



# Lesotho and Millennium Challenge Corporation: Building a Dynamic Partnership for Poverty Reduction Through Economic Growth

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

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

## Background

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

## Water Sector Project (\$164 million)

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

The Water Sector Project activities include the construction of a bulk water conveyance system; the extension and rehabilitation of the urban and peri-urban water network; the provision of improved sanitation services for an estimated 25,000 households or approximately 150,000 persons through construction of ventilated improved pit latrines and water systems; and the restoration of degraded wetlands at three areas in the highland pastures

and preparation of a strategic environmental assessment to support development of a national watershed management and wetlands conservation plan.

## **Health Sector Project (\$122.4 million)**

The Health Sector Project is designed to mitigate the negative economic impacts of poor maternal health, HIV/AIDS, tuberculosis (“TB”) and other diseases by substantially strengthening the country’s health care infrastructure and human resources for health capacity. MCC funding will support Lesotho’s efforts to significantly increase access to life-extending anti-retroviral therapy (“ART”) by providing a sustainable platform to deliver this and other essential health services throughout the country. This has the potential to result in a measurable extension of productive life-years for people living with HIV/AIDS, TB and other debilitating diseases.

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

## **Private Sector Development Project (\$36.1 million)**

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

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

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

## Expected Results

The Compact program is expected to have economy-wide impacts affecting the entire population of Lesotho. The core elements of the Compact entail critical requirements that are needed to propel private sector investment and growth in employment to levels that would support significant progress in the reduction of poverty. The program is structured to nearly double GDP growth by the end of the Compact implementation period. The acceleration of GDP growth is expected to continue beyond Compact completion, propelling growth towards seven percent per annum within five years after Compact completion. The Compact program is designed to lay the foundations for achieving sustainable economic growth and poverty reduction in Lesotho through its support of key areas identified by the Government of Lesotho as national development priorities.

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*Millennium Challenge Corporation (MCC), a United States government corporation designed to work with some of the poorest countries in the world, is based on the principle that aid is most effective when it reinforces good governance, economic freedom, and investments in people that promote economic growth and elimination of extreme poverty*