management practices in Lesotho. To make long-term improvements to the current situation and assure that MCC-funded facilities comply with MCC's Environmental Guidelines, Compact funds will be used to update Lesotho's 2005 National Health Care Waste Management Plan, develop medical waste management regulations and standards, prepare a financial plan and provide technical assistance to the relevant GoL agencies. Additionally, all proposed health infrastructure activities must comply with MCC's Environmental Guidelines and applicable GoL environmental permitting requirements.

The PSD Project, a Category C project, is not likely to have adverse environmental or social impacts. The MCA-Lesotho social-gender specialist will work to ensure that social safeguards are integrated into project design, implementation and monitoring to ensure that the activities do not, unnecessarily or unlawfully, infringe upon rights or privacy.

H. Donor Coordination

The design and technical aspects of many of the Compact Program activities have benefited significantly from the experiences of other donors working in Lesotho. The MCA-Lesotho Core Team has engaged the donor community frequently in all phases of the consultative process and has coordinated with donors to refine Compact activities, collaborate on shared objectives to prevent duplication of efforts, and ensure complementary activities throughout Compact implementation.

In the various Health Sector Project activities, including those associated with HIV/AIDS, MCC has maintained

regular communications and participated in joint donor reviews. These donors include: PEPFAR; Irish Aid; World Bank; African Development Bank; United Nations agencies; and the Global Fund for AIDS, Tuberculosis and Malaria. These and other donors provided design support to the MoHSW and assisted MCC in the due diligence process. The Compact's Health Sector Project is designed to support the GoL's reform efforts and fits within the combined donor strategy for the health sector. In particular, the MCC Health Sector Project and planned PEPFAR activities are mutually reinforcing. As MCC has moved forward with the proposed Health Sector Project, PEPFAR has provided encouragement and support at central and country level. In-country PEPFAR staff has grown from one person in 2006 to a staff of seven professionals by end of 2007, with an expected concomitant increase in resources. Together, MCC and PEPFAR inputs are expected to result in a major increase in the quality and quantity of ART services and in the production and retention of human resources for health.

The Metolong Dam activity is being developed in coordination with several donors, including the OPEC Fund for International Development, the Kuwait Fund for Arab Economic Development, the Arab Bank for Economic Development in Africa and the Saudi Fund for Development. The European Union also has a sustained presence in Lesotho's water sector and is currently funding detailed designs for components of the Metolong Dam bulk water conveyance system, as well as components of the larger lowlands water supply system. Irish Aid is also a significant donor in the water sector.

MCC has also been actively collaborating with other donors on the PSD Project. These donors include: the World Bank with respect to the national identification card; the United Kingdom's Department for International Development on matters concerning civil legal reform and land administration reform; the German development agency Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) on land administration reform; and USAID through its Women's Legal Rights Initiative project.

Millennium Challenge Compact Between The United States of America Acting Through The Millennium Challenge Corporation And The Government of The Kingdom of Lesotho

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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 Government of the Kingdom of Lesotho (the "Government") (individually a "Party" and collectively, the "Parties").

Recalling that the Government consulted with the private sector and civil society of the Kingdom of Lesotho ("Lesotho") to determine the priorities for the use of Millennium Challenge Account assistance and developed and submitted to MCC a proposal focused on providing water supplies for industrial and domestic use and improving watershed management, improving

health outcomes and productivity through strengthening the health system, and removing barriers to foreign and local private sector investment; and Recognizing that MCC wishes to help Lesotho implement a program to achieve the goal and objectives described herein (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 in Lesotho through economic growth (the "Compact Goal").

Section 1.2 Program Objectives.

The objectives of this Program (as further described in Annex I) (the "Objectives") are to:

- (a) Improve the water supply for industrial and domestic needs and enhance urban and rural livelihoods through improved watershed management;
- (b) Increase access to life-extending anti-retroviral therapy and essential health services by providing a sustainable delivery platform; and
- (c) Stimulate investment by improving access to credit, reducing transaction costs and increasing the participation of women in the economy.

The Government will take all the steps necessary or appropriate to achieve the Objectives during the term of this Compact.

Article 2. Funding and Resources

Section 2.1 MCC Funding.

(a) MCC grants to the Government, under the terms of this Compact, an amount not to exceed Three Hundred Sixty-Two Million, Five Hundred Fifty-One Thousand United States dollars (US\$362,551,000) ("MCC Funding") to help the Government implement the Program.

(b) Annex II of this Compact describes the use of MCC Funding.

Section 2.2 Compact Implementation Funding

(a) Of the total amount of MCC Funding, MCC will make up to Fifteen Million Six Hundred and Sixty-Nine Thousand United States dollars (US\$15,669,000) ("Compact Implementation Funding") available to the Government under Section 609(g) of the Millennium Challenge Act of 2003, as amended, to support:

- (i) provision of fiscal and procurement agent services;
- (ii) start-up costs including staff salaries and administrative support and related goods and services;

(iii) baseline surveys for monitoring and evaluation and administrative support for the surveys as appropriate;

(iv) initiation of environmental and social assessments and design work in conjunction with certain water and health sector activities;

(v) additional gender assessment and input for project design;

(vi) additional work with respect to activities to remove forms of discrimination, in laws or policies, affecting the economic rights of women;

(vii) additional work with respect to clarifying roles and responsibilities for decentralized health services at the central and district levels, and in developing a training plan for health sector project activities;

(viii) technical assistance to support development of terms of reference for consultants, including, without limitation, health system strengthening, capacity building, and medical waste management;

(ix) procurement of field monitoring equipment and initiation of environmental baseline studies for the wetlands conservation project;

(x) a study of land administration services in Lesotho and recommendations for modernization and improvement of those services;

(xi) a review of existing payments and settlements and cross-border financial transactions legislation and related regulations;

(xii) a review of existing legislation authorizing credit bureaus and a national identification card and any related regulations;

(xiii) a review of data privacy legislation and regulations;

(xiv) establishment of Project Implementation Units (as defined in Annex I) and related start-up costs including recruitment of key personnel, staff salaries and administrative support and related goods and services; and

(xv) other Compact implementation expenses approved by MCC.

(b) Notwithstanding anything to the contrary in this Compact, this Section 2.2 will provisionally apply, after MCC and the Government sign this Compact, without regard to whether this Compact has entered into force under Section 7.3.

(c) Compact Implementation Funding is subject to: (i) The limitations on the use or treatment of MCC Funding set forth in Sections 2.6 and 2.7 as if such provisions were in full force and effect, and (ii) any other requirements and limitations as may be required by MCC in writing.

Section 2.3 Disbursement

In accordance with this Compact and the Program Implementation Agreement

(as defined in Section 3.1), MCC will disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a "Disbursement"). The proceeds of such Disbursements will be made available to the Government, at MCC's sole election, (a) by deposit to a bank account established by the Government and acceptable to MCC (a "Permitted Account") or (b) through direct payment to a provider of goods, works or services under this Compact. MCC Funding may be expended only to cover Program expenditures as provided in this Compact and the Program Implementation Agreement.

Section 2.4 Interest

The Government will pay to MCC any interest or other earnings that accrue on MCC Funding in accordance with the Program Implementation Agreement.

Section 2.5 Government Resources; Budget

(a) The Government will provide all funds and other resources, and will take all actions, that are necessary to carry out the Government's responsibilities and obligations under this Compact.

(b) The Government will use its best efforts during each year it receives MCC Funding to ensure that all MCC Funding it receives or is projected to receive in such year is fully accounted for in the annual budget of Lesotho. To the extent feasible under the budgeting processes of Lesotho, MCC Funding will be accounted for on a multi-year basis.

(c) The Government will 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.

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

Section 2.6 Limitations on the Use of MCC Funding

The Government will ensure that MCC Funding will not be 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 or by posting on the MCC Web site (<http://www.mcc.gov>) (the "MCC Web site"), 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, where the phrase "likely to cause a significant environmental, health, or safety hazard" has the meaning set forth in environmental guidelines delivered by MCC to the Government or posted by MCC on the MCC Web site or otherwise publicly made available, as the guidelines may be amended from time to time (the "MCC 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 2.7 Taxes

(a) Unless the Parties otherwise specifically agree in writing, the Government will not impose, and will not permit any other governmental or taxing authority to impose any taxes, duties, levies, contributions or other charges ("Taxes") in Lesotho on the Program, MCC Funding, interest or earnings on MCC Funding, any Project or activity implemented under the Program, goods, works, services and other assets and activities related to the Program or any Project, persons and entities that provide such goods, works, services and assets or perform such activities, and income, profits and payments with respect thereto. The Government will exempt from Taxes, inter alia, value added and other transfers (including exemption therefrom with credit), property and ad valorem items, import and export of goods (including exemptions for goods imported and re-exported for personal use of expatriate employees and their family members) and income and profit.

(b) Before the initial Disbursement is made, the Government and MCC may, at MCC's discretion, enter into one or more agreements setting forth the mechanisms for implementing this Section 2.7, including exemptions from filing and compliance requirements relating to Taxes. If entered into, it is expected that such agreement(s) will provide that the Government may impose: (i) Taxes on certain individuals

who are nationals or permanent residents of Lesotho; (ii) Taxes other than transfer Taxes and import and export Taxes on certain entities that are organized in Lesotho; and (iii) fees or charges for services that are generally applicable in Lesotho, reasonable in amount and imposed on a non-discriminatory basis.

Article 3. Implementation

Section 3.1 Program Implementation Agreement

The Government will implement the Program in accordance with this Compact and as further specified in an agreement to be entered into by MCC and the Government and dealing with, among other matters, implementation arrangements, fiscal accountability, disbursement and use of MCC Funding, procurement and applicable tax exemptions (the "Program Implementation Agreement").

Section 3.2 Government Responsibilities

(a) The Government has principal responsibility to oversee and manage the implementation of the Program.

(b) With the prior written consent of MCC, the Government may designate an entity to implement some or all of the Government's obligations or to exercise any rights of the Government under this Compact or the Program Implementation Agreement. Such a designation will not relieve the Government of any designated obligations and rights, for which the Government will retain full responsibility.

(c) The Government will ensure that no law or regulation in Lesotho now or hereinafter in effect makes or will make unlawful or otherwise prevent or hinder the performance of any obligation under this Compact, the Program Implementation Agreement or any other agreement related thereto or any transaction contemplated thereunder.

(d) The Government will ensure that any assets or services funded in whole or in part (directly or indirectly) by MCC Funding will be used solely in furtherance of this Compact and the Program unless otherwise agreed by MCC in writing.

Section 3.3 Policy Performance

In addition to the specific policy and legal reform commitments identified in Annex I, the Government will seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the Millennium Challenge Act of 2003, as amended, and the selection criteria and methodology used by MCC.

Section 3.4 Government Assurances

The Government assures MCC that:

(a) 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;

(b) This Compact does not, and will not, conflict with any other international agreement or obligation of the Government or any of the laws of Lesotho; and

(c) The Government will not invoke any of the provisions of its internal law to justify or excuse a failure to perform its duties or responsibilities under this Compact.

Section 3.5 Implementation Letters

From time to time, MCC may provide guidance to the Government through implementation letters on the frequency, form or content of requests for Disbursements or on any other matter relating to MCC Funding, this Compact or implementation of the Program (each, an "Implementation Letter"). The Government will apply such guidance in implementing this Compact.

Section 3.6 Procurement

The Government will ensure that the procurement of all goods, works and services by the Government or any Provider (as defined in Section 3.7(c)) in furtherance of this Compact will be consistent with the program procurement guidelines of which MCC will inform the Government in writing or by posting on the MCC Web site or otherwise make publicly available, as the guidelines may be amended from time to time (the "MCC Program Procurement Guidelines"), which MCC Program Procurement Guidelines will include but will not be limited to the following requirements:

(a) 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;

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

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

(d) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, will be

paid to procure goods, works and services.

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government will maintain, and will use its best efforts to ensure that all Covered Providers (as defined in clause (c) below) maintain, accounting books, records, documents and other evidence relating to this Compact adequate to show to MCC's satisfaction the use of all MCC Funding ("Compact Records"). In addition, the Government will furnish or cause to be furnished to MCC upon its request all Compact Records.

(b) Accounting. The Government will maintain, and will 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 Committee (an affiliate of the International Federation of Accountants) or (ii) then prevailing in Lesotho. Compact Records must be maintained for at least five (5) years after the end of the Compact Term (as defined in Section 7.4) or for such longer period, if any, required to resolve any litigation, claims or audit findings or any statutory requirements.

(c) Covered Provider. Unless the Parties agree otherwise in writing, a "Provider" is (i) any entity of the Government that receives or uses MCC Funding or any other Program asset in carrying out activities in furtherance of this Compact or (ii) any third party that receives at least US\$50,000 in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term. A "Covered Provider" is (1) a non-United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$300,000 or more of MCC Funding in any Government fiscal year or any other non-United States person or entity that receives, directly or indirectly, US\$300,000 or more of MCC Funding from any Provider in such fiscal year or (2) any United States Provider that receives (other than pursuant to a direct contract or agreement with MCC) US\$500,000 or more of MCC Funding in any Government fiscal year or any other United States person or entity that receives, directly or indirectly, US\$500,000 or more of MCC Funding from any Provider in such fiscal year.

(d) Access. Upon MCC's request, the Government, at all reasonable times, will permit, or cause to be permitted, authorized representatives of MCC, an authorized United States 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 and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may otherwise agree in writing, the Government will, on at least a semi-annual basis, conduct, or cause to be conducted, financial audits of all disbursements of MCC Funding covering the period from signing of this Compact until the earlier of the following December 31 or June 30 and covering each six-month period thereafter ending December 31 and June 30, through the end of the Compact Term, in accordance with the terms of the Program Implementation Agreement. As requested by MCC in writing, the Government will use, or cause to be used, to conduct such audits an auditor approved by MCC and named on the list of local auditors approved by the Inspector General of the Millennium Challenge Corporation (the "Inspector General") or a United States-based Certified Public Accounting firm selected in accordance with the "Guidelines for Financial Audits Contracted by MCA" (the "Audit Guidelines") issued and revised from time to time by the Inspector General. Audits will be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. An audit must be completed and the audit report delivered to MCC no later than ninety (90) days after the first period to be audited and no later than ninety (90) days after each June 30 and December 31 thereafter, or such other period as the Parties may otherwise agree in writing.

(b) Audits of United States Entities. The Government will ensure that agreements between the Government or any Provider, on the one hand, and a United States nonprofit organization, on the other hand, that are financed with MCC Funding state that the United States organization is subject to the applicable audit requirements contained in OMB Circular A-133. The Government will ensure that agreements

between the Government or any Provider, on the one hand, and a United States for-profit Covered Provider, on the other hand, that are financed with MCC Funding state that the United States organization is subject to audit by the cognizant United States Government agency, unless the Government and MCC agree otherwise in writing.

(c) Corrective Actions. The Government will use its best efforts to ensure that Covered Providers take, where necessary, appropriate and timely corrective actions in response to audits, consider whether a Covered Provider's audit necessitates adjustment of the Government's records, and require each such Covered Provider to permit independent auditors to have access to its records and financial statements as necessary.

(d) Audit by MCC. MCC will 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, including as reflected on Annex II.

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. For this purpose, the address of each Party is set forth below.

To MCC

Millennium Challenge Corporation,
Attention: Vice President for Operations
(with a copy to the Vice President and
General Counsel), 875 Fifteenth Street,
N.W., Washington, D.C. 20005, United
States of America, Facsimile: +1 (202)
521-3700, Phone: +1 (202) 521-3600, E-
mail: VPOperations@mcc.gov (Vice
President for Operations),
VPGeneralCounsel@mcc.gov (Vice
President and General Counsel)

To the Government

Government of the Kingdom of
Lesotho, Attention: Minister of Finance
and Development Planning, (with a
copy to the Principal Secretary),
Address: P.O. Box 395, Maseru—100,
The Kingdom of Lesotho, Facsimile:
+266 223 10622/223 10157, Phone: +266
223 23703/223 16304/223 11101, E-
mail: ps@finance.gov.ls.

Section 4.2 Representatives

For all purposes of this Compact, the Government will be represented by the individual holding the position of, or

acting as, the Minister of Finance and Development Planning of the Kingdom of Lesotho, and MCC will be represented by the individual holding the position of, or acting as, Vice President for Operations (each, a "Principal Representative"), each of whom, by written notice to the other Party, may designate one or more additional representatives for all purposes other than signing amendments to this Compact. A Party may change its Principal Representative to a new representative that holds a position of equal or higher rank upon written notice to the other Party.

Section 4.3 Signatures

With respect to all documents other than this Compact or an amendment to this Compact, a signature delivered by facsimile or electronic mail will be binding on the Party delivering such signature to the same extent as an original signature would be.

Article 5. Termination; Suspension; Refunds

Section 5.1 Termination; Suspension

(a) Subject to Section 5.2, either Party may terminate this Compact in its entirety by giving the other Party thirty (30) days written notice.

(b) MCC may, 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 (whether such circumstance is notified in writing to the Government or by posting on the MCC Web site) has occurred, which circumstances include but are not limited to the following:

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

(ii) An event has occurred that MCC determines makes it improbable that the Objectives will be achieved during the term of this Compact or that the Government will be able to perform its obligations under this Compact;

(iii) A use of MCC Funding or continued implementation of this Compact would violate applicable law or United States Government policy, whether now or hereafter in effect;

(iv) The Government or any other person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is engaged in activities that are contrary to the

national security interests of the United States;

(v) 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 the Foreign Assistance Act of 1961 or any other provision of law;

(vi) The Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Lesotho for assistance under the Millennium Challenge Act of 2003, as amended; and

(vii) The Government or another person or entity receiving MCC Funding or using assets acquired in whole or in part with MCC Funding is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

(c) All Disbursements will cease upon expiration, suspension, or termination of this Compact; provided, however, that MCC Funding may be used, in compliance with the Program

Implementation Agreement, to pay for (i) reasonable expenditures for goods, works and services that are properly incurred under or in furtherance of this Compact before expiration, suspension or termination of this Compact, and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within 120 days after the expiration, suspension or termination of this Compact.

(d) Subject to clause (c) of this Section 5.1, upon the expiration, suspension or termination of this Compact, (i) any amounts of MCC Funding not disbursed by MCC to the Government will be automatically released from any obligation in connection with this Compact, and (ii) any amounts of MCC Funding disbursed by MCC but not expended under Section 2.3 before the expiration, suspension or termination of this Compact, plus accrued interest thereon will be returned to MCC within thirty (30) days after the Government receives MCC's request for such return; provided, however, that if this Compact is suspended or terminated in part, MCC may request a refund for only the amount of MCC Funding allocated to the suspended or terminated portion.

(e) 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 5.2 Refunds; Violation

(a) If any MCC Funding, any interest or earnings thereon, or any asset acquired in whole or in part with MCC Funding 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 within thirty (30) days after the Government's receipt of MCC's request for repayment. The Government must use national funds (and no assets of the Program) to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, MCC's right under this Section 5.2 for a refund will continue during the term of this Compact and for a period of (i) five years thereafter or (ii) one year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.3 Survival

The Government's responsibilities under Sections 2.4, 2.5, 2.6, 2.7, 3.2, 3.4(a), 3.5, 3.7, 3.8, 4.1, 4.2, 4.3, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, 6.4 and 6.5 of this Compact will survive the expiration, suspension or termination of this Compact.

Article 6. Compact Annexes; Amendments; Governing Law

Section 6.1 Annexes

Each annex attached hereto constitutes an integral part of this Compact.

Section 6.2 Inconsistencies

In the event of any conflict or inconsistency between:

(a) Any annex to this Compact and any of Articles 1 through 7, such Articles 1 through 7 will prevail; or

(b) This Compact and any other agreement between the Parties regarding the Program, this Compact will prevail.

Section 6.3 Amendments

The Parties may amend this Compact only by a written agreement signed by the Principal Representatives and subject to the respective domestic approval requirements to which this Compact was subject.

Section 6.4 Governing Law

This Compact is an international agreement and as such will be governed by the principles of 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 will include activities, obligations and rights undertaken by or existing under any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Web site

Each reference in this Compact, the Program Implementation Agreement, 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 Web site will be deemed a reference to such document or information as updated or substituted on the MCC Web site by MCC from time to time, and will be deemed to be incorporated by reference into, and to constitute an integral part of, this Compact, the Program Implementation Agreement or such other agreement entered into in connection with this Compact.

Section 6.7 References to Laws, Regulations, Policies and Guidelines

Each reference in this Compact, the Program Implementation Agreement, or any other agreement entered into in connection with this Compact, to a law, regulation, policy, guidelines or similar document shall be construed as a reference to such law, regulation, policy, guidelines or similar document as it may, from time to time, be amended, revised, replaced or extended and shall include any law, regulation, policy, guidelines or similar document issued under or otherwise applicable or related to such law, regulation, policy, guidelines or similar document.

Article 7. Entry Into Force

Section 7.1 Domestic Requirements

The Government will take all steps necessary to ensure that: (a) This Compact and the Program Implementation Agreement and all of the provisions of this Compact and the Program Implementation Agreement are valid and binding and are in full force and effect under the laws of Lesotho; (b) this Compact, the Program Implementation Agreement and any other agreement entered into in connection with this Compact to which the Government and MCC are parties will be given the status of an international agreement; and (c) no laws of Lesotho, other than the Constitution of Lesotho, whether now or hereafter in effect, will take precedence or prevail over the terms of this Compact or the Program Implementation Agreement.

Section 7.2 Conditions Precedent

Before this Compact enters into force:

(a) The Government and MCC must have executed the Program Implementation Agreement and it must be effective;

(b) The Government will have delivered to MCC:

(i) A certificate signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, certifying that the Government has completed all of its domestic requirements in order that the requirements of Section 7.1 have been satisfied;

(ii) A legal opinion from the Attorney General of Lesotho (or other legal opinion acceptable to MCC), in form and substance satisfactory to MCC; and

(iii) Complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to its domestic requirements for this Compact to enter into force and the satisfaction of Section 7.1, which MCC may post on its Web site or otherwise make publicly available; and

(c) MCC must determine that after signature of this Compact, the Government has not engaged in any action or omission that is inconsistent with the eligibility criteria for MCC Funding.

Section 7.3 Date of Entry into Force

This Compact will enter into force on the later of (a) the date of the last letter in an exchange of letters between the Principal Representatives confirming that each Party has completed its domestic requirements for entry into force of this Compact and (b) the date that all conditions set forth in Section 7.2 have been satisfied.

Section 7.4 Compact Term

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

In Witness Whereof, the undersigned, duly authorized by their respective governments, have signed this Compact this 23rd day of July, 2007.

Done at Washington, D.C.

For Millennium Challenge Corporation, on behalf of the United States of America,

Name: John J. Danilovich,

Title: Chief Executive Officer.

For the Government of the Kingdom of Lesotho,

Name: Mohlabi Kenneth Tsekoa,

Title: Minister of Foreign Affairs and International Relations.

Annex I Program Description

A. Overview

This Annex I describes the Program that MCC Funding will support in Lesotho during the term of this Compact and the results to be achieved using MCC Funding. In all cases, an activity described herein will be carried out subject to any relevant approvals on the part of MCC and to the extent funds are made available under this Compact for purposes of that activity.

1. The Program and Its Projects

The Program will include the Water Sector Project, the Health Sector Project, and the Private Sector Development Project as further described in this *Annex I* (the "Projects").

The Parties may agree to modify, amend, terminate or suspend these Projects or to create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; provided, however, that any such modification or amendment of a Project or creation of a new project does not (a) cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact, (b) cause the Government's responsibilities or contribution of resources to be less than specified in this Compact, or (c) extend the term of this Compact.

2. Program Implementation

The implementation framework for the use of MCC Funding is summarized in this Annex I.

(a) MCC and the Government will sign the Program Implementation Agreement, and may sign other agreements contemplated by this Compact, all of which, together with this Compact, will set out certain rights, responsibilities, duties and other terms relating to the implementation of this Compact and the Program.

(b) The Government will:

(i) Enact or cause to be enacted an act of Parliament to form the entity empowered to implement some or all of the Government's obligations or to exercise any rights of the Government as provided under the terms of this Compact and the Program Implementation Agreement ("MCA-Lesotho"); and

(ii) Take all necessary and appropriate actions to carry out each of the other Government responsibilities in connection with this Compact and the Program Implementation Agreement, including, but not limited to, the actions necessary to ensure (1) this Compact, the Program Implementation Agreement and any other agreement entered into in

connection with this Compact to which the Government and MCC are parties will be given the status of an international agreement and (2) no laws of Lesotho, other than the Constitution of Lesotho, whether now or hereafter in effect, will take precedence or prevail over the terms of this Compact, the Program Implementation Agreement or such other agreement.

(c) MCC will take all necessary and appropriate actions to carry out each of its responsibilities in connection with this Compact and the Program Implementation Agreement, including the exercise of its various approval rights in connection with the implementation of this Compact and the Program.

(d) MCA-Lesotho will take all necessary and appropriate actions to implement this Compact and the Program, including the performance of the rights and responsibilities designated to it by the Government pursuant to the Program Implementation Agreement.

3. Fiscal Accountability

(a) Fiscal Agent. The Government will ensure that a fiscal agent ("Fiscal Agent") is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Fiscal Agent will provide a broad range of financial management services required by MCA-Lesotho to implement this Compact and the Program. The Government and MCA-Lesotho will take all necessary and appropriate actions to ensure the Fiscal Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement and any agreements to which the Fiscal Agent is a party and in accordance with internationally accepted standards of accounting and financial management. This will include, but not be limited to, the Fiscal Agent's responsibilities to collect and report information useful to the governing board and senior management of MCA-Lesotho, managers charged with supervision of the Projects, MCC and certain other entities responsible for the verification of the manner in which MCC Funding is used. The roles and responsibilities of the Fiscal Agent will be set out in a Fiscal Agent Agreement to be entered into between MCA-Lesotho and the Fiscal Agent (the "Fiscal Agent Agreement"). The role of the Fiscal Agent and the terms of the Fiscal Agent Agreement are more fully described in the Program Implementation Agreement.

(b) Permitted Accounts. The Government will ensure that the Permitted Accounts are established, and

banking services provided, in accordance with the terms of this Compact, the Program Implementation Agreement and any other agreements related to the Permitted Accounts. The Central Bank of Lesotho will not provide banking services to MCA-Lesotho or otherwise in connection with MCC Funding.

(c) Procurement Agent. The Government will ensure that a procurement agent (the "Procurement Agent") is appointed in accordance with the terms of this Compact and the Program Implementation Agreement. The Procurement Agent will act on behalf of MCA-Lesotho to provide specified procurement activities required by MCA-Lesotho to implement this Compact and the Program. The Government and MCA-Lesotho will take all necessary and appropriate actions to ensure the Procurement Agent performs these services in accordance with the terms of this Compact, the Program Implementation Agreement, the MCC Program Procurement Guidelines and any agreements to which the Procurement Agent is a party. The roles and responsibilities of the Procurement Agent will be set out in a Procurement Agent Agreement to be entered into between MCA-Lesotho and the Procurement Agent.

(d) Proposals for Goods, Works and Services. Public solicitations for proposals are anticipated to procure goods, works and services, as appropriate, to implement the Program and its Projects. All such procurements will be conducted in accordance with Section 3.6 of this Compact. MCA-Lesotho may also consider, using a process approved by MCC in writing, any unsolicited proposals it might receive.

4. Management and Consultation Arrangements of MCA-Lesotho

(a) Board of Directors. MCA-Lesotho will be governed by a board of directors that will have independent decision making authority and will be the final authority with respect to implementation of this Compact. It will make strategic decisions, provide oversight and be responsible for the success or failure of the Program. The initial board of directors will be comprised of 11 voting members, representing: (i) The Ministry of Finance and Development Planning; (ii) the Ministry of Foreign Affairs; (iii) the Ministry of Health and Social Welfare; (iv) the Ministry of Local Government; (v) the Ministry of Natural Resources; (vi) the Ministry of Justice, Human Rights and Rehabilitation; (vii) three members from the private sector; and

(viii) two members from the Lesotho Council of Non-Governmental Organizations (“LCNGO”). The members of the board of directors representing the private sector will be selected by the stakeholders committee (described in clause (c) below) and the members of the board of directors representing the LCNGO will be selected by the LCNGO through the stakeholders committee, in each case in accordance with a process agreed upon by the Government and MCC. A representative of MCC and the chief executive officer of MCA-Lesotho will serve as non-voting members of the MCA-Lesotho board of directors.

(b) Management Unit. A management unit will support the board of directors in implementing the Program. A chief executive officer will manage the day-to-day activities of MCA-Lesotho and will be supported by key officers, to include a: (i) Chief financial officer; (ii) head of administration; (iii) head of procurement; (iv) head of infrastructure; (v) head of environment and social assessment; (vi) head of monitoring and evaluation; (vii) head of operations; (viii) legal officer; (ix) communications and public outreach specialist; and (x) such other key officers as may be agreed upon by the Government and MCC. The key officers will be supported by appropriate administrative and other personnel deemed to be necessary for implementing the Program. The CEO will be selected and hired by the board of directors following an open and competitive recruitment and selection process. The other key officers and staff will be selected and hired by the CEO following an open and competitive recruitment and selection process. The appointment of the CEO and all other MCA-Lesotho management unit personnel will be subject to MCC’s prior approval.

(c) Stakeholders Committee. A stakeholders committee, in form satisfactory to MCC, will be created to represent the constituencies of the various Projects. MCA-Lesotho will use the stakeholders committee to continue the consultative process throughout Compact implementation. The stakeholders committee will be used primarily to inform the various constituent groups about Program implementation, provide advice and input to MCA-Lesotho concerning the Program, and select the private sector members and civil society members of the board of directors.

5. Gender Integration Plan

MCA-Lesotho will draft, implement and monitor a Program-wide gender integration plan (“Gender Integration

Plan”) to ensure compliance, optimum program design and maximum beneficiary impact across all Compact Project activities. This Gender Integration Plan will include, as appropriate, recommendations for meaningful and inclusive consultations with women and other vulnerable and underrepresented groups; project-specific gender analyses; and strategies for incorporating findings of the gender analyses into final Project designs.

MCA-Lesotho will also hire a full-time, dedicated social/gender specialist for the entire term of this Compact to ensure that social safeguards are fully integrated into the design, terms of references, work plans and monitoring and evaluation plans, and to ensure that all Project activities in every aspect of the Program are compliant with the gender policy delivered by MCC to the Government or posted by MCC on its Web site or otherwise publicly made available, as the policy may be amended from time to time (the “MCC Gender Policy”), and with the rights afforded to married women in the 2006 Legal Capacity of Married Persons Act.

6. HIV/AIDS Risk Mitigation Plans

MCA-Lesotho will assure that all construction contractors develop, implement and monitor an HIV/AIDS awareness program acceptable to MCC that includes, but is not limited to, the following elements:

(a) Activities directed to construction laborers and all associated formal and informal sector workers engaged in building and supporting construction works, including components for those who provide food, laundry and any other services providers and sub-contractors;

(b) Activities directed to the communities affected by the construction works;

(c) Activities designed to be gender and age-appropriate in content and delivery, reflecting an analysis of gender differences and inequalities to ensure the most effective program to reach various stakeholders;

(d) A component for independent monitoring of contractor compliance;

(e) Testing made available on or near construction sites; and

(f) Components necessary to ensure the contractor’s program is coordinated with other HIV/AIDS awareness and prevention programs being implemented in Lesotho during the time of construction works.

B. Water Sector Project

1. Summary of Project and Related Activities

This Project is designed to provide additional access to improved water supplies and sanitation facilities for rural and urban domestic, commercial and industrial users. In its design, funding under the Water Sector Project will be used to (a) construct a conveyance system from the Metolong Dam and establish a project management unit to manage the implementation, (b) rehabilitate existing infrastructure returning it to a functional state and expand the reticulated network to unconnected urban and peri-urban areas, (c) provide additional access to improved water supply and sanitation facilities in remote, rural areas through the rehabilitation and/or construction of up to 250 water supply points and up to 10,000 ventilated improved pit (“VIP”) latrines and (d) execute a pilot-scale wetlands restoration and conservation program at three project areas in the Lesotho highlands.

In the industrial sector, the Project will provide the critical infrastructure necessary to provide additional water to support the growth of garment and textile operations—the country’s principal engine of economic growth and poverty reduction. Currently, Lesotho’s textile sector accounts for approximately 40 percent of the country’s gross domestic product and employs nearly 50,000 individuals, many of whom support extended families.

Expansion and rehabilitation of rural water supply and sanitation facilities, coupled with public health and hygiene awareness training for rural communities, supports the goals of Lesotho’s 2004 Poverty Reduction Strategy Paper (“PRSP”), which highlights the need for investment in rural infrastructure to help foster conditions for economic growth and poverty reduction. The wetlands restoration activity also supports the goals of the PRSP by helping Lesotho conserve and manage natural resources that are vital to sustainable development and directly contribute to the livelihoods and well-being of Lesotho’s poorest people.

In connection with the Water Sector Project activities, MCA-Lesotho will assist and take all necessary steps to ensure that, where and when required by MCC Environmental Guidelines, MCC Gender Policy and/or Lesotho laws, an environmental impact assessment (each, an “EIA”) or, as applicable, environmental assessment

(each, an "EA"), an environmental management plan (each, an "EMP"), an HIV/AIDS awareness plan, and a resettlement action plan (each, a "RAP") or resettlement policy framework (each, a "RPF") (consistent with World Bank Operational Policy 4.12 on Involuntary Resettlement) are prepared to the satisfaction of MCC and in accordance with the Lesotho National Environment Act of 2001 and Lesotho Guidelines for Environmental Impact Assessment, in each case as the same may be amended from time to time. MCA-Lesotho shall also ensure that, for each activity requiring an environmental license under the Lesotho National Environment Act of 2001, a "Project Brief" (as defined in the Lesotho National Environment Act of 2001) and any necessary supporting studies will be submitted to, and approved by, the Government's environmental authorities prior to the initiation of construction activities, and that such environmental license will be maintained in good standing throughout the Compact Term. MCC Funding will support implementation of the environmental and social mitigation measures identified in the EIA(s) and/or EA(s), EMP(s), and RAP/RPF(s). The following summarizes each Project activity under the Water Sector Project:

(a) Metolong Dam—Bulk Water Conveyance System and Metolong Program Management Unit.

The Metolong Dam bulk water conveyance system activity involves the construction of downstream works for the supply of water to Maseru and the neighboring towns of Mazenod, Roma and Morija.

Furthermore, MCC Funding will support the establishment of an independent project management unit, the Metolong Program Management Unit (the "Metolong Program Management Unit" or "MPMU"), which will act as a dedicated project management unit for the Metolong Dam activity, as well as a portion of the estimated costs for environmental and social mitigation associated with the Metolong Dam project.

The construction of downstream works relating to the Metolong Dam project includes the following:

(i) An 800m, 700mm diameter raw water transmission main from the dam to a downstream water treatment facility;

(ii) A 75 ML/day water treatment plant with a peak capacity of 93.8 ML/day;

(iii) A transmission system to Maseru that includes:

(1) A pump station (Ha Seeiso PS) at the WTP with an average pumping

capacity of 859 l/s (74.25 ML/day) and a peak discharge capacity of 1,088 L/S (94 ML/day),

(2) A break pressure tank on a high ground near the Village of Ha Nchela with a capacity of 4ML or 4,000m³,

(3) A 7.54km–700mm transmission main from Ha Seeiso PS (at WTP) to the Ha Nchela break pressure tank,

(4) A 23.5km–800mm gravity main from Ha Nchela break pressure tank to the High South Reservoir ("HSR") outside of Maseru, and

(5) Expansion of the HSR with two additional storage units, each with a capacity of 27ML or 27,000m³;

(iv) Bulk water supply components for Roma and Mazenod, which include:

(1) A 29 l/s booster pump station at Roma,

(2) A 300mm diameter transmission main toward Roma & Mazenod,

(3) A 13.5 km, 160mm diameter transmission line for Roma,

(4) An 8.8 km, 250mm diameter transmission line for Mazenod, and

(5) 3 ML reservoirs for each town;

(v) Bulk water supply components for Morija, which include:

(1) A 25 km, 160mm diameter transmission main between Mazenod & Morija,

(2) A 19 l/s Booster Pump Station at Morija, and

(3) A 0.5 to 1.0 ML reservoir at Morija;

(vi) Detailed designs for the Teyateyaneng ("TY") conveyance system, pending successful completion of feasibility studies for TY water supply from Metolong (funded by the European Union); and

(vii) Implementation of environmental and social mitigation measures, including preparation of supplemental studies and management plans pertaining to the construction and operation of the bulk water conveyance system funded under this Compact, in accordance with the requirements of the Metolong Dam Environmental and Social Impact Assessment ("ESIA"), EMP, RAP and the MCC Environmental Guidelines.

(b) Urban and Peri-Urban Water Network Activity.

The Urban and Peri-Urban Water Network activity involves reticulation extensions and infrastructure rehabilitation of the urban and peri-urban water network, including reticulation extension to the towns of Semonkong and augmented supply to the town of Mazenod.

This activity includes the following components:

(i) Infrastructure rehabilitation including the following:

(1) Reservoir rehabilitation; including repair and replacement of existing reservoirs,

(2) Pipeline rehabilitation; including repair and replacement of existing pipelines,

(3) Water treatment works rehabilitation; including rehabilitation and/or replacement of sand filters, pre-settlement tanks and water treatment facilities, and

(4) Other rehabilitation works; including rehabilitation of a limited number of boreholes, pump houses and sewer pipes;

(ii) Reticulation extensions including the following:

(1) Extensions in Maseru, Mochales' Hoek, Mafeteng, Maputsoe, Mokhotlong and Butha-Buthe, and

(2) Rising main extensions in Mafeteng-Thabaneng;

(iii) The Semonkong water supply system including the following:

(1) Rehabilitation of the existing distribution system,

(2) 15.75 km of transmission pipelines diameter 90 mm PVC,

(3) 18.4 km of distribution network diameter 32 mm–90 mm PVC,

(4) Two reservoirs of 990 m³ and 424 m³ storage capacity,

(5) Water kiosks,

(6) One office building and three staff houses,

(7) Chlorination and nitrates treatment facility,

(8) Service roads,

(9) Nine borehole pumps,

(10) Nine spring pumps,

(11) 604 house connections, and

(12) Allowance for additional abstraction with boreholes;

(iv) Mazenod Reticulation:

(1) Extension of the existing distribution 250mm pipeline from the existing 5ML High South Reservoir that is serving the Maseru southeast reticulation system, to a 1ML reservoir in Mazenod for approximately 5.8km,

(2) Connection of the airport pump station to an extended pipeline,

(3) Connection of the Mazenod Reservoir to the existing pipeline between the airport pump station and the airport reservoir, and

(4) Construction of the reticulation system for Mazenod.

MCC Funding will also support the following preparation activities for the urban water supply components:

(v) Development of detailed design, and specifications that can be procured through tendering; and

(vi) Preparation of environmental "Project Briefs" and any supporting EA/EIA, EMP, and/or RAP/RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001.

The activity will also support the following components:

(vii) Implementation of environmental and social mitigation measures pertaining to the construction and operation of urban water supply projects funded under this Compact per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referenced above; and

(viii) Establishment of a small, dedicated project implementation unit for the activity (the "WASA PIU") within the Lesotho Water and Sewerage Authority ("WASA").

(c) Rural Water Supply and Sanitation Activity.

MCC Funding will assist the Government in meeting its goal of providing improved water and sanitary services to the entire rural population. The total target population impacted by this project is 150,000 persons. The VIP latrine construction approach is based on training and employing local artisans in latrine construction, and then providing materials and support to construct latrines with input, both in kind and financial, on an individual basis. The activity will be managed by an existing project implementation unit, and MCC will provide funding for the enhancement of capacity and capability of that project implementation unit.

Specifically, MCC Funding will support the following:

(i) Construction, rehabilitation, and/or expansion of up to 250 water systems;

(ii) Construction of up to 10,000 VIP latrines; and

(iii) Public health and hygiene awareness training and support.

MCC Funding will support the following preparation activities for the rural water supply and sanitation projects:

(iv) Preparation of feasibility studies, detailed design, and tender documents; and

(v) Preparation of environmental "Project Briefs" and any supporting EA/EIA, EMP, and/or RAP/RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001.

Additionally, MCC Funding will support the following:

(vi) Implementation of environmental and social mitigation measures pertaining to the construction and operation of rural water supply and sanitation projects funded under this Compact, per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referenced above; and

(vii) Strengthening of the existing project implementation unit for the activity (the "DRWS PIU") within the Department of Rural Water Supply ("DRWS") and appointing project

coordinators to manage the public health and hygiene programs.

(d) Wetlands Restoration and Conservation Activity.

The wetlands restoration and conservation activity will help Lesotho address widespread overgrazing and degradation of alpine wetlands, which are prevalent throughout the highlands of Lesotho and are an important ecological and economic resource that naturally regulates flow in the Senqu/Orange River Basin and provides livestock pasture, medicinal plants, thatch, and other rural livelihood benefits. Using MCC Funding, a pilot-scale project will be implemented to design and apply restoration measures and examine alternative land management prescriptions at three target study areas, including wetlands at Khalong-la-Lithunya (Oxbow area), Kotisephola (Sani Pass area), and Letseng-la-Letsie (an internationally protected Ramsar site near Quithing). In conjunction with the pilot studies, a broad-based assessment of Lesotho's wetlands will be undertaken to characterize the environmental, social, and economic implications of current management practices and to identify potential economic opportunities beyond herding. Based on the results of the pilot studies and environmental and socio-economic assessment, a strategic action plan will be developed that outlines requirements for establishing a national watershed management and wetlands conservation program, focusing on specific measures to restore degraded wetlands, protect water resources, improve and maintain the productivity of highland pastures, and promote expanded economic development through community-based resource management and conservation programs.

Specifically, MCC Funding will support the following tasks:

(i) Establishment of a project implementation unit within the Lesotho Department of Water Affairs (i.e., the DWA PIU referred to in Section B.2(d) of this Annex I) that will be responsible for executing the MCC wetlands restoration and conservation activity;

(ii) Environmental and social baseline data collection and monitoring at each of the three target wetland areas, including purchase and installation of field monitoring equipment;

(iii) Restoration of degraded wetlands and assessment of alternative long-term management prescriptions at each of the three target wetland areas; and

(iv) Preparation of a strategic environmental and socio-economic assessment ("SEA") of Lesotho's wetlands that will, as part of its primary

objectives, provide a basis for establishing a national watershed management and wetlands conservation program.

2. Project Implementation

(a) Metolong Dam—Bulk Water Conveyance Activity.

The preferred institutional arrangement for delivering the Metolong Dam project is within the MPMU with the appropriate staffing, structure and business processes to deliver the entire project within the costs and schedule objectives of the Government. The MPMU chief executive will report through a responsible Government agency project director to a Metolong project advisory board representing other donors and key stakeholders. The Government's project director will obtain independent input from expert panels on dam safety and environmental and social responsibility, and report on compliance with donor covenants to the funding agencies. The MPMU will house the capability and responsibility for delivering both the ancillary bulk water supply components and the Metolong Dam itself. In the interest of time and resource effectiveness, the MPMU function will be outsourced to a private program management or construction management firm, with prior successful experience in Africa. An international competitive bidding process, using a qualifications and cost-based selection protocol will be employed to select this firm.

(b) Urban and Peri-Urban Water Network Activity.

WASA will have primary responsibility for the implementation of this activity. WASA is a parastatal public corporation which reports to the Lesotho Commissioner of Water under the Ministry of Natural Resources. The primary responsibility of WASA is to provide potable water supplies and sewerage treatment and disposal facilities to the urban areas in both the lowlands and the highlands. The WASA PIU will be responsible for implementation of this activity.

(c) Rural Water Supply and Sanitation Activity.

The DRWS will be responsible for the implementation of this activity. Water system design, construction and operation is built around the DRWS "project life cycle" which is a revolving and continuous implementation methodology by which rural water system designs are continuously developed at the district level through the coordinated efforts of the target community, through their water committee and chief and from the DRWS village affairs coordinator,

district project officer and district engineer. Historically, the Ministry of Health and Social Welfare has had the primary responsibility for implementing sanitation initiatives, including the provision of VIP latrines. However, in line with the Government's policy on decentralization, the DRWS will retain responsibility for this activity as well.

(d) Wetlands Restoration and Conservation Activity.

The wetlands restoration and conservation activity will be implemented by the Department of Water Affairs ("DWA"). Compact funds will be allocated to staffing a dedicated project implementation unit (the "DWA PIU") that will work on behalf of, and report to, the head of the wetlands management unit within the DWA. The DWA PIU will be responsible for managing procurements, coordinating work activities, and assuring the work meets the cost, schedule and technical objectives of the project. The DWA PIU will work closely with DWA district project officers to execute project activities at each of the three target wetland sites and will assist the DWA, as necessary, with inter-agency coordination, stakeholder engagement, and performance monitoring and reporting. International consultants working with local partners will be procured to carry out the wetlands restoration and SEA activities. The National Wetlands Committee ("NWC"), which consists of representatives from various Government agencies, will play an advisory role in the implementation of the wetlands restoration and conservation activity.

3. Beneficiaries

The Metolong Dam and Urban Water project activities will include a reduction in unaccounted-for-water, increased connections to the urban water supply system, and expanded employment in industries that depend on a reliable water supply. At the household level, results are expected to include a reduction in water-borne diseases through increased availability of clean water and sanitation facilities for domestic use. The project also will contribute to time savings, which could allow time to be used more productively than for collecting water. The wetlands restoration activity is expected to improve livestock productivity and benefit rural livelihoods in communities in the vicinity of the three target wetland areas, while also providing a basis for implementation of a national watershed management plan that would have much broader environmental, social and economic benefits to the country as a whole over the long-term.

4. Donor Coordination; Role of Private Sector and Civil Society

The Metolong Dam project is being developed in coordination with several donors, including the OPEC Fund for International Development, the Kuwait Fund for Arab Economic Development, the Arab Bank for Economic Development in Africa (BADEA), the Saudi Fund for Development, and the World Bank. The European Union has a sustained presence in Lesotho's water sector. The European Union is currently funding detailed designs for components of the Metolong bulk water conveyance system, as well as components of the larger lowlands water supply system. The European Investment Bank is currently funding the Greater Maseru wastewater improvement project.

The World Bank has been an active development partner in Lesotho's water sector, primarily through the 2004 Lesotho Water Sector Improvement Project. Performance benchmarks, as defined in the Water Sector Improvement Project, will be monitored against, and in some cases will be linked to, Disbursements for this activity.

Irish Aid has been the only active donor in Lesotho's rural water supply and sanitation sub-sectors. Through Irish Aid, a total of €2.35 million was disbursed during 2005 for continued implementation of the DRWS five-year strategic plan. Outputs included the maintenance of 626 hand pumps and over 15 villages were provided with new tapped water sources. Fifty-five more sources were designed and are now under construction. Finally, the DRWS's new maintenance strategy was implemented over the course of the year with the inspection of 1,786 existing waster systems.

5. USAID

USAID currently has no water sector projects within Lesotho.

6. Sustainability

Sustainability of the Water Sector Project activities is dependent upon the Government's pace of implementation of water sector policy reforms. Institutional reform and establishment of a regulatory regime, both of which are critical to sustainability, are expected to be completed in the second year of the Compact Term. Disbursements of MCC Funding will be tied to agreed progress on specific salient components of the water sector reforms.

The estimated additional annual budget requirement to meet the increase in operations and maintenance cost is:

US\$2,850,000 for the Metolong Dam Project activity and US\$820,000 for the Urban and Peri-Urban Water Network activity. Financial sustainability, at a minimum, will depend on the ability of WASA to independently cover the incremental budget requirement for the additional operations and maintenance. With an effective annual tariff increase of five percent, revenues generated by WASA are expected to fully cover operations and maintenance cost and the assumed costs of Metolong raw water within the period of this Compact.

This Compact provides funding for capacity building and technical assistance to WASA, DRWS and the DWA to facilitate the implementation and long-term management capabilities of these institutions.

The most critical component of environmental and social sustainability of the Water Sector Project is implementation of long-term environmental management and monitoring plans, including on-going public outreach and other social impact mitigation measures, in accordance with project-specific EIAs, EMPs, and, where necessary, RAPs or RPFs. Disbursements of MCC Funding will be conditioned on the Government completing each of these studies to the satisfaction of MCC prior to construction and then demonstrating continued compliance with applicable EMPs and RAPs throughout the life of the Project.

Environmental sustainability also depends on WASA maintaining an environmental management unit which will be responsible for environmental compliance of the urban water supply and Metolong bulk water conveyance systems. The DWA, which will (a) implement the wetlands restoration activity, (b) in conjunction with the DRWS, monitor performance of rural water supply systems and (c) in conjunction with the Ministry of Health and Social Welfare ("MoHSW"), monitor performance of rural sanitation systems, must continue to expand field staff in its district offices to strengthen its monitoring and oversight capabilities. Technical assistance will be provided to the DWA through the course of this Compact to assure sufficient resources to implement Compact activities.

C. Health Sector Project

1. Summary of Project and Related Activities

The latest demographic and health survey estimated that 24 percent of adults ages 15–49 in Lesotho are HIV/AIDS positive; the third highest prevalence rate in the world. This has

the potential to severely hamper the country's efforts to reduce poverty and promote economic growth.

This Project is designed to mitigate the negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis ("TB") and other diseases by strengthening the country's health care system. The primary Project activities include: rehabilitating health centers, rehabilitating and constructing anti-retroviral therapy ("ART") clinics in selected hospital out-patient departments, constructing a central laboratory and blood transfusion center and strengthening key complementary inputs to the health care system (including training, medical waste management, health management information systems and decentralized management). MCC Funding will support the Government's efforts to significantly increase access to life-extending ART by providing a sustainable platform to deliver this and other essential health services throughout the country. This has the potential to result in a measurable extension of productive life-years for people living with HIV/AIDS, TB and other debilitating diseases. In-country staff of the President's Emergency Plan for AIDS Relief ("PEPFAR") and other donors have worked with the Government and MCC staff in the design and assessment of this Project activity.

In connection with the Health Sector Project activities, MCA-Lesotho will assist and take all necessary steps to ensure that where and when required by the MCC Environmental Guidelines, the MCC Gender Policy or the laws of Lesotho, an EIA or EA, an EMP, an HIV/AIDS awareness plan, and, if necessary, a RAP or RPF (consistent with World Bank Operational Policy 4.12 on Involuntary Resettlement) are prepared to the satisfaction of MCC and in accordance with the Lesotho National Environment Act of 2001 and Lesotho Guidelines for Environmental Impact Assessment, in each case as the same may be amended from time to time. MCA-Lesotho also will ensure that, for each activity requiring an environmental license under the Lesotho National Environment Act of 2001, a "Project Brief" (as defined in the Lesotho National Environment Act of 2001) and any necessary supporting studies will be submitted to, and approved by, the Government's environmental authorities prior to the initiation of construction activities, and that such environmental license will be maintained in good standing throughout the Compact Term. MCC Funding will support implementation of the environmental and social mitigation

measures identified in the EIA(s) or EA(s), EMP(s), and RAP/RPF(s).

The following summarizes each Project activity under the Health Sector Project:

(a) Health Centers Activity.

This Project activity focuses on renovation and rehabilitation of up to 150 health centers, to bring the national stock of health centers up to a common standard. These centers play a primary role in the provision of HIV/AIDS prevention, TB treatment and maternal and child health services. Renovations are timely given the devolution of responsibility for these centers to districts and communities. The MoHSW and the Ministry of Local Government can use this visible opportunity of renovated health services to empower local leaders with revitalizing community health services. The renovation of associated staff housing and improvement of water, power and communications will also improve retention of nurses and health personnel at these facilities.

The 150 health centers are owned by MoHSW, the Christian Health Association of Lesotho ("CHAL"), and the Red Cross of Lesotho. Eighteen of these facilities will be enlarged due to current and projected patient loads and facility conditions, and six health centers will be relocated.

Construction and rehabilitation contracts will include capital project maintenance for the life of this Compact. In addition, during years two and three of the term of this Compact, MCC Funding will support technical assistance to work with the MoHSW in developing maintenance systems options for decentralized services.

Specifically, MCC Funding will support the following:

(i) The design and construction supervision for up to 150 health centers;

(ii) The rehabilitation and/or construction of these health centers, including, but not limited to, the rehabilitation of related staff housing where appropriate;

(iii) Preparation of environmental "Project Briefs" and any supporting EA or EIA, EMP, and/or RAP or RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001, as the same may be amended from time to time;

(iv) Implementation of environmental and social mitigation measures pertaining to the rehabilitation and/or construction of health centers funded under this Compact per the requirements of the EA/EIA(s), EMP(s),

and RAP/RPF(s) referred to in clause (iii) above;

(v) Power, water, telecommunications equipment as needed to reach MoHSW standards for these health centers; and

(vi) Medical equipment and instruments and clinical furniture as required to meet MoHSW clinic standards.

(b) ART Clinics Activity.

This Project activity will improve infrastructure in up to 14 hospital out-patient departments ("OPDs") and provide management training to support extension of ART. This will complete national coverage of ART at the hospital level. Designs for reconfiguring the current OPD to include adequate space and appropriate patient flow for incorporating ART services will be tailored to each hospital. The status of OPD facilities for managing TB co-infection will also be addressed in the design.

Specifically, MCC funding will support the following:

(i) The design and construction supervision to incorporate ART services for up to 14 hospital out-patient departments;

(ii) The rehabilitation and/or construction of up to 14 expanded hospital out-patient departments;

(iii) Preparation of environmental "Project Briefs" and any supporting EA or EIA, EMP, and/or RAP or RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001, as the same may be amended from time to time;

(iv) Implementation of environmental and social mitigation measures pertaining to the rehabilitation and/or construction of ART clinics funded under this Compact per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referred to in clause (iii) above;

(v) Power, water and telecommunications equipment as needed to reach MoHSW standards for hospital OPDs;

(vi) Medical equipment and instruments, clinical furniture, and office equipment and furniture as required to meet MoHSW ART standards; and

(vii) Training for medical and administrative personnel on OPD management.

(c) Central Laboratory Activity.

The central laboratory to be constructed with MCC Funding is critical to the national HIV/AIDS prevention, ART and TB programs. The current laboratory is too small to house the current level of testing, and has no

room for expansion. It is also slated for decommissioning when the new National Reference Hospital is developed. In-country and short-term external training for laboratory staff also will be supported through this Project activity.

Specifically, MCC Funding will support the following:

(i) design and construction of the new central laboratory;

(ii) equipping of the new central laboratory;

(iii) preparation of environmental "Project Briefs" and any supporting EA or EIA, EMP, and/or RAP or RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001, as the same may be amended from time to time;

(iv) implementation of environmental and social mitigation measures pertaining to the rehabilitation and/or construction of the central laboratory funded under this Compact per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referred to in clause (iii) above; and

(v) training for new equipment, service expansion and quality assurance associated with the new central laboratory.

(d) National Health Training College Activity.

Safe blood for transfusions is an important element of a health system. A more formal system of blood supplies is needed. Countries that have expanded ART services have also seen the need for transfusions increase, as severely anemic patients are able to recover when on medication. A dedicated, central facility for collecting and processing blood, two mobile collection units, and blood storage equipment for two Government-owned and operated regional centers will be funded by this Project activity. The central blood collection and processing facility will be developed at Botsabelo, in Maseru.

Specifically, MCC Funding will support the following:

(i) the design and construction of the new central blood collection and processing facility;

(ii) equipping of the new central blood collection and processing facility;

(iii) preparation of environmental "Project Briefs" and any supporting EA or EIA, EMP, and/or RAP or RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001, as the same may be amended from time to time;

(iv) implementation of environmental and social mitigation measures pertaining to the rehabilitation and/or construction of the blood transfusion service activity funded under this Compact per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referred to in clause (iii) above;

(v) training for new equipment, service expansion and quality assurance;

(vi) two mobile blood collection vehicles;

(vii) one blood transportation vehicle; and

(viii) refrigeration equipment for blood storage and limited blood collection furniture for two Government owned collection sites operated by the Blood Transfusion Service at Leribe and Mochales' Hoek.

(e) National Health Training College Activity.

The human resources situation has deteriorated over the past decade in all the countries of Southern Africa. Lesotho has undertaken a number of initiatives to reverse this trend. This Program activity will support efforts to increase the number of graduates from nursing and allied health (for example, pharmacy and lab technicians) programs by developing additional dormitories and staff residences at Lesotho's National Health Training College ("NHTC"). Other inputs, discussed in the Health Systems Strengthening Activity section below, will strengthen tutor and mentoring capacities.

Specifically, MCC Funding will support the following:

(i) the design and construction of 120 dormitory spaces and 6 apartment residences at the NHTC, which apartments will be initially allocated for use on a priority basis by tutors and international technical staff working in connection with the Project;

(ii) preparation of environmental "Project Briefs" and any supporting EA or EIA, EMP, and/or RAP or RPF required to meet MCC Environmental Guidelines and environmental licensing requirements under the Lesotho National Environment Act of 2001, as the same may be amended from time to time;

(iii) implementation of environmental and social mitigation measures pertaining to the rehabilitation and/or construction of NHTC dormitories and staff residences funded under this Compact per the requirements of the EA/EIA(s), EMP(s), and RAP/RPF(s) referred to in clause (ii) above; and

(iv) furniture, appliances, and furnishings for these new dormitories and staff residences.

(f) Health Systems Strengthening Activity.

The overall success of this Project hinges upon improved delivery of the national essential health services package, including HIV/AIDS prevention and treatment. In the context of Lesotho, the poor quality of infrastructure was identified by the Government as a constraint to improved and expanded service delivery. In addition, key health systems areas have been identified for Program support. These key interventions are necessary to ensure that improved, vital services are cost-effectively provided at the community level.

Training

This Project activity will strengthen pre-service and in-service training capacities. Currently, a large number of qualified applicants are rejected by the training institutions due to a lack of tutors for the program; this, in turn, results in too few graduates to fill MoHSW and CHAL vacancies resulting from retirement, death, and out-migration. This Project activity will assist in developing qualified tutors, mentoring programs, and improved curricula for preparing a consistently larger cadre of nurses to provide health services at the community level.

In-service training is a vital element of job satisfaction, professional growth, and quality assurance. Currently, there is no plan for continuing education of MoHSW and CHAL professionals. The Project will assist the Government in developing an in-service training plan within the context of devolved services, and assist in implementing the most critical elements of the plan. This is likely to include health center level training of health center staff, local administrations, and communities regarding the new roles and responsibilities of each.

Decentralization

The Government is in the process of devolving service delivery to the district level. The MoHSW is one of the first ministries to implement the new plan. To date, three districts have piloted decentralized health services. Between 2007 and 2010, this is to be expanded to the remaining seven districts. In Lesotho, as well as in other countries, there is evidence that the process of decentralization—particularly if not well-managed—can disrupt health services delivery. This is a critical point for health status and health services in Lesotho. This Project activity will provide additional support, in collaboration with the World Bank, to ensure that decentralization is rapidly and sustainably effected in the health sector. Areas of particular attention

include health information systems, district health management, TB surveillance and infection control, health services quality, health facility maintenance, communications and public outreach.

Research and Development Unit within MoHSW

Medicine is strongly evidence-based and research plays a vital role in developing interventions and assessing practices. The MoHSW has a two person health research unit with a mandate to provide oversight to research activities in the health sector. This team will be supported through MCC Funding to increase their capacity to coordinate research activities and to share vital lessons learned from Lesotho-specific health research.

Specifically, MCC Funding will support the following:

- (i) expatriate tutors and mentors;
 - (ii) in-service, in-country and limited short-term external training of nurse and allied professional tutors;
 - (iii) incentives for current tutors to increase the number of students trained;
 - (iv) consulting services in continuing education and decentralization;
 - (v) in-service training on health center management, decentralization, research and infection control;
 - (vi) office equipment and computers for program management, district health information offices and the research unit; and
 - (vii) limited funding for external travel for Program related activities.
- (g) Medical Waste Management Activity.

MCC funding will be used to help the Government improve occupational health and safety and medical waste management practices, which at present pose significant environmental, health, and safety hazards and do not comply with MCC Environmental Guidelines. In 2005, in conjunction with a World Bank health sector reform project, the Government conducted a comprehensive assessment of its medical waste management practices and prepared a National Health Care Waste Management Plan ("WMP"), though little progress has been made in its implementation. The primary objective of this activity will be to update and implement the WMP, provide institutional strengthening of Government agencies that will be responsible for implementing, monitoring, and enforcing the policies and standards established under the new WMP, and support public outreach and awareness campaigns. All work conducted under this activity will be closely coordinated with the World

Bank and other donors involved in health sector reform.

This activity is critical to ensuring that health sector interventions under this Compact comply with MCC Environmental Guidelines. Moreover, meaningful improvements in medical waste management and occupational health and safety are considered an important factor in the environmental and social sustainability of the health sector overall.

Specifically, MCC Funding will support the following activities:

- (i) supplement previous studies (including the 2005 WMP) with new field investigations and literature reviews in order to characterize baseline conditions and identify the environmental, health, and safety risks of current occupational health and safety and medical waste management practices;
- (ii) based on the results of supplemental studies, update the 2005 WMP and the estimated capital and recurrent costs for implementing the plan;
- (iii) develop a comprehensive finance plan for funding capital and recurrent costs;
- (iv) develop new hazardous waste management policies, regulations, standards, and operating procedures, per the recommendations in the updated WMP;
- (v) develop an environmental management and monitoring system, per the recommendations in the updated WMP;
- (vi) develop occupational health and safety and waste management licensing and accreditation procedures, per the recommendations of the updated WMP;
- (vii) provide technical assistance and capacity building to Government agencies pertinent to the implementation and sustainability of the updated WMP; and
- (viii) support and/or conduct public awareness and training programs.

2. Project Implementation.

The Government and the donor community have collaborated to build capacity to undertake donor-financed programs in the health sector. Currently, a large portion of the total health resources are provided through bilateral and multilateral donors. The Health Sector Project's implementation structure has been developed in an effort to take advantage of and build on current capacities and structures, while being careful not to overwhelm them.

Specifically, the major elements of the Health Sector Project's implementation structure consist of:

- (a) MCA-Lesotho.

MCA-Lesotho will include a full-time health sector project manager who reports to the director of operations. This person will be responsible for overseeing smooth Project implementation across all activities. He or she will ensure that critical milestones are met and activities progress as planned. This program manager will be responsible for ensuring that implementation problems are resolved and alerting the Government of any constraints. The manager will ensure that Procurement Agent actions for the Health Sector Project are prioritized based on the Project's implementation plan. This person will also serve as MCA-Lesotho's liaison to the Health Sector PIU (as defined below) and to health donors' forums.

(b) MoHSW.

The MoHSW has overall responsibility for oversight of implementation of the Health Sector Project. The MoHSW also will be responsible for technical quality, timeliness of implementation, and integration into MoHSW of Project activities. The MoHSW will coordinate activities in relation to the Ministry of Local Government, and with CHAL and the Lesotho Red Cross Society.

A dedicated Health Sector Project Implementation Unit ("Health Sector PIU") will be established within the MoHSW to administer the Project. The establishment of the Health Sector PIU will be the responsibility of the MoHSW with assistance from MCA-Lesotho. The MoHSW will be responsible for integrating Project activities within the framework of the MoHSW as appropriate. For purposes of this Compact, the Health Sector PIU, the MPMU, the DRWS PIU, the DWA PIU and the WASA PIU, may each be referred to as a "Project Implementation Unit" and, collectively as the "Project Implementation Units."

The Health Sector PIU will draft technical specifications and terms of reference for the following:

- (i) design and construction supervision of health clinics and related staff accommodation including the supply of equipment and furniture for renovation, relocation or rebuild of up to 150 health centers;
- (ii) design and construction supervision of the Botsabelo complex activities, including the Blood Transfusion Services center, the Central Laboratory, and NHTC dormitories and residences, including laboratory equipment, furnishings, furniture and IT equipment;
- (iii) design and construction supervision of ART centers in 14

hospitals including the supply of equipment, instruments and furniture per region;

(iv) preparation of EA(s) or EIA(s), EMP(s), and if necessary RAP(s) or RPF(s) for the above infrastructure activities in accordance with MCC Environmental Guidelines and the National Environment Act of 2001;

(v) engagement of technical assistance contracts/contractors for capacity building in human resources, decentralization and waste management; and

(vi) Project-related training activities.

The Health Sector PIU will be responsible for the above-listed activities which include, but are not limited to, design reviews, tender document reviews, environmental management and compliance, and public outreach and stakeholder engagement.

Rehabilitation of the health centers will require participation of the local government structures, CHAL and the Lesotho Red Cross Society. The MoHSW is responsible for developing formal agreements with CHAL and the Lesotho Red Cross Society with respect to MCA-funded infrastructure improvements.

The Ministry of Local Government, CHAL and the Lesotho Red Cross Society will each identify a main counterpart to represent the organization on Compact activities. These individuals will have responsibility and authority for coordination and implementation of Program activities within their respective organizations.

In addition, consultations will be conducted with affected parties and other stakeholders in support of preparation of any EA (or EIA as applicable), EMP, and, if necessary, RAP (or RPF as applicable) for the Health Sector Project activities in accordance with MCC Environmental Guidelines and Government environmental regulations.

3. Beneficiaries

The immediate primary beneficiaries of the Health Sector Project are the 17,000 HIV positive persons in need of ART that are not currently receiving it, who will be able to access these expanded clinic and laboratory services from the Government, CHAL and the Lesotho Red Cross Society. Additionally, many of the 17,000 persons already enrolled in ART services will be able to access medication and follow-up from a local health center, rather than having to wait hours in line at a hospital-based center, with much higher risk of exposure to TB and other co-infectious diseases.

Services will also benefit the additional 38,000 Basotho who are estimated to need ART services in the coming ten years. The majority of these beneficiaries are adults, aged 15–49. Currently, more women than men seek services, as expected given that HIV rates are higher for women than for men. Program statistics will be periodically reviewed to ensure that age, gender, income, or geographic biases are not reflected in client statistics. Mitigation efforts will be instituted if needed.

Other primary beneficiaries of this Project include poor urban and rural citizens who seek and receive improved health services from the nearest Government, CHAL, or Lesotho Red Cross Society health centers. These persons will have the opportunity to learn of life-saving programs; locally obtain referrals, medical follow-up and medications; and have a resource to protect the health of mothers and newborns. More than one million visits are made to health facilities per year—with Project success, this number will increase, especially at lower levels of facilities. This will result in cost-savings, time-savings, and improved health status and longevity, and ultimately in improved productivity and incomes. In particular, services that reduce co-infection with TB and improve maternal health and safe delivery will benefit the poor.

Secondary beneficiaries include those who, because of the Project activities, are less exposed to infectious TB, particularly multi-drug and extreme drug resistant TB, from other patients and from the population at large due to improved facility design and management, and better disease management.

Secondary beneficiaries also include nurses and medical workers who will have the skills and materials to lower their risk of infection from hazardous wastes in the workplace. Communities will also benefit with reduced risks of infection from improper disposal of hazardous wastes by health personnel.

4. Donor Coordination; Role of Private Sector and Civil Society.

Other donors and health partners are working together on health systems issues. MCC inputs in these areas are coordinated with these donors and with Government programs.

In 2000, the Government embarked on a 10-year reform of the health sector with donor assistance, particularly Irish Aid and the World Bank. The reform program is oriented to improving health services delivery, financial management and accountability, monitoring and

evaluation, and donor coordination. Key features include decentralization of public and primary health services to the district level, greater involvement of local administrations and communities in health decision making, new financial management systems, improved medical waste management, increased partnerships for health delivery, and better planning and management of infrastructure and human resources. The Project activities are also in concordance with broader public administration and financial reforms being undertaken across ministries and sectors by the Government.

As part of this reform process, a sector-wide approach (SWAP) mechanism for health is being developed, with the World Bank and others likely to contribute to basket funding by 2009. Participating donors have already agreed to common health sector indicators based on the 10-year reform program and participate in annual joint reviews.

This Project's activities have been designed within this coordinated context. The Project will strengthen the infrastructure for integrated delivery of services and will provide HR strengthening. Major donors of particular relevance to the Health Sector Project include the United States government (through PEPFAR), Irish Aid, the World Bank, the African Development Bank, United Nations agencies and the Global Fund for AIDS, Tuberculosis and Malaria ("GFATM"). Multiple consultations have been undertaken by MCC with each of these parties.

In addition, donor relations in the health sector are coordinated by the MoHSW and through two consortia: the Health Partners who provide assistance more broadly to the health sector, and the UN Expanded Theme Group on HIV/AIDS. Both fora meet monthly, and there is overlap between the groups. There is also an AIDS Country Coordinating Mechanism for the GFATM, currently chaired by the Principal Secretary of MoHSW, that meets monthly, or as needed, and includes national organizations involved in AIDS prevention and outreach, and major donors in these efforts. The United States government also has monthly meetings of all US-based partners working on HIV/AIDS. MCA-Lesotho is expected to become an active participant in these fora as appropriate.

In Lesotho, the major non-government providers of health services are the mission and church-related providers under the umbrella organization, CHAL.

CHAL provides roughly half of the health services in Lesotho, with the MoHSW the main provider of the remaining fifty percent. CHAL operates health centers and hospitals, and for the past decade, has received subvention from the Government for providing basic services. The relationship between the public and non-government sectors has recently been strengthened by signing of a formal Memorandum of Understanding between the MoHSW and CHAL. Under this Project, MCA funding will be made available for renovation of health infrastructure under CHAL auspices.

Civil society organizations that will influence and participate in Project activities include the Lesotho Red Cross Society, the Lesotho Nurses Association, the Lesotho Association of People Living with AIDS, and community-based organizations with interests in community health. International NGOs, including Medecins Sans Frontiers, Partners In Health, and others have been consulted in program development and assessment.

An extensive consultative process was undertaken in designing this activity.

The World Bank has taken the lead in providing funding for the initial waste management assessment for the health sector in 2005. As the World Bank's program has been defined for the next five years, MCC and MCA-Lesotho have and will continue to collaborate with the World Bank team to ensure that our respective interventions in waste management have complementary short and long-term objectives and a mutually agreed upon strategy for action.

MCC has closely coordinated with other donors in the health sector to ensure that the Project supports national health priorities and does not duplicate other donor efforts. MCC has maintained regular communications and participated in joint reviews with the donors most involved in HIV/AIDS and health. These and other donors provided design support to the MoHSW, and assisted MCC in the due diligence process. In addition, MCC periodically met with and briefed the donor coordinating groups for the health sector: the Health Partners, chaired jointly by the World Health Organization Representative and Irish Aid, the UN Expanded Theme Group on HIV/AIDS and US-based partners working on HIV/AIDS with the support of PEPFAR funding. The proposed project strengthens the infrastructure for integrated delivery of services and would provide support to augment human resources. It supports the Government's reform efforts and fits

within the combined donor strategy for the health sector.

The U.S. Government does not have a large bi-lateral program with Lesotho. The only agency which has a significant program with a presence in Lesotho is PEPFAR, focused on HIV/AIDS. The U.S. Government's HIV/AIDS Coordinator based in Lesotho has provided guidance to MCC in undertaking due diligence on the health sector project since May 2006. The Project has been designed partially with support from PEPFAR Regional HIV/AIDS Program partners, including the Centers for Disease Control and Prevention, Southern Africa Regional Office, the Capacity Project, and Safe Blood for Africa. In addition, the Clinton Foundation, Partners in Health, the African Development Bank, and other MoHSW health partners have contributed.

5. USAID

Current USAID involvement in health in Lesotho is through support for and oversight of PEPFAR activities. The Health Sector Project was designed and will be implemented in close coordination with United States government efforts relating to HIV/AIDS, including PEPFAR interventions. Formal mechanisms, including joint meetings, for in-country coordination already exist and will be utilized.

6. Sustainability

Sustainability of health services is a critical issue, particularly given the rapid increase of donor-supported ART. In partnership with the World Bank and other donors, the Government is developing a national health financing strategy to identify the costs of the essential health services package, including ART, and to identify gaps and potential sources of funds. This strategy will include means of regular dialogue with health donors in order to ensure continued financing and identify potential commitment gaps early. Implementation of the critical elements of this strategy will be jointly monitored by MCC and other health donors.

In other areas, the relationship between CHAL and the MoHSW has been formalized through a January 2007 Memorandum of Understanding in an effort to improve the quality of service delivery throughout the country. The Government is working with the International Finance Corporation to replace the current national referral hospital through a public-private partnership arrangement, hoping to free up a portion of the 26 percent of the health budget utilized for that hospital.

The Health Sector Project was designed with an eye toward containing incremental recurrent costs. Facilities were slated for rehabilitation or development where the use of incremental staff and financial resources could provide the most impact and only where staff and budget increments were deemed manageable and within the framework of the Government's "Medium Term Expenditure Framework" for health. Architectural and engineering briefs for all facilities aim to reduce long-term maintenance and utility costs. Decentralization of health services management to the district level will increase the local voice in assuring that quality health services are delivered. Training activities will largely be undertaken in Lesotho, to reduce potential staff migration. Capacity building activities in the areas of district health management, outpatient department management, laboratory quality assurance, and in-service training of district health providers will increase program sustainability.

The environmental and social sustainability of the Health Sector Project is dependent on the implementation of a national medical waste management plan. This activity is both an immediate safeguard against infection and environmental risk with MCC investments in the health sector and also an opportunity for MCC to contribute to a sustainable regulatory structure that will last beyond MCC's five-year Compact schedule. MCC will also require political and financial assurances that the plan be institutionalized within the regulatory framework, funded by the recurrent budget and overseen by a qualified government entity by the completion of the five-year program.

In addition, long-term environmental management and monitoring plans, including on-going public outreach and other social impact mitigation measures, will be implemented in accordance with project-specific EIAs, EMPs, and, where necessary, RAPs or RPFs. Disbursements of MCC Funding will be conditioned on the Government completing each of these studies to the satisfaction of MCC prior to construction and then demonstrating continued compliance with applicable EMPs and RAPs throughout the life of the Project.

Special efforts will be undertaken to attract male rural health care workers through the human resources nurse outreach training program. This should encourage more men in the rural areas to seek out medical assistance, to discuss sexual histories and to address

ongoing risky behavior which puts all Basotho at risk.

D. Private Sector Development Project

1. Summary of Project and Related Activities

This Project is designed to increase private sector activity in Lesotho by improving access to credit, reducing transaction costs and increasing the participation of women in the economy. The activities include improving land administration, modernizing the commercial legal system, strengthening payment and settlement systems, supporting the provision of credit bureau services, including assisting the roll-out of a national ID scheme, and training and outreach to support gender equality in economic rights. These Project activities are an essential component of the Government's major policy reform program and will contribute to the broader efforts to attract foreign investment and stimulate growth of Basotho-owned companies. The Government has already obtained funding for several components related to the Private Sector Development Project from the World Bank, which recently approved a private sector competitiveness and economic diversification credit.

The following summarizes each Project activity under the Private Sector Development Project:

(a) Credit Bureau and National Identification Card Activity.

The main objective of the credit bureau activity is to establish a register that facilitates the exchange of information and the screening of prospective debtors. Establishing a credit bureau has been cited by credit grantors as a prerequisite to expanding access to financial services, especially credit, to poor and rural populations.

The Government has opted to link with one or more private credit bureaus now operating outside of Lesotho. Several South African credit bureau operators have expressed an interest in extending existing infrastructure and expertise into Lesotho to support its credit bureau needs. The cross-border solution selected is less expensive and more comprehensive than a "Lesotho only" credit bureau. In addition to cost savings, linking with a South African credit bureau will allow members to track the heavy volume of cross-border borrowing. In order to implement a cross-border credit bureau, the Government will have to undertake a legal and regulatory review and update its legislation and regulations as needed to ensure harmonization with South African privacy and information

protection principles and relevant provisions of the South African National Credit Act.

Development of a national identification card ("NIDC") is a necessary step in the process of establishing a credit bureau. The NIDC will restrict all citizens and lawful residents to a single unique identity number that can be used to recognize individuals in multiple information technology ("IT") systems. MCC will collaborate with the World Bank, which has approved the engagement of an international consultant to conduct a feasibility study that will determine the most effective and cost efficient approach to launch the NIDC, in the final design of this activity. The NIDC will be implemented by a third party and managed by the Lesotho Ministry of Home Affairs ("MoHA"), with oversight provided by the Public-Private Steering Committee, an existing ministerial committee chaired by the Deputy Prime Minister. MCC Funding will support training and capacity building for MoHA employees to assure sustainability.

The social/gender specialist employed by MCA-Lesotho will review the World Bank's feasibility study and provide inputs to assure that the NIDC program is safeguarded against human rights abuses and is compliant with the MCC Gender Policy. This system should help protect against gender, HIV and marital status discrimination in banking and credit schemes by providing lenders accurate and objective information on an individual's credit history regardless of gender or HIV/AIDS status. In addition, human rights groups will be consulted during the course of the development and implementation of the scheme to prevent potential human rights abuses or infringements on individuals' private lives.

Specifically, MCC Funding will support the following:

- (i) Production and issuance costs for NIDC cards, including hardware, software, data capture, staff training and development for the MoHA;
- (ii) Consultation in respect of necessary legal and regulatory reforms; and
- (iii) Development and execution of a public awareness campaign with respect to the NIDC.

(b) Payments and Settlement Systems Activity.

The main objectives of the payment system modernization Project activity are the introduction of automated clearing and alternative payment options that will reduce payment and settlement times and lessen the use of cash and checks. Automated clearing

and additional payment options should facilitate trade and improve clearing times for all payment streams, decrease costs associated with funds transfer, reduce fraud, widen access to financial services and reduce poverty by increasing economic growth. Another objective is to strengthen Lesotho's financial infrastructure and promote further integration of its payment and settlement systems with those of its neighbor, South Africa.

A large percentage of the population of Lesotho is "unbanked," including an estimated 85 percent of businesses. In many parts of the country, people travel up to 120 kilometers to access banking services. One of the primary focuses of this activity is to expand the reach of, and institutional participation in, the payments system by, among other things, adding functionality for telephone and other smart card transactions. Another focus is to include the Post Bank in the payments system, which will greatly expand its reach and will provide benefits to rural populations relatively quickly. Adding payment options and channels, such as payments through remote, battery or crank operated point-of-sale terminals will make access more convenient and economical for much of the unbanked population.

Specifically, MCC funding will support the following:

- (i) Reviewing the legal and regulatory structure governing domestic and cross-border payments;
 - (ii) Harmonizing laws regarding cross-border payments and currency controls;
 - (iii) Paying for the initial year of the Automated Clearing House ("ACH") provider's fee for implementation, consultation, training and contract execution in connection with making multiple payment streams available in Lesotho;
 - (iv) Paying for the costs associated with two imaging machines and ancillary hardware, software and training for operations at the Central Bank of Lesotho if the Central Bank of Lesotho and financial institutions agree to a system for delivering checks directly to the Central Bank of Lesotho from all bank branches for imaging and subsequent forwarding to the ACH provider;
 - (v) Paying for the costs associated with the distribution of payment options and channels, such as point of sales terminals; and
 - (vi) Implementing a public awareness campaign for banks and consumers with respect to this Project activity.
- (c) Land Administration Reform Activity.

Policy and Legal Reform

Under this Project activity, MCC Funding will support technical assistance to the Government to revise land reform legislation currently in draft form and to develop its land policy, thereby promoting the use of land as an economic asset. Gender analysis will ensure that revisions to the draft Land Bill are congruent with the Legal Capacity of Married Persons Act and other gender equality reforms and principles. MCC Funding will permit the Government to obtain technical assistance to draft laws and related implementing regulations as needed to realize land policy reforms. Finally, MCC Funding will support the education and training of land administration officials, community councils and the public on land administration issues and the formalization of rights to land. The expected outcomes of this Project activity include adopting a new land policy reinforced by the passage of a new Land Act and the promulgation of its implementing regulations and spreading a wider understanding and awareness of the new land policy among officials and citizens.

Systematic Regularization of Land in Urban Areas and Improvement of Rural Land Allocation Processes

This Project activity will fund the systematic regularization and upgrading of informal settlements in urban and peri-urban areas, beginning in Maseru and extending to other cities and towns to the extent MCC Funding is available. As part of systematic regularization, local adjudication teams and surveyors will work with occupants to define the boundaries of parcels and establish cadastral plans, design access roads and utility rights of way as needed, and issue leases to the legally recognized title holders. Registration of existing land occupants will be based on inclusive adjudication provisions enacted as part of the legal and regulatory framework. Activities related to systematic regularization of land and improvement of the land allocation process will be designed to increase gender equity through mandatory joint titling of rights to married couples.

A public outreach and training program will support the activity by informing occupants of regularization activities and encouraging their cooperation with adjudication teams. Special efforts will be made to ensure that training, public awareness and access to information is available to women and socially vulnerable individuals. MCC Funding will also assist community councils to improve

their records of rural land allocations and to support the Government's efforts to train community councils and traditional authorities on the land allocation process. This Project will help train district land teams to complete an inventory of existing land allocations and establish improved record keeping procedures. MCC Funding will also support the Government's (and other donors') ongoing efforts to train community councils and traditional authorities on their roles in land allocation and land management. The expected outcomes of these activities include the formalization and registration of the rights to over 55,000 parcels of informally occupied land in Maseru and other cities of Lesotho; the improvement of records on rural land allocations maintained by community councils; and the training of community councils, traditional authorities, and rural citizens on land allocation and management procedures.

Modernization and Improvement of Land Administration Services

This Project activity will fund the simplification of land administration procedures and the development of a new land administration authority ("LAA") that will be:

- (i) Professionally managed and operated;
- (ii) Operated in a largely autonomous manner in accordance with its objectives;
- (iii) Capable of providing cost-effective and efficient services to the public and land information users (including the poor);
- (iv) Able to hire and retain qualified managerial and technical staff; and
- (v) Self-sustaining.

The LAA will be modeled after the Lesotho Revenue Authority, an autonomous parastatal body that collects taxes for the Government. MCC Funding will support the establishment of the technical platform for operation of the LAA, support hiring and training of managerial and technical staff, and provide material resources for the initial operation of the LAA. The expected outcomes of this Project activity include the adoption of a legal basis for the LAA; establishment of the LAA with qualified managerial and technical staff; and development of an appropriate technical platform (e.g., the appropriate land information systems and internal culture) for delivery of streamlined, cost effective and efficient land administration services to the public.

Public Outreach and Training

This Project activity will fund public outreach and awareness activities in support of all of the land administration reform activities. MCC Funding will support training of land administration staff, community councils and traditional authorities as needed to implement land administration reform in Lesotho. The expected outcomes for this activity are greater public awareness of land matters and the benefits of formal title to land (i.e., a lease) and well-trained land administration staff and community councils.

Gender analysis to ensure that revisions of the new Land Act are congruent with the Legal Capacity of Married Persons Act and other gender equality reforms and gender-responsive methodologies and approaches for training, such as separate meetings and training sessions, will be undertaken to ensure that women are included in all education and training for public officials and the public.

(d) Civil Legal Reform Activity. This Project activity is an element of a broader Government program of legal reform and will provide faster, fairer and less expensive resolution of commercial disputes, whether large or small. According to the World Bank "Doing Business" survey, it takes nearly 700 days to resolve a dispute in the courts. This Project activity aims to cut the time and cost required to resolve a commercial dispute in half. This activity will promote an improved investment environment for businesses of all sizes, and will afford ordinary citizens better access to courts for economic disputes.

Specifically, MCC funding will support the following:

- (i) The development of the Commercial Court, including the drafting and promulgation of procedures, capacity building, and—eventually—reconstruction of a currently unused court building to house the Commercial Court. The court's focus will be on larger commercial disputes;
- (ii) The creation of modern case management procedures. All the courts of Lesotho suffer from a lack of modern case management procedures and technology. Modern case management will be introduced to the High Court, the new Commercial Court, and the Magistrate Court of Maseru;
- (iii) Promotion of alternative dispute resolution ("ADR"). The focus of this sub-activity will be a program of court-annexed mediation for commercial disputes. Increased use of private ADR will also be promoted; and

(iv) The development of a simplified and expedited small claims process. Smaller commercial claims may have limited recourse to the judicial system. Introduction of a small claims process seeks to provide inexpensive and rapid resolution of the smallest commercial disputes.

Any potential gender-based constraints to participation in the Project will be explored during the development of the Program-wide Gender Integration Plan. This Plan will include, as appropriate, recommendations for meaningful and inclusive consultations with women and other vulnerable/underrepresented groups, project-specific gender analyses and strategies for incorporating findings of the gender analyses into final Project designs.

(e) Training and Public Awareness to Support Gender Equality in Economic Rights.

MCC and the Government of Lesotho recognize that gender inequality can be a significant constraint to economic growth and poverty reduction. In December 2006, the Government passed into law the Legal Capacity of Married Persons Act which removes the minority status of married women. With assistance from MCC, the Government has already contracted for two related activities: A gender review of laws and policies with recommendations for reform, and the development of a training and public outreach program to realize in practice gender equality in economic rights.

The gender review of laws and policies and additional due diligence on the effects of the Legal Capacity of Married Persons Act have revealed contradictions in Lesotho law. Removing these contradictions is important to assure the application of rights in the judiciary and also because poor, rural women do not usually have the resources to initiate an appeal if the conflicting law is the basis for a legal decision.

Prior to the first Disbursement, the Government will undertake additional legal reform efforts to assure that the following economic rights are not contradicted by laws enacted prior to the Legal Capacity of Married Persons Act, including the right to:

- (i) Enter into a contract, including incurring indebtedness;
- (ii) Sue or be sued;
- (iii) Register immovable property in her name;
- (iv) Act as an executor of a decedent's estate;
- (v) Act as a director of a company;
- (vi) Act as a trustee of an estate;
- (vii) Bind oneself as a surety; and

(viii) Buy, sell and use property as collateral for loans.

The PSD Project includes a training and public awareness activity designed to realize gender equality in economic rights and promote enhanced access to credit for women.

The first sub-activity is a training program to promulgate the Legal Capacity of Married Persons Act and other reforms aimed at gender equality in the economy. Specifically, MCC Funding will support:

- (ix) training the legal community, including judges, magistrates, lawyers, prosecutors, and police, and inclusive of the local and central courts that handle most of the matrimonial disputes;
- (x) training and training-of-trainers for relevant government ministries; and
- (xi) sector-specific training with special attention to the banking industry, potential women borrowers and those Government entities responsible for regulation and oversight.

The second sub-activity is a public awareness and outreach program designed to develop knowledge, awareness and practices in support of these economic rights. This sub-activity will involve traditional authorities, religious leadership, civil society organizations, local government, churches, NGOs, and community-based organizations, including support groups, as stakeholders, and it will be implemented in all ten districts of Lesotho. Specifically, MCC funding will support the following:

- (xii) a five-year public awareness campaign dedicated to implementing gender equality in economic rights;
- (xiii) activities designed to be appropriate for specific stakeholder groups; and
- (xiv) The building of local capacity to continue advocacy for equality in economic rights following the MCC interventions.

2. Project Implementation

(a) Credit Bureau and National Identification Card Activity.

Implementation of the credit bureau activity will be managed by the Central Bank of Lesotho with oversight provided by the Public-Private Steering Committee, an existing ministerial committee chaired by the Deputy Prime Minister. The Public-Private Steering Committee's membership will include representation from the Central Bank of Lesotho, which will also have regulatory responsibility for the credit bureau, and the MoHA, which will have regulatory responsibility for the National Identification Card. MCC Funding will pay for the related legal and regulatory review and the consultation needed to

ensure harmonization with South African privacy and information protection principles (as well as other relevant provisions of the South African National Credit Act) and will support training for the Central Bank as the credit bureau regulator. The credit bureau will be privately owned and funded and the private credit bureau operator will be responsible for soliciting credit bureau membership and gathering the information needed to populate the credit bureau data base.

MCC Funding will assist the roll-out of the NIDC in support of the launching and operation of the credit bureau. MoHA will manage the NIDC implementation with oversight provided by the Public-Private Steering Committee. It is expected that the World Bank will engage the services of an international consultant to determine the most effective and cost efficient approach to launch the NIDC. Recommendations will include card design and implementation processes, as well as the appropriate ID card production system and long-term support systems best suited for Lesotho. Additionally, the consultant will design an advertisement and a public awareness campaign and detail final development processes and costs.

(b) Payments and Settlement Systems Activity.

The Government, as the current chair of the South African Development Community, has committed to regional integration of financial systems. In line with that commitment, the Government has opted to implement its payment system improvement by linking with a South African payment system provider rather than developing a standalone, proprietary system with the Central Bank of Lesotho.

Implementation of the payments and settlement systems activity will be managed by the Central Bank of Lesotho with oversight by the Public-Private Steering Committee referenced in subsection (a) above. Representation from the Central Bank of Lesotho, which will have regulatory responsibility for the credit bureau, will be added to this committee to address issues related to both the Credit Bureau activity and the Payments and Settlement System Improvement activity. MCC Funding will pay for the related legal and regulatory review and the consultation needed to ensure harmonization with other countries in the region.

(c) Land Administration Reform Activity.

Implementation of the land administration reform activity will require that a project implementation unit ("Land Administration Reform

PIU”) be established. The Land Administration Reform PIU will provide technical assistance to the Department of Lands, Surveys, and Physical Planning (“LSPP”) and the new LAA during the course of the Project, but will be more specifically focused on supporting the land administration bodies to meet Compact-related requirements for documentation (for example, project work plans, budgets and quarterly reports), procurements (drafting terms of reference for private sector providers) and performance monitoring and coordination of the activities of various implementers as necessary to achieve component objectives. The LSPP and the new LAA are expected to concentrate on day-to-day business and implementation of the changes in land policy expected during the term of this Compact. The Land Administration Reform PIU, although a separate entity, will be located within the LSPP offices or nearby to ensure close collaboration and communication on subjects related to project implementation. The four sub-activities under this Project activity and the implementing arrangement for each are as follows.

Policy and Legal Reform

The main implementer of this sub-activity is to be a legal consulting team made up of a legal specialist familiar with international best practices and lawyers with knowledge of legal practices in Lesotho. The legal consulting team will support the LSPP/LAA in the formation of new land policy, drafting laws and regulations implementing the policy, advocating in support of the adoption and broad acceptance of the new land policy, and implementing the land administration reforms (including, for example, training and public outreach, procedural analysis and reform). The legal team will interact and cooperate with other implementers selected to work on land administration reform, supporting their efforts to implement new land policy and assisting in problem resolution.

Systematic Regularization and Registration of Urban Land and Improvement of Rural Land Allocation Procedures

This sub-activity will be implemented jointly by the LSPP/LAA and a land registration consulting firm that will support the efforts to conduct systematic regularization and registration of urban land rights (focusing on rights to land in informal settlements). The land registration consultant will provide the LSPP/LAA with technical assistance and material

resources support (for example, temporary human resource and financial assistance) necessary to complete the systematic regularization and registration task in a timely manner. The LSPP/LAA will also develop and implement improvements in the procedures for recording rural land allocations and the maintenance of such records with technical assistance from the land registration consultant. The consultant, in cooperation with the public outreach consultant and other donor projects, will support the Ministry of Local Government’s program for training of community councils and traditional authorities on land allocation procedures under the Law on Local Government of 1997 and new procedures established as part of this activity.

Modernize and Improve Land Administration Procedures

The main implementer of this sub-activity will be a land information systems consulting firm (“LIS Consultant”), which will work with the current land administration authorities and the Director of the new LAA to establish the LAA. Based on a study of land administration services and needs in Lesotho carried out with MCC Funding, the LIS Consultant will develop appropriate business processes, implement necessary software and hardware solutions, train LAA staff and management on new systems, and monitor the implementation of the new procedures and systems to ensure their efficiency and effectiveness in providing land administration services to private and public users. The LIS Consultant will cooperate closely with the land registration consultant and the legal consulting team to ensure that new processes meet the needs of public and private users and are properly established in the regulatory framework.

Public Outreach and Training

The main implementer of this sub-activity will be an outreach and training consultant (an NGO), supported by a public education consultant. The consultants will be responsible for organizing all public outreach activities in support of the various activity implementers, including community councils and the LSPP/LAA. The consultants will draft an outreach and training strategy that meets the needs of the LAA and the implementers of each activity. For example, the consultants will cooperate with the LSPP/LAA to form a strategy for raising public awareness of the new LAA, the new simplified procedures and reduced costs

for formalizing one’s rights to land, and the benefits of formalizing land rights.

(d) Civil Legal Reform Activity.

The High Court will be the primary implementer of the civil legal reform Project activity, and will coordinate with the Ministry of Justice as appropriate. A consulting firm will be hired to provide a resident advisor for the first two years of the Project, and other short-term experts and support as required. The High Court will also involve other courts, the Law Society of Lesotho, representatives of the private sector and NGOs—in each case, in an advisory capacity—in planning and implementing all aspects of the Project. Compact Implementation Funding will be used to hire a consultant to develop a detailed implementation plan and to draft a scope of work for the consulting firm.

(e) Training and Public Awareness to Support Gender Equality in Economic Rights.

The training and public awareness to support gender equality in economic rights Project activities will be coordinated by the Ministry of Gender, Youth, Sports and Recreation as appropriate. Implementation will be carried out by one or two firms, with partners who have deep knowledge and experience of the context. This firm, or firms, will be selected after an international competition managed by MCA-Lesotho and tendered with the approval of MCC. The social/gender specialist employed by MCA-Lesotho will be charged with providing oversight and general guidance throughout the life of the contract. The social/gender specialist employed by MCA-Lesotho will meet regularly with the representative of the Ministry of Gender, Youth, Sports and Recreation to ensure that benchmarks are being met, the work plan is being followed and that results of the training and public awareness activities are being monitored.

3. Beneficiaries

(a) Credit Bureau, National Identification Card and Payment and Settlement Systems Activity.

All economically active (formal sector and informal sector) citizens and legal residents, including married women, are potential beneficiaries of these Project activities. The activities combine to improve the availability of credit and other financial services. There will be a significant reduction in transaction costs for financial institutions both in gathering the information needed to evaluate credit decisions and the cost of payments and settlement, which should result in a reduction in fees for these

services to clients. The payment and settlement system will likely put competitive pressures on the bank and non-bank service providers since many of the transactions for which they are now charging high fees (such as remittances) can eventually be provided by other parties unless they remain competitive in pricing and service provision.

(b) Land Administration Reform Activity.

The targeted beneficiaries of these Project activities are informal land occupants who now lack formalized rights to land and the security and economic benefits that derive from registered rights in land. All land occupants and right holders will benefit from the adoption of a new land policy that improves access to land and security of land rights. Improvements in land allocation and land record keeping procedures will also benefit all rural land occupants. These improvements will lead to the increased marketability of land, incentives to invest in land and the ability of land to be used to obtain credit. Private business will also benefit from these improvements by generating jobs and increased economic activity in sectors such as mortgage lending, construction, and real property related services (for example, estate agents, property valuers, and land surveyors).

(c) Civil Legal Reform Activity.

All active participants in the formal economy of Lesotho are intended beneficiaries of the civil legal reform Project activity. Initially, those economic actors most greatly impacted by the current backlog of High Court cases, such as banks, will benefit most directly. In addition, those individual citizens who now suffer from limited recourse to courts to settle their economic disputes will also be direct beneficiaries. With increasing access to formal justice, it is hoped that fewer individuals will simply accept unfair results from economic transactions or "take the law into their own hands" to settle disputes. Individual Basotho will also benefit by increased access to credit when banks are able to offer increased access to credit, as a result of easier processes developed to collect unpaid debts.

(d) Training and Public Awareness to Support Gender Equality in Economic Rights.

Because gender inequality can be a significant constraint to growth and poverty reduction, reducing the barriers to women's full participation as economic actors will benefit all members of Basotho society.

4. Donor Coordination; Role of Private Sector and Civil Society

MCC has been actively collaborating with other donors on the NIDC system and the legal reform activities. MCC will work with the World Bank in the roll-out of the NIDC sub-activity. The World Bank has approved the engagement of an international consultant to determine the most effective and cost efficient approach to launch the NIDC. MCC will, upon approval of design and cost elements, assist with funding the roll-out.

The development of the private sector development project relied on stakeholder steering committees and consultations with chambers of commerce, textile, and garment industry associations to provide feedback on the impediments to private sector growth and proposed solutions to improving the business and investment climate. In particular, there has been extensive consultation with the banking sector at all stages in establishing the need for and in designing the NIDC, credit bureau and payments and settlement systems sub-activities.

The land administration reform activity has been discussed and continues to be discussed with the United Kingdom's Department for International Development ("DfID") and the German development agency, Deutsche Gesellschaft für Technische Zusammenarbeit ("GTZ"). These donors are currently active in Lesotho and have experience addressing land administration reform activities and related activities. In particular, project activities on improvement of land allocation practices in rural areas will be coordinated with GTZ and the establishment of the new LAA will be done in consultation with DfID. The land administration reform activities also include a significant role for the private sector and civil society. Private land surveyors will conduct land surveys as part of mass regularization and registration or urban land and public education and outreach activities will largely be implemented by an NGO.

5. USAID

USAID does not currently have any financial and private sector development initiatives that focus specifically on the areas identified by MCC for funding in this Project.

6. Sustainability

The credit bureau will be privately owned and private sector funded. Formation of a credit bureau has been consistently identified by credit grantors as a prerequisite to granting credit and

the cross-border solution selected is less expensive and more comprehensive than a "Lesotho only" credit bureau. The banks have indicated that they will become paying members of the credit bureau. The NIDC activity will be implemented by a third party and managed by the MoHA. A significant portion of the cost will be allocated to hiring experienced (third party) consulting experts to manage the implementation, providing technical expertise (hardware and software) and for training and capacity building for MoHA employees in an effort to assure sustainability.

Sustainability is dependent largely on the participation of the four largest banks in Lesotho, three of which have South African parents and already send much of their clearing information to the South African ACH that would likely provide services to Lesotho. The fourth bank is the Post Bank, which is owned by the Government. As a result of the Government's choice to link with a regional payments provider and the consequential reduction in cost and broadening of payment options, the Central Bank of Lesotho has received assurances from each of the banks that they will be a participating (and paying) member of the ACH over the long term. It is also the Central Bank of Lesotho's intent to allow participation of indigenous financial institutions as they become credit worthy and have the capacity to become contributing members.

A primary focus to ensure sustainability in the private sector development Project activities will be to fully realize the rights afforded to women under the Legal Capacity of Married Persons Act in each private sector development component. This will be done by integrating women and other individuals with no formal financial history or access to credit, land or litigation experience into each of the activities through targeted outreach and training. In addition, MCA-Lesotho will ensure that all activities are compliant with The Labor Code of 1992 which establishes the minimum age for employment at 15.

MCC funding will help establish sustainable improvements in land administration reform through an active capacity building, training, and public education effort. Each activity helps improve local capacity by training local stakeholders on all aspects of land administration and educating the public on processes involved in formalizing land rights and transferring rights to land using formal mechanisms. Establishment of a new land administration authority, with the

characteristics described in paragraph D1(c) of this Annex I, will raise capacity in land administration, ensuring that the LAA is capable of serving both private and public users of land information efficiently and cost effectively.

Social safeguards and gender integration will be reviewed and monitored by the Social/Gender specialist in coordination with the MCA-Lesotho officer responsible for environmental and social impact assessment (the "ESI Officer").

The private sector development Project activity is not expected to result in adverse environmental impacts. However, the MCA-Lesotho ESI Officer will review terms of reference and work plans for all projects and activities to verify that potential environmental impacts are not anticipated. If necessary, the ESI Officer will act in accordance with the MCC Environmental Guidelines and applicable environmental laws and requirements in Lesotho to assess potential impacts, acquire the necessary environmental license and ensure the adequate mitigation is completed during

implementation. The Government will be responsible for any environmental mitigation cost not included in the activity budgets.

Annex II Summary of Multi-Year Financial Plan

1. General

The Multi-Year Financial Plan Summary below sets forth the estimated annual contribution of MCC Funding for Program administration, Program monitoring and evaluation, and implementing each Project. The Government's contribution of resources will consist of "in-kind" and other contributions or amounts required effectively to satisfy the requirements of Section 2.5(a) of this Compact. In accordance with the Program Implementation Agreement, the Government will develop and adopt on a quarterly basis a detailed financial plan (as approved by MCC) setting forth annual and quarterly funding requirements for the Program (including administrative costs) and for each project, projected both on a commitment and cash requirement basis.

2. Modifications

To preserve administrative flexibility, the Parties may by written agreement (or as otherwise provided in the Program Implementation Agreement), without amending this Compact, change the designations and allocations of funds among the Projects, the Project activities, or any activity under Program administration or monitoring and evaluation, or between a Project identified as of Entry into Force and a new project; provided, however, that any such change (a) is consistent with the Objectives and the Program Implementation Agreement, (b) does not materially adversely affect the applicable Project or any activity under Program administration or monitoring and evaluation, (c) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact and (d) does not cause the Government's obligations or responsibilities or overall contribution of resources to be less than that specified in Section 2.5(a) of this Compact.

MULTI-YEAR FINANCIAL PLAN SUMMARY

[Totals including Contingencies (US\$)]

Project	CIF funding	Year 1	Year 2	Year 3	Year 4	Year 5	Total
1. Water Sector Project							
A. Metolong Dam Bulk Water Conveyance System	1,490,000	5,840,000	5,700,000	21,540,000	32,300,000	5,590,000	72,460,000
B. Metolong Dam Program Management Unit Activity	1,390,000	1,590,000	1,590,000	3,160,000	3,250,000	3,330,000	14,310,000
C. Urban and Peri-Urban Water Infrastructure Activity	1,250,000	6,520,000	6,450,000	16,690,000	5,540,000	1,010,000	37,460,000
D. WASA Project Implementation Unit	459,000	459,000	918,000	918,000	918,000	918,000	4,590,000
E. Rural Water Supply and Sanitation Infrastructure Activity .....	.....	5,900,000	7,550,000	5,740,000	5,330,000	5,720,000	30,240,000
F. Wetlands Restoration and Conservation Activity	324,000	783,000	2,025,000	1,026,000	540,000	270,000	4,968,000
Subtotal	4,913,000	21,092,000	24,233,000	49,074,000	47,878,000	16,838,000	164,028,000
2. Health Sector Project							
A. Health Care Centers Infrastructure Activity	1,023,000	10,770,000	16,008,000	24,688,000	16,155,000	4,290,000	72,934,000
B. ART Clinic Infrastructure Activity	238,000	922,000	1,393,000	1,393,000	696,000	.....	4,642,000
C. Central Lab Infrastructure .....	.....	.....	305,000	1,221,000	1,221,000	305,000	3,052,000
D. Blood Transfusion Center .....	.....	538,000	672,000	1,076,000	403,000	.....	2,689,000

MULTI-YEAR FINANCIAL PLAN SUMMARY—Continued

[Totals including Contingencies (US\$)]

Project	CIF funding	Year 1	Year 2	Year 3	Year 4	Year 5	Total
E. National Health Training College Dormitory Infrastructure Activity		741,000	3,336,000	2,966,000	371,000	.....	7,414,000
F. Health System Interventions Activity	500,000	2,650,000	3,100,000	3,000,000	3,000,000	2,750,000	15,000,000
G. Medical Waste Management	87,000	1,046,000	1,172,000	684,000	412,000	326,000	3,727,000
H. Health PIU	2,588,000	1,294,000	1,941,000	2,588,000	2,588,000	1,941,000	12,940,000
Subtotal	4,436,000	17,961,000	27,927,000	37,616,000	24,846,000	9,612,000	122,398,000
3. Private Sector Development Project							
A. Civil Legal Reform Activity	70,000	600,000	775,000	925,000	315,000	185,000	2,870,000
B. National ID/Credit Bureau	95,000	2,977,000	2,481,000	1,900,000	1,455,000	1,092,000	10,000,000
C. Land Administration Reform Activity	510,000	2,415,000	6,800,000	5,200,000	3,600,000	1,975,000	20,500,000
D. Payment and Settlement System Activity .....	.....	800,000	600,000	300,000	.....	.....	1,700,000
E. Gender Equality in Economic Rights Activity	35,000	350,000	250,000	200,000	100,000	100,000	1,035,000
Subtotal	710,000	7,142,000	10,906,000	8,525,000	5,470,000	3,352,000	36,105,000
4. Monitoring and Evaluation							
Monitoring and Evaluation	500,000	2,605,000	684,000	755,000	664,000	2,600,000	7,808,000
Subtotal	500,000	2,605,000	684,000	755,000	664,000	2,600,000	7,808,000
5. Program Management and Oversight							
A. MCA Lesotho	1,981,000	1,905,000	2,142,000	2,323,000	3,423,000	2,660,000	14,434,000
B. Fiscal Agent 1	1,250,000	740,000	1,250,000	1,570,000	1,375,000	475,000	6,660,000
C. Procurement Agent 2	1,250,000	700,000	1,175,000	1,475,000	1,300,000	450,000	6,350,000
D. Bank Contract	5,000	5,000	5,000	5,000	5,000	5,000	30,000
E. Auditing	623,000	623,000	623,000	623,000	623,000	623,000	3,738,000
F. Environmental/Social Oversight (consultants) .....	.....	200,000	200,000	200,000	200,000	200,000	1,000,000
Subtotal	5,109,000	4,173,000	5,395,000	6,196,000	6,926,000	4,413,000	32,212,000
Total Estimated MCC Contribution	15,668,000	52,973,000	69,145,000	102,166,000	85,784,000	36,815,000	362,551,000

Note: Health and Water Sector infrastructure costs include estimated costs for environmental/social studies and mitigation.

Annex III. Description of the Monitoring and Evaluation Plan

This Annex III to this Compact (the “M&E Annex”) generally describes the components of the plan to measure and evaluate progress toward achievement of the Compact Goal and the Objectives (the “M&E Plan”). Except as defined in this M&E Annex, each capitalized term in this M&E Annex will have the same

meaning given such term elsewhere in this Compact.

1. Overview

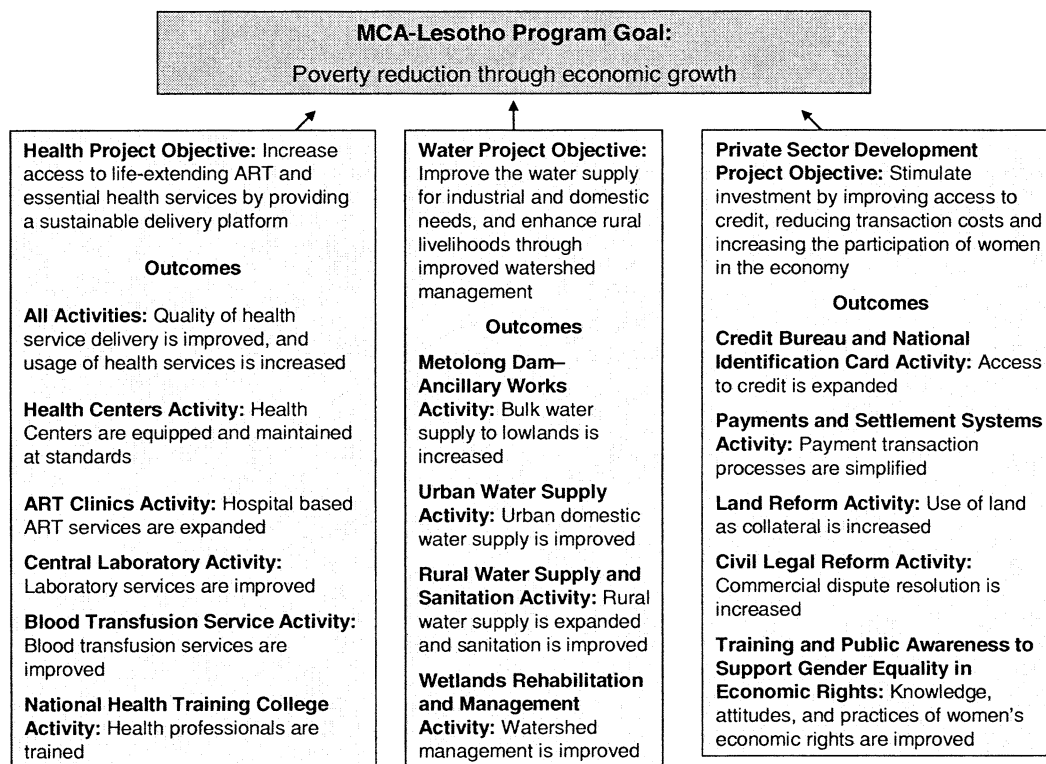
MCC and the Government (or a mutually acceptable Government affiliate or a permitted designee of the Government) will formulate, agree to and the Government will implement, or cause to be implemented, an M&E Plan that specifies (a) how progress toward

the Compact Goal, Objectives, and the intermediate results of each Project and Project activity set forth in this M&E Annex (the “Outcomes”) will be monitored (the “Monitoring Component”); (b) a methodology, process and timeline for the evaluation of planned, ongoing, or completed Projects and Project activities to determine their efficiency, effectiveness,

impact and sustainability (the “Evaluation Component”); and (c) other components of the M&E Plan described below.

Information regarding the Program’s performance, including the M&E Plan, and any amendments or modifications thereto, as well as periodically generated reports, will be made publicly

available on the MCA-Lesotho Web site and elsewhere. The Compact Goal, Objectives, and Outcomes of the Program can be summarized as follows:



2. Monitoring Component

To monitor progress toward the achievement of the Compact Goal, Objectives, and Outcomes, the Monitoring Component of the M&E Plan will identify (a) the Indicators (as defined below); (b) the party or parties responsible, the timeline, and the instrument for collecting data and reporting on each Indicator to MCA–Lesotho; and (c) the method by which the reported data will be validated.

(a) Indicators. The M&E Plan will measure the impacts of the Program using objective and reliable information

(“Indicators”). Each Indicator will have one or more expected values that specify the expected results and expected time for the impacts to be achieved (“Target”). The M&E Plan will measure and report on Indicators at four levels. First, the Indicator(s) at the Compact Goal level (“Goal Indicator”) will measure the impact of the overall Program and each Project. Second, the Indicators at the Objective level (“Objective Indicator”) will measure the final results of each of the Projects, including impacts on the intended beneficiaries identified in Annex I (collectively, the “Beneficiaries”).

Third, Indicators at the intermediate level (“Outcome Indicator”) will measure the results achieved under each of the Project activities and will provide an early measure of the likely impact under each of the Projects. A fourth level of Indicators (“Output Indicator”) will be included in the M&E Plan to measure the direct outputs of Project activities. Indicators will be disaggregated by sex, income level and age, to the extent practicable. Subject to prior written approval from MCC, MCA-Lesotho may add Indicators or modify the Targets of existing Indicators.

COMPACT GOAL INDICATORS, BASELINES AND TARGETS ³

Indicator	Baseline	Year 5	Year 10
GDP growth (annual percent)	1.4	5.1	6.75
GDP per capita (US\$)	688	788	1040

³ November 2006 International Monetary Fund Article IV Consultation Paper.

WATER PROJECT INDICATORS AND DEFINITIONS⁴

Objective: "Improve water supply for industrial and domestic needs, and enhance rural livelihoods through improved watershed management"

Objective-level result	Indicator	Definition of Indicator
Morbidity due to water borne diseases is decreased.	Incidence of water and sanitation related diseases, nationally (number).	Cases of diarrhea reported to health facilities. ⁵
Jobs in garment industry are retained/expanded.	Employment (in water related industries) (number).	Total factory workers employed in Thetsane and Tikoe industrial parks.
Outcome-level Result		
Urban domestic water supply is improved	Urban access to potable water supply (percent).	Proportion of urban customers within 150 meters from a water supply. ⁶
Bulk water supply to lowlands is increased	Flow delivered after treatment at Metolong site (m ³ /year).	The m ³ /year of water after treatment at Metolong site.
WASA operations are improved	Unaccounted for urban water (percent)	The percentage of urban water that is not accounted for (non-revenue losses plus physical losses). ⁷
Rural water supply is expanded	Number of people covered with MCC rural water supply (number).	New people covered per year in rural areas. Covered: within 150m walking distance, 30l/person/day.
Rural sanitation is improved	Number of new VIP latrines provided to households (number).	Total number of new VIP latrines provided to households. ⁸

⁴ Note: the wetlands project will be monitored at the output level.⁵ Diarrhea will serve as a proxy for all water borne diseases. This information will be disaggregated by urban and rural communities receiving intervention from MCC.⁶ This will be disaggregated by WASA center.⁷ Ibid.⁸ This information will be disaggregated by District.

WATER PROJECT INDICATORS AND TARGETS

Objective: "Improve water supply for industrial and domestic needs, and enhance rural livelihoods through improved watershed management"

Objective-level indicator	Baseline	Year 5
Incidence of water and sanitation related diseases (number)	55,045	40,000.
Employment (in water related industries) (number)	22,700	40,000.
Outcome-level Indicator	Baseline	Year 5.
Urban access to potable water supply (percent)	55%	70%.
Flow delivered after treatment at Metolong site (m ³ /year)	0	7,640.
Unaccounted for urban water (percent)	27%	22%.
Number of people covered with MCC rural water supply (number)	0	100,000.
Number of new VIP latrines provided to households (number)	0	10,000.

HEALTH PROJECT INDICATORS AND DEFINITIONS

Objective: Increase access to life-extending ART and essential health services by providing a sustainable delivery platform

Objective-level result	Indicator	Definition of Indicator
	Mortality rate (per 1000)	Number of deaths per 1000. ⁹
Lives are extended	People with HIV still alive 12 months after initiation of treatment (percent).	Numerator: Number of individuals still alive and on therapy after initiating treatment after 12 months. Denominator: Number of individuals initiating treatment at the same time.
	Prevalence of TB (per 100,000)	Annual notification of all forms of TB per 100,000 population. ¹⁰
Outcome-level result		
Quality of health service delivery is improved ..	Essential health services available (percent) ...	Percentage of facilities providing full package of standard services for level of center disaggregated by ownership. ¹¹
	TB treatment success rate (percent)	Numerator: Number of patients smear positive declared cured + Number of smear positive patients who completed treatment. Denominator: Total number of TB positive smear cases (national figures).
	Facilities staffed with standard number and type of qualified staff (percent).	Percentage of facilities staffed with standard number and type of qualified staff according to level of facility standard. ¹²
Usage of health services is increased	Total patient visits (number)	Total number of patients treated in health centers in Lesotho.

HEALTH PROJECT INDICATORS AND DEFINITIONS—Continued

Objective: Increase access to life-extending ART and essential health services by providing a sustainable delivery platform

Objective-level result	Indicator	Definition of Indicator
	Mortality rate (per 1000)	Number of deaths per 1000. ⁹
Health centers are equipped and maintained at standards. Health professionals are trained and retained .. Laboratory services are improved	Immunization rate (percent)	Percent of children under one year of age receiving measles antigen nationwide. TBD. ¹³
	Health centers deliveries	Total number with advanced HIV/AIDS receiving ARV treatment per year. ¹⁴
	Total number of people receiving ARV treatment (number).	Percent of health facilities with functioning utilities. ¹⁵
	Utility availability (percent)	Number of students enrolled. ¹⁶
	Total annual enrollment at NHTC (number)	Average referred tests performed at the central laboratory per quarter during the past year. ¹⁷
Blood transfusion services are improved	Referred tests performed per quarter (number)	Average number of blood units collected per quarter during the past year.
	Blood units collected per quarter (number)	

⁹ This information will be disaggregated by age and gender.

¹⁰ This information will be disaggregated by district, age and gender.

¹¹ This information will be disaggregated by type of facility—MOHSW and CHAL. The summary statistic is the simple average.

¹² Ibid.

¹³ This indicator definition still requires confirmation.

¹⁴ This information will be disaggregated by age and gender and health facility (health centers and hospitals).

¹⁵ This information will be disaggregated by electricity, water and communications.

¹⁶ This information will be disaggregated by gender and by area of study (e.g., general nursing, lab science, pharmacy technology, and midwifery).

¹⁷ This information will be disaggregated by test type: clinical chemistry, cytology, histology (summary statistic is sum of types).

HEALTH PROJECT INDICATORS AND TARGETS

Objective: Increase access to life-extending ART and essential health services by providing a sustainable delivery platform

Objective-level result	Baseline	Year 5
Mortality rate (per 1000)	Under 5 = 113	Same as baseline. ¹⁸
	F:15–49 = 9.9	
	M:15–49 = 12.3	
People with HIV still alive 12 months after initiation of treatment (percent).	82%	90%.
Prevalence of TB (per 100,000)	592	400.
Outcome-level result		
Essential health services available (percent)	TBD ¹⁹	80%.
TB treatment success rate (percent)	64%	85%.
Facilities staffed with standard number and type of qualified staff (percent).	5%	60%.
Total patient visits (number)	800,000	1,000,000.
Immunization rate (percent)	78%	90%.
Number of people receiving ARV treatment (number)	17,966	35,000.
Health centers deliveries	TBD	TBD.
Utility availability (percent)	TBD ²⁰	90%.
Total annual enrollment at NHTC (number)	350	938.
Referred tests performed per quarter (number)	885	1,800.
Blood units collected per quarter (number)	700	1,500.

¹⁸ Mortality rates would increase in the absence of MCC's intervention.

¹⁹ Baseline should be available with the results of the accreditation exercise—expected to be completed by August 2007.

²⁰ Ibid.

PSD PROJECT INDICATORS AND DEFINITIONS

Objective: “Stimulate investment by improving access to credit, reducing transaction costs and increasing the participation of women in the economy”

Objective-level result	Indicator	Definition of Indicator ²¹
Increased private sector economic activity	Value of investment (million maluti)	The percentage of the adult population listed by a private credit bureau with current information on repayment history, unpaid debts or credit outstanding.
	Value of credit extended (million maluti)	
Outcome-level Results		
Access to credit is expanded	Private credit bureau coverage (percent)	

PSD PROJECT INDICATORS AND DEFINITIONS—Continued

Objective: “Stimulate investment by improving access to credit, reducing transaction costs and increasing the participation of women in the economy”

Objective-level result	Indicator	Definition of Indicator ²¹
Utilization of electronic funds transfer is increased.	Domestic electronic funds transfers (number)	Total number of payments associated with salaries and pensions made through EFT per year. ²²
Use of land as collateral is increased	Land used as collateral (number)	Total annual number of mortgage bonds registered.
	Land transactions costs (percent of property value).	Official costs required by law for businesses to purchase land and a building to transfer the property title from the seller to the buyer so that the buyer can use the property for expanding its business, as collateral in taking new loans or, if necessary, to sell to another business.
Use of land as collateral is increased	Land transactions times (days)	The median duration that property lawyers or registry officials indicate is necessary to complete a procedure.
Commercial dispute resolution is increased	Pending civil cases (number)	Total number of pending civil cases in the High Court.
Knowledge, attitudes, and practices of women’s economic rights are improved.	Gender equality index	Percent change in index of knowledge, attitudes, and practices for supporting gender equality in economic rights.

²¹ These indicator definitions still require confirmation.

²² This number will be disaggregated by salaries and pensions paid by government agencies.

PSD PROJECT INDICATORS AND TARGETS

Objective: “Stimulate investment by improving access to credit, reducing transaction costs and increasing the participation of women in the economy”

Objective level indicators	Baseline ²³	Year 5
Value of investment (million maluti)	TBD	TBD.
Value of credit extended (million maluti)	TBD	TBD.
Outcome Level Indicators		
Private credit bureau coverage (percent)	0%	13%.
Domestic electronic funds transfers (number)	0	200,000.
Land used as collateral (number)	108	430.
Land transactions costs (percent of property value)	8.40%	4.20%.
Land transactions times (days)	101 ²⁴	30.
Pending civil cases (number)	1031	600.
Gender equality index	TBD ²⁵	TBD.

²³ These indicator baselines and targets still require confirmation.

²⁴ This baseline figure is based on the World Bank’s “Doing Business” report. As the deeds registry improves its data management, the baseline will be revised according to deeds registry figures.

²⁵ A baseline survey is planned before the end of Year 1.

(b) Data Collection and Reporting. The M&E Plan will establish guidelines for data collection and a reporting framework, including a schedule of Program reporting and responsible parties. The management of MCA-Lesotho will conduct regular assessments of Program performance to inform the MCA-Lesotho board of directors and MCC of progress under the Program and to alert these parties to any problems. These assessments will report the actual results compared to the Targets on the Indicators referenced in the Monitoring Component, explain deviations between these actual results and Targets, and in general, serve as a management tool for implementation of the Program. With respect to any data or reports received by MCA-Lesotho, MCA-

Lesotho will promptly deliver such reports to MCC along with any other related documents, as specified in the M&E Plan or as may be requested from time to time by MCC.

(c) Data Quality Reviews. As determined in the M&E Plan or as otherwise requested by MCC, the quality of the data gathered through the M&E Plan will be reviewed to ensure that data reported are as reliable, timely and valid as resources will allow. The objective of any data quality review will be to verify the quality and the consistency of performance data, across different implementation units and reporting institutions. Such data quality reviews also will serve to identify where consistent levels of quality are not possible, given in-country capacity or

other constraints. MCA-Lesotho will enter into an agreement (in a form acceptable to MCC) with the Reviewer to fulfill the provisions set forth in Section 1 of this Annex III and this clause (c).

3. Evaluation Component

The Program will be evaluated on the extent to which the interventions contribute to the Compact Goal. The Evaluation Component of the M&E Plan will contain a methodology, process and timeline for collecting and analyzing data in order to assess planned, ongoing, or completed Project activities to determine their efficiency, effectiveness, impact and sustainability. The evaluations should use state-of-the-art methods for addressing selection bias.

The Government will implement, or cause to be implemented, surveys to collect longitudinal data on both Beneficiary and non-Beneficiary households. The Evaluation Component will contain two types of reports: Final Evaluations and Ad Hoc Evaluations (each as defined below), and will be finalized before any Disbursement for specific Project activities or the Program.

(a) Final Evaluation. MCA-Lesotho will engage an independent evaluator to conduct a program evaluation at the expiration or termination of the Program ("Final Evaluation"). The evaluation methodology, timeline, data collection, and analysis requirements will be finalized and detailed in the M&E Plan. The Final Evaluations must at a minimum (i) estimate quantitatively and in a statistically valid way, the causal relationship between the Compact Goals (to the extent possible), the Objectives and Outcomes; (ii) determine if and analyze the reasons why the Compact Goals, Objectives and Outcomes were or were not achieved; and (iii) assess the overlapping benefits of the Projects.

(b) Ad Hoc Evaluations or Special Studies. Either MCC or MCA-Lesotho may request ad hoc or interim evaluations or special studies of Projects, Project activities, or the Program as a whole prior to the expiration of the Compact Term (each, an "Ad Hoc Evaluation"). If MCA-Lesotho engages an evaluator for an Ad Hoc Evaluation, the evaluator will be an externally contracted independent source selected by MCA-Lesotho, subject to the prior written approval of MCC, following a tender in accordance with the MCC Program Procurement Guidelines, and otherwise in accordance with any relevant Implementation Letter, the Program Implementation Agreement or any other agreement or arrangement entered into by the Government in connection with

this Compact or the Program. If MCA-Lesotho requires an ad hoc independent evaluation or special study at the request of the Government for any reason, including for the purpose of contesting an MCC determination with respect to a Project or Project activity or seeking funding from other donors, no MCC Funding or MCA-Lesotho resources may be applied to such evaluation or special study without MCC's prior written approval.

4. Other Components of the M&E Plan

In addition to the Monitoring Components and the Evaluation Components, the M&E Plan will include the following components for the Program, Projects and Project activities, including, where appropriate, roles and responsibilities of the relevant parties and Providers:

(a) Costs. A detailed annual budget estimate for all components of the M&E Plan.

(b) Assumptions and Risks. Any assumptions and risks external to the Program that underlie the accomplishment of the Objectives and Outcomes; provided such assumptions and risks will not excuse performance of the Parties, unless otherwise expressly agreed to in writing by the Parties.

5. Implementation of the M&E Plan

(a) Approval and Implementation. The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with this M&E Annex, the Program Implementation Agreement or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program.

(b) Stakeholders Committee. The completed portions of the M&E Plan will be presented to the stakeholders committee formed in accordance with the Guidelines for Accountable Entities and Implementation Structures

provided on the MCC Web site at such stakeholders committee's initial meeting, and any amendments or modifications to and any additional components of the M&E Plan will be presented to such stakeholders committee at appropriate subsequent meetings of such committee. Such stakeholders committee will have the opportunity to present its suggestions to the M&E Plan, which the board of directors of MCA-Lesotho will take into consideration in its review of any amendments to the M&E Plan during the Compact Term.

(c) Disbursement for a Project Activity. As a condition to each Disbursement there will be satisfactory progress on the M&E Plan for the relevant Project or Project activity, and substantial compliance with the M&E Plan, including any reporting requirements. In addition, for certain activities, collection of baseline data may be a condition precedent for specified Disbursements.

(d) Modifications. Notwithstanding anything to the contrary contained in this Compact, including the requirements of this M&E Annex, the Parties may modify or amend the M&E Plan or any component thereof, including those elements described herein, without amending this Compact; provided, however, that any such modification or amendment of the M&E Plan is reviewed by the stakeholders committee referenced in clause (b) above and has been approved by MCC in writing and is otherwise consistent with the requirements of this Compact and its Objectives, the Program Implementation Agreement and any other relevant agreement or arrangement entered into by the Government in connection with this Compact or the Program.

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