ECONOMIC ASSISTANCE

Millennium Challenge Compact

Between the
UNITED STATES OF AMERICA
and ZAMBIA

Signed at Lusaka May 10, 2012

with

Annexes

NOTE BY THE DEPARTMENT OF STATE

Pursuant to Public Law 89—497, approved July 8, 1966 (80 Stat. 271; 1 U.S.C. 113)—

". . .the Treaties and Other International Acts Series issued under the authority of the Secretary of State shall be competent evidence . . . of the treaties, international agreements other than treaties, and proclamations by the President of such treaties and international agreements other than treaties, as the case may be, therein contained, in all the courts of law and equity and of maritime jurisdiction, and in all the tribunals and public offices of the United States, and of the several States, without any further proof or authentication thereof."

ZAMBIA

Economic Assistance

Millennium Challenge Compact
signed at Lusaka May 10, 2012;
Entered into force November 15, 2013.
With annexes.

MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA
ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE REPUBLIC OF ZAMBIA

MILLENNIUM CHALLENGE COMPACT

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MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this "***Compact***") is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation ("***MCC***"), and the Republic of Zambia ("***Zambia***"), acting through its government (the "***Government***") (individually a "***Party***" and collectively, the "***Parties***"). Capitalized terms used in this Compact will have the meanings provided in Annex V.

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

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

Recognizing that MCC wishes to help Zambia implement the program described herein to achieve the goal and objectives described herein (as such program description and objectives may be amended from time to time in accordance with the terms hereof, the "***Program***");

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty through economic growth in Zambia (the "***Compact Goal***"). MCC's assistance will be provided in a manner that strengthens good governance, economic freedom and investments in the people of Zambia.

Section 1.2 Project Objective. The objective of the Project (the "***Project Objective***") is to expand access to, and improve the reliability of, water supply and sanitation, and improve drainage services in select urban and peri-urban areas of the city of Lusaka in order to decrease the incidence of water-borne and water-related diseases, generate time savings for households and businesses and reduce non-revenue water in the water supply network.

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 Program Funding.

Upon entry into force of this Compact in accordance with Section 7.3, MCC will grant to the Government, under the terms of this Compact, an amount not to exceed Three Hundred and

Thirty Nine Million Four Hundred and Sixty Eight Thousand Seven Hundred and One United States Dollars (US$339,468,701) ("***Program Funding***") for use by the Government to implement the Program. The allocation of Program Funding is generally described in Annex II.

Section 2.2 Compact Implementation Funding.

(a) Upon signing of this Compact, MCC will grant to the Government, under the terms of this Compact and in addition to the Program Funding described in Section 2.1, an amount not to exceed Fifteen Million Two Hundred and Eighty Eight Thousand Nine Hundred and Thirty Nine United States Dollars (US$15,288,939) ("***Compact Implementation Funding***") under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "***MCA Act***"), for use to facilitate implementation of the Compact, including for the following purposes:

(i) financial management and procurement activities;

(ii) administrative activities (including start-up costs such as staff salaries) and administrative support expenses such as rent, computers and other information technology or capital equipment;

(iii) monitoring and evaluation activities;

(iv) feasibility, design, and other studies; and

(v) other activities to facilitate Compact implementation as approved by MCC.

The allocation of Compact Implementation Funding is generally described in Annex II.

(b) Without limiting the generality of Section 2.2(a), the Government agrees that MCC will directly administer and manage a portion of the Compact Implementation Funding in order to develop any detailed designs and resettlement action plans required for the Project, and to facilitate any other uses of the Compact Implementation Funding contemplated in clause (a) above, as may be agreed in writing by the Parties (the "***MCC Contracted CIF Activities***"). Notwithstanding anything to the contrary in this Compact or the Program Implementation Agreement, MCC will utilize applicable United States government procurement rules and regulations in any procurements it administers and manages in connection with the MCC CIF Contracted Activities, and will disburse MCC Funding from time to time for the MCC CIF Contracted Activities directly to the relevant provider upon receipt of a valid invoice approved by MCC.

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

(d) If MCC determines that the full amount of Compact Implementation Funding available under Section 2.2(a) exceeds the amount that reasonably can be utilized for the purposes set forth in Section 2.2(a), MCC, by written notice to the Government, may withdraw the excess amount, thereby reducing the amount of the Compact Implementation Funding

available under Section 2.2(a) (such excess, the "***Excess CIF Amount***"). In such event, the amount of Compact Implementation Funding granted to the Government under Section 2.2(a) will be reduced by the Excess CIF Amount, and MCC will have no further obligations with respect to such Excess CIF Amount.

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

Section 2.3 MCC Funding.

Program Funding and Compact Implementation Funding are collectively referred to in this Compact as "***MCC Funding***," and includes any refunds or reimbursements of Program Funding or Compact Implementation Funding paid by the Government in accordance with this Compact.

Section 2.4 Disbursement.

In accordance with this Compact and the Program Implementation Agreement, MCC will disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a "***Disbursement***"). Subject to the satisfaction of all applicable conditions precedent, the proceeds of Disbursements will be made available to the Government, at MCC's sole election, by (a) deposit to one or more bank accounts established by the Government and acceptable to MCC (each, a "***Permitted Account***") or (b) direct payment to the relevant provider of goods, works or services for the implementation of the Program. MCC Funding may be expended only for Program expenditures.

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

Section 2.6 Government Resources; Budget.

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

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

(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 under this Compact and the Program.

Section 2.7 Limitations on the Use of MCC Funding. The Government will ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing or by posting from time to time on the MCC website at www.mcc.gov (the "***MCC Website***"), including but not limited to the following purposes:

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

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

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health or safety hazard, as further described in MCC's environmental and social assessment guidelines and any guidance documents issued in connection with the guidelines posted from time to time on the MCC Website or otherwise made available to the Government (collectively, 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 2.8 Taxes.

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

(b) The mechanisms that the Government will use to implement the principal tax exemptions required by Section 2.8(a) are set forth in Annex VI. Such mechanisms may include exemptions from the payment of Taxes that have been granted in accordance with applicable law, refund or reimbursement of Taxes by the Government to MCC, MCA-Zambia or to the taxpayer, or payment by the Government to MCA-Zambia or MCC, for the benefit of the Program, of an agreed amount representing any collectible Taxes on the items described in Section 2.8(a).

(c) If a Tax has been paid contrary to the requirements of Section 2.8(a) or Annex VI, the Government will refund promptly to MCC (or to another party as designated by MCC) the amount of such Tax in United States Dollars or the currency of Zambia within thirty (30) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or MCA-Zambia) that such Tax has been paid.

(d) No MCC Funding, proceeds thereof or Program Assets may be applied by the Government in satisfaction of its obligations under Section 2.8(c).

ARTICLE 3.
IMPLEMENTATION

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

Section 3.2 Government Responsibilities.

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

(b) The Government hereby designates Millennium Challenge Account-Zambia as the accountable entity to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Project and its Activities, allocating resources and managing procurements. Such entity will be referred to herein as "***MCA-Zambia***," and will have the authority to bind the Government with regard to all Program activities. The designation of MCA-Zambia contemplated by this Section 3.2(b) will not relieve the Government of any obligations or responsibilities hereunder or under any related agreement, for which the Government remains fully responsible. MCC hereby acknowledges and consents to the designation in this Section 3.2(b).

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

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

(e) The Government will fully comply with the Program Guidelines, as applicable, in its implementation of the Program.

(f) The Government grants to MCC a perpetual, irrevocable, royalty-free, worldwide, fully paid, assignable right and license to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify or make available) any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or hereafter developed, for any purpose whatsoever.

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

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

Section 3.5 Implementation Letters. From time to time, MCC may provide guidance to the Government in writing on any matters relating to this Compact, MCC Funding or implementation of the Program (each, an "***Implementation Letter***"). The Government will use such guidance in implementing the Program. The Parties may also issue jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects related to the implementation of this Compact, the Program Implementation Agreement or other related agreements.

Section 3.6 Procurement and Grants.

(a) The Government will ensure that the procurement of all goods, works and services by the Government or any Provider to implement the Program will be consistent with the "MCC Program Procurement Guidelines" posted from time to time on the MCC Website (the "***MCC Program Procurement Guidelines***"). The MCC Program Procurement Guidelines include the following requirements, among others:

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

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

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

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

(b) The Government will ensure that any grant issued in furtherance of the Program (each, a "***Grant***") is awarded, implemented and managed pursuant to open, fair and competitive procedures administered in a transparent manner acceptable to MCC. In furtherance of this requirement, and prior to the issuance of any Grant, the Government and MCC shall agree upon written procedures to govern the identification of potential Grant recipients, including without limitation appropriate eligibility and selection criteria and award procedures. Such agreed procedures shall be posted on the MCA-Zambia website.

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 maintain, accounting books, records, documents and other evidence relating to the Program adequate to show, to MCC's satisfaction, the use of all MCC Funding and the implementation and results of the Program ("***Compact Records***"). In addition, the Government will furnish or cause to be furnished to MCC, upon its request, originals or copies of such 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 prescribed by the International Accounting Standards Board. Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any applicable legal requirements.

(c) Providers and Covered Providers. 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 (i) 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 (ii) 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 Inspector General of MCC ("***Inspector General***"), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact and any agents or representatives engaged by MCC or the Government to conduct any assessment, review or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities, assets and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may agree otherwise 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 addition, upon MCC's request, the Government will ensure that such audits are conducted by an independent auditor approved by MCC and named on the list of local auditors approved by 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, which are posted on the MCC Website. Audits will be performed in accordance with the Audit Guidelines and be subject to quality assurance oversight by the Inspector General. Each audit must be completed and the audit report delivered to MCC no later than 90 days after the first period to be audited and no later than 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 Other Entities. The Government will ensure that MCC-financed agreements between the Government or any Provider, on the one hand, and (i) a United States nonprofit organization, on the other hand, state that the United States nonprofit organization is subject to the applicable audit requirements contained in OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," issued by the United States Office of Management and Budget; (ii) a United States for-profit Covered Provider, on the other hand, state that the United States for-profit organization is subject to audit by the applicable United States Government agency, unless the Government and MCC agree otherwise in writing; and (iii) a non-US Covered Provider, on the other hand, state that the non-US Covered Provider is subject to audit in accordance with the Audit Guidelines.

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

(d) Audit by MCC. MCC 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.

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, Compact Operations
(with a copy to the Vice President and General Counsel, and the MCC resident country mission in Zambia)
875 Fifteenth Street, NW
Washington, DC 20005
United States of America
Facsimile: +1 (202) 521-3700
Telephone: +1 (202) 521-3600
Email: VPOperations@mcc.gov (Vice President, Compact Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government (with a copy to the MCA-Zambia):

Minister of Finance
Ministry of Finance and National Planning
P.O. Box 50062, Chimanga Road
Lusaka
Republic of Zambia
Facsimile: +260 211 251078
Telephone: +260 211 250481
+260 211 254263

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 MCC will be represented by the individual holding the position of, or acting as, Vice President, Compact Operations (each of the foregoing, a "***Principal Representative***"). Each Party, by written notice to the other Party, may designate one or more additional representatives (each, an "***Additional Representative***") for all purposes other than signing amendments to this Compact. The Government hereby designates the chairperson of the Board of MCA-Zambia as an Additional Representative. A Party may change its Principal Representative to a new representative that holds a position of equal or higher authority upon written notice to the other Party.

Section 4.3 Signatures. Signatures to this Compact and to any amendment to this Compact will be original signatures appearing on the same page or in an exchange of letters or diplomatic notes. With respect to all documents arising out of this Compact (other than the Program Implementation Agreement) and amendments thereto, signatures may, as appropriate, be delivered by facsimile or electronic mail and in counterparts and will be binding on the Party delivering such signature to the same extent as an original signature would be.

ARTICLE 5.

TERMINATION; SUSPENSION; EXPIRATION

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact without cause in its entirety by giving the other Party thirty (30) days' prior written notice. MCC may also terminate this Compact or MCC Funding without cause in part by giving the Government thirty (30) days' prior written notice.

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

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

(ii) an event or series of events has occurred that makes it probable that the Project Objective will not be achieved during the Compact Term or that the Government will not be able to perform its obligations under this Compact;

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

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

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

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

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

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

Section 5.2 Consequences of Termination, Suspension or Expiration.

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

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

Section 5.3 Refunds; Violation.

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

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

Section 5.4 Survival. The Government's responsibilities under this Section and Sections 2.7, 3.2(f), 3.7, 3.8, 5.2, 5.3 and 6.4 will survive the expiration, suspension or termination of this Compact.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

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

Section 6.2 Amendments.

(a) The Parties may amend this Compact only by a written agreement signed by the Principal Representatives (or such other government official designated by the relevant Principal Representative).

(b) Notwithstanding Section 6.2(a), the Parties may agree in writing, signed by the Principal Representatives (or such other government official designated by the relevant Principal Representative) or any Additional Representative, to modify any Annex to this Compact in order to, without limitation: (i) suspend, terminate or modify the Project or any Activity, or to create a new project; (ii) change the allocations of funds as set forth in Annex II as of the date hereof (including to allocate funds to a new project); (iii) modify the Implementation Framework described in Annex I; (iv) add, delete or waive any condition precedent described in Annex IV; or (v) modify the mechanisms for exempting MCC Funding from Taxes as set forth in Annex VI; *provided that*, in each case, any such modification: (1) is consistent in all material respects with the Project Objective; (2) does not cause the amount of Program Funding to exceed the aggregate amount specified in Section 2.1 (as may be modified by operation of Section 2.2(e)); (3) does not cause the amount of Compact Implementation Funding to exceed the aggregate amount specified in Section 2.2(a); (4) does not reduce the Government's responsibilities or contribution of resources required under Section 2.6; and (5) does not extend the Compact Term.

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

(a) any Annex and any of Articles 1 through 7, such Articles 1 through 7, as applicable, will prevail; or

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

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 or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Any 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 Website will be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 References to Laws, Regulations, Policies and Guidelines. 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, guideline or similar document will be construed as a reference to such law, regulation, policy, guideline or similar document as it may, from time to time, be amended, revised, replaced, or extended and will include any law,

regulation, policy, guideline or similar document issued under or otherwise applicable or related to such law, regulation, policy, guideline or similar document.

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

ARTICLE 7.

ENTRY INTO FORCE

Section 7.1 International Agreements. The Parties understand that each of the Compact and the Program Implementation Agreement, upon its entry into force, will, in the event of any conflict, prevail over the domestic laws of Zambia (other than the Constitution of Zambia).

Section 7.2 Conditions Precedent to Entry into Force. Before this Compact enters into force:

(a) the Program Implementation Agreement must have been signed by the parties thereto;

(b) the Government must have delivered to MCC:

(i) a letter signed and dated by the Principal Representative of the Government, or such other representative of the Government as may be duly authorized in a manner acceptable to MCC, confirming that the Government has completed its domestic requirements for this Compact to enter into force and that the other conditions precedent to entry into force in this Section 7.2 have been met;

(ii) a signed legal opinion from the Attorney General of Zambia (or such other legal representative of the Government 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 the Government's domestic requirements for this Compact to enter into force, which MCC may post on its website or otherwise make publicly available;

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

(d) the Government must have delivered to MCC a plan (the "***GRZ Sanitation Connection Action Plan***"), consistent with LWSC's "Sanitation Marketing Program" approved by the Government, describing how the Government will administer the supplemental Government funding to be set aside to assist beneficiaries that are unable to pay for household connections to the sanitation infrastructure assets to be financed under this Compact, which plan must be in form and substance satisfactory to MCC;

(e) the Government must have delivered to MCC a certified copy of a resolution of the board of directors of LWSC (or such similar instrument as may be proposed by the Government and is acceptable to MCC) demonstrating, to MCC's satisfaction, that at least fifty percent (50 percent) of LWSC's Retained Earnings will be reserved for asset renewal and capital expansion;

(f) MCC will have determined that the Government has verified a reasonable amount of its outstanding payment obligations to LWSC (as evidenced to MCC's satisfaction) in connection with the provision of water supply and sanitation services, and that such obligations have been satisfied (to MCC's satisfaction); and

(g) The Government and LWSC must have entered into an agreement (the "***LWSC Sustainability Agreement***"), in form and substance satisfactory to MCC, setting forth performance requirements or milestones designed to assure the continued technical efficiency and financial and commercial sustainability of LWSC, including, without limitation, requirements or milestones related to LWSC's corporate governance, operational and financial performance and improved customer service, which agreement must also include semi-annual benchmarks against which the Government and LWSC will measure their respective progress in satisfying such performance requirements or milestones and which must also provide for periodic technical audits of the Government's and LWSC's performance under or compliance with such agreement.

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

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

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

SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE

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

Done at Lusaka, Zambia, this 10th day of May, 2012, in the English language only.

FOR THE UNITED STATES OF AMERICA, ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION

Name: Daniel W. Yohannes
Title: Chief Executive Officer

FOR THE REPUBLIC OF ZAMBIA

Name: Alexander B. Chikwanda
Title: Minister of Finance

ANNEX I

PROGRAM DESCRIPTION

This Annex I describes the Program that MCC Funding will support in Zambia during the Compact Term.

A. PROGRAM OVERVIEW

1. Background and Consultative Process.

The MCC Board of Directors originally selected Zambia as eligible for MCC assistance in December 2008, and has re-selected Zambia as eligible for MCC assistance in each subsequent year. In October 2009, the Government initiated a constraints analysis that identified three main binding constraints to Zambia's economic growth: low quality of human capital; poor infrastructure services; and coordination failures. To elicit feedback on these constraints, the Government undertook a targeted consultative process in accordance with all applicable MCC policies and guidelines, which included over 500 representatives from the government, private sector and civil society, as well as the donor community. Feedback from these consultations resulted in a list of prioritized sectors deemed to be key to Zambia's economic development, including ecotourism, hydropower, roads, vocational and secondary education and water and sanitation, from which the Government developed and submitted six concept papers for MCC consideration.

After a thorough examination of the economic and operational feasibility of the Government's concept papers, MCC and the Government elected to focus solely on improvements to the water supply, sanitation and drainage sectors in the capital city of Lusaka, a key constraint to economic growth for the country. This examination included further consultations with national and local government representatives, technical specialists, non-governmental organizations and the donor community, including gender-responsive and socially inclusive consultations with community members in each of the 33 wards directly impacted by the Program. As with the initial consultative process, this effort also was conducted in accordance with all applicable MCC policies and guidelines.

The city of Lusaka currently has a population of over 1.8 million people, representing over 10 percent of Zambia's total population, and is projected to have nearly five million residents by 2035. This rapidly increasing population is served by a water supply, sanitation and drainage system that was constructed in the 1960s and 1970s to serve a much smaller population, and which has not benefited from major capital investment or proper maintenance in the intervening years. As a result, the system's core infrastructure assets are outdated, dilapidated and unable to meet current or future demand. Currently, only approximately 70 percent of Lusaka residents have access to treated water supply, and only approximately 65 percent have access to water-borne sanitation (either through a connection to the network or with septic tanks). Those without water-borne sanitation typically rely on pit latrines, most of which are not properly designed and therefore result in groundwater contamination, primarily impacting the shallow wells used for drinking water by the population without access to treated water supply. All of these factors contribute to a high prevalence and incidence of water-borne disease, which is exacerbated by

endemic flooding resulting from insufficiently maintained and inadequate drainage infrastructure. In addition to poor health, the degraded and inadequate condition of the system's core infrastructure also forces Lusaka's residents and businesses to waste substantial time and resources resolving water supply shortages and delays, as well as flood losses, resulting in further lost productivity.

The Program is designed to address this constraint to economic growth by supporting infrastructure investments and continued institutional strengthening and reform in order to expand access to, and improve the reliability of, water supply and sanitation, and improve drainage services in select urban and peri-urban areas of the city of Lusaka. To this end, the Program has been developed within the broader framework of, and is consistent with, Zambia's "National Urban Water Supply and Sanitation Program," and, as further described in paragraph 7 of Part B of this Annex I, complements the Government's longstanding and successful efforts to reform the water and sanitation and drainage sectors. These reform efforts have produced a variety of key outcomes, which have laid the foundation for the Program, including, for example, the privatization of state-owned enterprises to create commercial utilities throughout the country, as well as the implementation of cost reflective tariffs, as facilitated through the creation of an autonomous water utility regulator, the National Water Supply and Sanitation Council ("***NWASCO***").

2. Project Objective.

The Program consists of the Lusaka water supply, sanitation and drainage Project, (the "***LWSSD Project***" or the "***Project***"), which in turn consists of the Infrastructure Activity and the Institutional Strengthening Activity, as each is further described in this Annex I.

The Project Objective is to expand access to, and improve the reliability of, water supply and sanitation, and improve drainage services in select urban and peri-urban areas of the city of Lusaka in order to decrease the incidence of water-borne and water-related diseases, generate time savings for households and businesses and reduce non-revenue water in the water supply network.

3. Environmental and Social Safeguards.

The Program will be implemented in compliance with the MCC Environmental Guidelines, the International Finance Corporation's Social and Environmental Performance Standards (the "***IFC Performance Standards***"), the MCC Gender Policy and the MCC Gender Integration Guidelines and Operational Procedures. Any involuntary resettlement will be carried out in accordance with IFC Performance Standard 5 on Land Acquisition and Involuntary Resettlement in a manner acceptable to MCC. The Government will also ensure that the Program complies with all national environmental laws and regulations, licenses and permits, except to the extent such compliance would be inconsistent with this Compact. Specifically, the Government will: (a) cooperate with or complete, as the case may be, any ongoing environmental and social impact assessments, or, if necessary, undertake and complete any additional environmental and social assessments, environmental and social management plans, health and safety management plans, environmental and social audits and resettlement action plans required under the laws of Zambia, the MCC Environmental Guidelines, the IFC Performance Standards, this Compact, the Program

Implementation Agreement, or any other Supplemental Agreement, or as otherwise required by MCC, each in form and substance satisfactory to MCC; (b) ensure that Project-(and, as applicable Activity-) specific environmental and social management plans and health and safety management plans are developed and all relevant measures contained in such plans are integrated into project design, the applicable procurement documents and associated finalized contracts, in each case, in form and substance satisfactory to MCC; and (c) implement to MCC's satisfaction appropriate environmental, social, health and safety mitigation measures identified in such assessments or plans or developed to address environmental, social, health and safety issues identified during implementation. Unless MCC agrees otherwise in writing, the Government will fund all necessary costs of environmental and social mitigation measures (including, without limitation, costs of resettlement) not specifically provided for, or that exceed the MCC Funding specifically allocated for such costs, in the Detailed Financial Plan for the Program.

To maximize the positive social impacts of the Program, address cross-cutting social and gender issues such as human trafficking, child and forced labor and HIV/AIDS, and ensure compliance with the MCC Gender Policy, the Government will: (a) adhere to the MCC Gender Integration Guidelines and Operational Procedures; (b) develop a comprehensive social and gender integration plan ("***Social and Gender Integration Plan***"), in form and substance satisfactory to MCC and reflecting the MCC Social and Gender Integration Plan Guidelines, which, at a minimum, identifies approaches for regular, meaningful and inclusive consultations with women and other vulnerable/underrepresented groups, consolidates the findings and recommendations of the Project-(and, as applicable, Activity-) specific social and gender analyses and social and gender-focused sub-activities, and sets forth strategies for incorporating findings of the social and gender analyses into final designs, as appropriate; and (c) ensure, through monitoring and coordination during implementation, that final Project (and Activity) designs, construction tender documents, other bidding documents and implementation plans are consistent with and incorporate the outcomes of the social and gender analyses and the Social and Gender Integration Plan.

B. LUSAKA WATER SUPPLY, SANITATION AND DRAINAGE PROJECT

Set forth below is a description of the LWSSD Project that the Government will implement, or cause to be implemented, using MCC Funding.

1. Summary of Project and Activities.

The LWSSD Project is comprised of the following activities (each, an "***Activity***"):

- Investments in infrastructure development and rehabilitation, including interventions to rehabilitate the core water supply network, rehabilitate and expand select water supply and sewage networks, reduce Non-Revenue Water ("***NRW***") and improve select drainage infrastructure (the "***Infrastructure Activity***").

- The provision of technical assistance to the Lusaka Water and Sewerage Company ("***LWSC***"), the provincial utility responsible for the management of Lusaka's water and sanitation assets and for the provision of water and sanitation services, and the Lusaka City Council ("***LCC***"), the Government entity that manages the city's drainage

infrastructure and services. This Activity will also include support for comprehensive information, education and communication campaigns, and a competitive grant program designed to spur innovation in the sectors (the "***Institutional Strengthening Activity***").

(a) Infrastructure Activity.

The Infrastructure Activity consists of a series of infrastructure improvements to prioritized water supply, sanitation and drainage assets in Lusaka. Each component of this Activity related to water supply and sanitation was selected based on the results of mutually agreed, comprehensive investment master plans, while the component of this Activity related to drainage was selected based on the results of priorities identified in the "Study on Comprehensive Urban Development Plan for the City of Lusaka in the Republic of Zambia" funded by the Japanese International Cooperation Agency (the "***Comprehensive Urban Development Plan***"). All components were also selected based on the results of mutually agreed, substantially completed feasibility studies on a subset of priority projects identified in the plans. Collectively, during the Compact Term, the investments under this Activity are expected to increase available water supply from 225 to 240 million liters per day and reduce NRW from 48 percent to an estimated 25 percent. In addition, approximately 150,000 new people are expected to benefit from the water system (either through new household connections or kiosks) and the number of sanitation connections is expected to increase from approximately 22,000 to approximately 38,000.

Specifically, the Infrastructure Activity includes the following sub-activities:

(i) Core Water Network Rehabilitation. This sub-activity is designed to rehabilitate the core water supply network in Lusaka in order to upgrade key treatment and distribution centers and distribution lines and to reduce NRW. Primary infrastructure works to be supported by MCC Funding under this sub-activity are expected to include, without limitation:

(1) the rehabilitation of the Iolanda treatment plant and the Chilanga booster pump station;

(2) the rehabilitation of segments of water transmission mains and the installation of segments of parallel transmission mains;

(3) the rehabilitation of select distribution centers and the construction of up to two new reservoirs;

(4) the supply and installation of bulk and consumer water meters;

(5) the supply of leak repair materials and related tools and equipment, as well as the provision of appropriate training; and

(6) the replacement of unsuitable and inefficient distribution network and connection pipes.

(ii) Chelston Distribution Line Rehabilitation and Expansion. This sub-activity is designed to expand the water supply network serving the Mtendere, Kamanga,

Kwamwena and Ndeke-Vorna Valley areas of Lusaka. Primary infrastructure works to be supported by MCC Funding under this sub-activity are expected to include, without limitation:

(1) the installation of new pipes;

(2) the construction of new water kiosks;

(3) the construction of new household connections and water meters; and

(4) the drilling and equipping of boreholes.

(iii) Chelston and Kaunda Square Sewersheds Rehabilitation and Expansion. This sub-activity is designed to expand the sanitation network in the targeted areas. Primary infrastructure works to be supported by MCC Funding under this sub-activity are expected to include, without limitation:

(1) the rehabilitation of the Chelston pump station, including the rehabilitation or replacement of a portion of the related force main;

(2) upgrading and expanding the Kaunda Square treatment ponds;

(3) upgrading the Salama pump station;

(4) the construction of new pump stations;

(5) the rehabilitation or replacement of the Kaunda Square sewer interceptor; and

(6) the extension of the Mtendere sewer system in order to expand household sanitation connections.

(iv) Central Distribution Line Rehabilitation and Expansion. This sub-activity is designed to expand the water supply network serving the Ng'ombe, SOS East and Chipata areas of Lusaka. Primary infrastructure works to be supported by MCC Funding under this sub-activity are expected to include, without limitation:

(1) the installation of new pipes;

(2) the construction of new water kiosks; and

(3) the construction of new household connections and water meters.

(v) Bombay Drain Improvements. This sub-activity is designed to reduce flooding through infrastructure improvements to the Bombay drain, which conveys the runoff from the majority of the downtown business district areas of Lusaka. Primary infrastructure works to be supported by MCC Funding under this sub-activity are expected to include, without limitation:

(1) the upsizing of the existing primary outfall and main drain channels;

(2) the stabilization of the newly upsized drainage channels; and

(3) as needed, the installation of protective handrails.

(b) Institutional Strengthening Activity.

The Institutional Strengthening Activity consists of a series of investments designed to increase the ability of LWSC and LCC to maintain and manage their respective infrastructure assets and to more effectively and equitably deliver services to Lusaka residents, as well as to support innovation in water, sanitation and drainage-related activities.

Specifically, the Institutional Strengthening Activity includes the following sub-activities:

(i) Support to LWSC. This sub-activity is focused on strengthening the capacity of LWSC to, without limitation, undertake comprehensive asset management planning and execution, carry out effective environmental management and monitoring, institutionalize and improve gender mainstreaming and conduct effective outreach to ensure pro-poor water sanitation service delivery. MCC Funding for this sub-activity is intended to support:

(1) The provision of technical assistance and related equipment to improve LWSC's maintenance capacity and capability, including, without limitation, the creation of an asset register and improvement of LWSC's electronic data and management systems, and the provision of comprehensive training to improve maintenance budgeting and forecasting, as well as to determine the most effective modality for carrying out LWSC's maintenance responsibilities.

(2) The provision of technical assistance and, potentially, related equipment to strengthen LWSC's capacity to ensure effective environmental monitoring, quality management and compliance.

(3) The provision of technical assistance to better institutionalize and strengthen LWSC's capacity for gender mainstreaming and social inclusion, and to develop and implement policies that will increase LWSC's capacity and incentives to provide affordable services to the peri-urban poor and vulnerable populations.

(4) Support for LWSC-managed information, education and communications ("***IEC***") efforts to promote behavior change and care of physical assets, including financial obligations.

(ii) Support to LCC. This sub-activity is focused on strengthening the capacity of LCC to, without limitation, better manage and maintain its drainage assets, to improve environmental management and monitoring, to institutionalize and improve gender mainstreaming and to conduct effective outreach. MCC Funding for this sub-activity is intended to support:

(1) The provision of technical assistance to increase LCC's capacity to plan and maintain Lusaka's overall drainage system, including, without limitation, the development of a comprehensive operations and maintenance program, the completion of an institutional needs assessment and support to implement the recommendations thereof, and support for a detailed ground water study to guide future system-wide operation and maintenance decision-making and coherent, further infrastructure investments.

(2) The provision of technical assistance and, potentially, related equipment to strengthen LCC's capacity to ensure effective environmental monitoring and quality management of drainage infrastructure and to integrate environmental management into its broader governance structure.

(3) The provision of technical assistance to better institutionalize and strengthen LCC's capacity for gender mainstreaming and to better understand and mitigate social and behavioral conditions that may contribute to degraded drainage infrastructure.

(4) Support for LCC-managed IEC efforts to promote behavior change and care of physical assets to ensure the realization of expected Project-related health benefits and the sustainability of the Compact's infrastructure investments.

(iii) Innovation Grant Program for Pro-Poor Service Delivery. This sub-activity will support a competitive grant and partnership program designed to identify, and provide assistance to, innovative partnership opportunities, particularly through private sector engagement. This sub-activity is intended to increase and sustain the poor's access to quality water and sanitation, improve water use, sanitation and hygiene practices among the poor, strengthen tenure security and capacity for community-based planning, provide significant access by women and vulnerable groups to Project benefits and expand opportunities for entrepreneurship and income generating activities related to water, sanitation and drainage. Activities will thus enhance the functioning of the systems, complementing and supplementing the Compact's other investments. Grants issued under this sub-activity will be awarded, implemented and managed pursuant to open, fair and competitive procedures administered in a transparent manner in accordance with all relevant MCC policies and guidelines (including the Program Guidelines, the MCC Gender Integration Guidelines and Operational Procedures and the IFC Performance Standards). Prior to the Disbursement of any MCC Funding for a Grant, MCC and the Government will agree on an operations manual including procedures to govern the identification of potential Grant recipients, including, without limitation, appropriate eligibility and selection criteria and award procedures. The Parties will also agree on the possibility of appointing an outside grant program manager. Unless otherwise approved by MCC, Grants awarded under this component will not be used to support infrastructure investments.

2. Beneficiaries.

The LWSSD Project is expected to benefit approximately 1,240,000 individuals over twenty years, which represents the projected total population in Lusaka expected to benefit from at least one of the Activities. Of these beneficiaries, approximately 73 percent are expected to be poor, which is defined as living on less than US$2.00 per day on a purchasing power parity basis. The

main channels through which these beneficiaries are expected to benefit from the LWSSD Project are through time savings, improved health outcomes and a reduction in NRW.

3. Environmental and Social Mitigation Measures.

The Infrastructure Activity under the LWSSD Project has been classified as a Category "B" project in accordance with the MCC Environmental Guidelines and the IFC Performance Standards. This categorization is based on a number of risks and impacts, most of which are site-specific, relatively minor and can be readily mitigated through site-specific environmental and social management plans. Specifically, environmental and social impacts assessments completed for the Infrastructure Activity have confirmed that the majority of the anticipated environmental and social impacts are positive in nature. However, these assessments also identified the following potential environmental- and social-related challenges and impacts that must be managed carefully through effective project design, implementation and monitoring:

- Involuntary Resettlement. The Infrastructure Activity is anticipated to result in the physical and/or economic displacement of approximately 1,800 households due to Project-related land use and acquisition, although most of these households will only experience minor or temporary resettlement or displacement. A resettlement policy framework has already been developed for the Project and site-specific resettlement action plans will be developed once project designs are complete.

- Community and Worker Health and Safety. In addition to the typical occupational health and safety risks for construction workers, the major risks involve ensuring the safety of residents in the areas where construction activities will require the excavation of trenches, which may involve the use of explosives, in densely populated areas. Mitigation of these risks will be addressed through health and safety management plans, which will include requirements for intense safety training and supervision and extensive ongoing coordination with local community organizations.

- Sludge Removal and Disposal. The upgrade and expansion of the sewerage network and the rehabilitation and expansion of the sewage stabilization ponds will generate additional sewage sludge. LWSC's ability to adequately monitor and manage, and properly dispose of, this additional sewage sludge will be strengthened through the environmental management sub-activity of the Institutional Strengthening Activity.

- Water Quality and Effluent Monitoring. In order to ensure the well-being and environmental health of Lusaka residents it is critical that drinking water and effluent from the sewage ponds regularly meet national standards. LWSC's, and, as appropriate, LCC's, ability to adequately monitor and manage water and effluent quality will be strengthened through the environmental management sub-activity of the Institutional Strengthening Activity.

- Waste collection and Management. One of the principal issues affecting effective drain operation is the blockage of culverts by accumulated solid waste. In order to mitigate the risk associated with underperforming drainage infrastructure due to inadequate solid

waste management, the Institutional Strengthening Activity includes support to enhance LCC's drainage-related solid waste and environmental management capabilities.

The Institutional Strengthening Activity has been classified as a Category "D" project, as it will involve, among other components, an innovation Grant sub-activity through which MCC Funding will be used to provide assistance to selected Grant recipients for projects that may result in adverse environmental and social impacts. However, unless otherwise approved by MCC, Grants awarded under this component will not be used to support infrastructure-based investments, and as such, are not expected to result in any significant environmental, health or safety hazards. Nonetheless, prior to disbursing any Grants under the innovation Grant sub-activity, MCA-Zambia will be required to develop and implement an environmental management system that is consistent with the MCC Environmental Guidelines and the IFC Performance Standards, as well as any applicable Government regulatory requirements.

4. Donor Coordination.

MCC and the Government have actively communicated and coordinated with other donors throughout the development of the Compact, and these efforts will continue during implementation. The World Bank is one of the main donors currently working in Lusaka's water sector. In fact, the Government's "Water Sector Performance Improvement Project," which has been implemented with assistance from the World Bank, has laid much of the sector reform groundwork that has led to improved performance by LWSC.

In addition to the World Bank's sector reform efforts, and as noted elsewhere, each component of the Infrastructure Activity related to water supply and sanitation was selected based on the results of mutually agreed, comprehensive investment master plans financed by MCC during development of this Compact, while the component of the Activity related to drainage was selected based on the results of priorities identified in the Comprehensive Urban Development Plan. MCC and the Government have used these investment master plans to stimulate interest in the water supply and sanitation sector among the donor community, including by hosting a donor forum. While firm commitments have not yet been made for additional investments outlined in the investment master plans, the Government has been in dialogue with donors such as the European Investment Bank, the African Development Bank and the Japanese International Cooperation Agency with regard to further investments in Lusaka's water supply and sanitation sector.

5. USAID.

MCC has been in a continuing dialogue with the United States Agency for International Development ("***USAID***") throughout the development of this Compact. Specifically, MCC and USAID have discussed potential, complementary investments by USAID through its "Sustainable Water and Sanitation in Africa Program," which may include focused capacity-building for NWASCO that would support the Compact objectives.

6. Sustainability.

The long-term sustainability of the water and sanitation infrastructure improvements funded under the Infrastructure Activity is expected to be reinforced by several factors and elements of

the Project's design. First, LWSC currently recovers 102 percent if its operating costs, and the new water connections anticipated under the Infrastructure Activity are expected to increase the financial health of the utility. In addition, the Government, with support from the World Bank, has implemented the "Water Sector Performance Improvement Project," which has positively contributed to the financial performance of LWSC. Related to this, the Government and LWSC have agreed to enter into the LWSC Sustainability Agreement as a condition precedent to the entry into force of this Compact, which will set forth certain operational and financial performance milestones for LWSC and the sector. The continued effectiveness of, and compliance with, the LWSC Sustainability Agreement, including satisfaction of the applicable performance milestones, is a condition precedent to the Disbursement of MCC Funding under the Program Implementation Agreement. Also, the technical assistance provided under the Institutional Strengthening Activity is designed to help LWSC better plan for maintenance and asset renewal. Finally, as a condition to entry into force of this Compact and as a condition to subsequent Disbursements of MCC Funding, LWSC will be required to devote a minimum of 50 percent of its annual retained earnings to asset renewal.

The long-term sustainability of the drainage infrastructure improvements funded under the Infrastructure Activity is expected to be reinforced by several factors and elements of the Project's design. First, the Program includes a condition precedent requiring LCC to allocate a minimum of US$1.5 million on an annual basis to be used exclusively for repair and maintenance of drains, as further described in the Program Implementation Agreement. Similarly, technical assistance provided to LCC under the Institutional Strengthening Activity is designed to improve its ability to manage and maintain its assets.

In addition, sustainability will be addressed across the entire Program through the IEC activities under the Institutional Strengthening Activity. These include the IEC focus on maintenance and care of community-level infrastructure and payment for services, and the focus on health and hygiene-related knowledge and behavior, both of which are critical to ensuring the sustainability of the Program's infrastructure investments and benefits over time.

7. Policy, Legal and Regulatory Reforms.

The Government has been pursuing a reform agenda of privatization and deregulation of state-owned enterprises since the advent of a new democratic government in 1991. Following this trend, the Government developed its first comprehensive National Water Policy in 1994. The policy was followed by the enactment of the Water Supply and Sanitation Act in 1997, which led to the creation of NWASCO. To harmonize various water sector issues, the Government updated its National Water Policy in 2010, and also enacted the Water Resources Management Act in 2011. Key outcomes of these developments have been the creation of commercial utilities throughout the country, including LWSC, a move towards full cost recovery tariffs, better water resource management and more independent regulation of the water supply and sanitation utilities.

By embracing a reform agenda, the Government has invested political capital to build a strong foundation for the water sector in order to expand and serve the needs of its population. As a result of the Government's policy reform efforts and the creation of appropriate regulatory and institutional foundations, LWSC and other commercial utilities are starting to perform better, and

the sector is being more effectively regulated. Where LWSC and other commercial utilities need assistance now is in the area of new capital to expand their networks and rehabilitate old infrastructure.

Given the significant policy reform already undertaken by the Government in this area, including through continued, sustained support from other donors, such as the World Bank, no major specific sector policy reforms are included under the Compact. However, MCC will monitor the Government's and LWSC's compliance with the reform requirements, performance milestones and related best practices required under the LWSC Sustainability Agreement, which must be entered into by the Government and LWSC as a condition precedent to the entry into force of this Compact.

In addition, in light of concerns about the ability of poor households to afford the household sanitation connections constructed under the Compact, the Government is required to deliver the GRZ Sanitation Connection Action Plan as a condition precedent to the entry into force of this Compact, and satisfactory implementation of the GRZ Sanitation Connection Action Plan, including the commitment of appropriate funding by the Government, is a condition precedent to subsequent Disbursements of MCC Funding, as further described in the Program Implementation Agreement. The GRZ Sanitation Connection Action Plan must include, without limitation, a methodology for determining who qualifies for such assistance and a plan for administering such assistance and ensuring that such beneficiaries obtain household connections.

C. IMPLEMENTATION FRAMEWORK

1. Overview.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring and evaluation and fiscal accountability for the use of MCC Funding are summarized below. MCC and the Government will enter into the Program Implementation Agreement and any other agreements in furtherance of this Compact, all of which, together with this Compact, set out certain rights, responsibilities, duties and other terms relating to the implementation of the Program.

2. MCC.

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

3. Accountable Entity.

The Government has established MCA-Zambia as a company limited by guarantee under the laws of Zambia. In accordance with Section 3.2(b) of this Compact, MCA-Zambia will act on the Government's behalf to implement the Program and to exercise and perform the Government's rights and responsibilities with respect to the oversight, management and implementation of the Program, including, without limitation, managing the implementation of the Project and its Activities, allocating resources and managing procurements. The Government will ensure that MCA-Zambia takes all appropriate actions to implement the Program, including

the exercise and performance of the rights and responsibilities designated to it by the Government pursuant to this Compact and the Program Implementation Agreement. Without limiting the foregoing, the Government will also ensure that MCA-Zambia has full decision-making autonomy, including, without limitation, the ability, without consultation with, or the consent or approval of, any other party, to: (i) enter into contracts, grants, cooperative agreements or any other agreement in its own name; (ii) sue and be sued; (iii) establish an account in a financial institution in the name of MCA-Zambia and hold MCC Funding in that account; (iv) expend MCC Funding; (v) engage a fiscal agent who will act on behalf of MCA-Zambia on terms acceptable to MCC; (vi) engage one or more procurement agents who will act on behalf of MCA-Zambia, on terms acceptable to MCC, to manage the acquisition of the goods, works and services required by MCA-Zambia to implement the activities funded by this Compact; and (vii) competitively engage one or more auditors to conduct audits of its accounts. The Government will take all the necessary actions to manage and operate MCA-Zambia in accordance with the applicable conditions precedent to the Disbursement of Compact Implementation Funding set forth in Annex IV to this Compact.

In accordance with the laws of Zambia, the Minister of Finance and the Secretary to the Treasury, Ministry of Finance and National Planning, will serve as the members of MCA-Zambia, but will not have any control over, or oversight of, the administration or management of MCA-Zambia in their capacity as members of MCA-Zambia. Rather, MCA-Zambia will be administered and managed by a board of directors (the "***Board***") and a management unit (the "***Management Unit***"). In addition, MCA-Zambia will be supported by one or more stakeholders committees (each, a "***Stakeholders Committee***") to continue the consultative process during implementation of the Program.

The governance of MCA-Zambia is set forth in more detail in the MCA-Zambia Articles of Association (the "***Bylaws***"), the Program Implementation Agreement and the Governance Guidelines, which, collectively, set forth the responsibilities of the Board, the Management Unit and the Stakeholders Committee(s).

(a) Board.

(i) Composition. The Board is initially comprised of the following nine members, including six representatives from Government entities and three representatives from civil society and private sector organizations: (1) the Secretary to the Treasury, Ministry of Finance and National Planning; (2) the Permanent Secretary, Ministry of Finance and National Planning; (3) the Permanent Secretary, Ministry of Local Government and Housing; (4) the Chair of LWSC's Board of Directors; (5) the Town Clerk, LCC; (6) the Chair of the Board of Directors for the Zambia Environmental Management Agency; (7) the Executive Director, Non-Governmental Organization Coordinating Committee; (8) the Executive Director, Civil Society for Poverty Reduction; and (9) a representative from the private sector. The Chief Executive Officer ("***CEO***") of MCA-Zambia and an MCC representative will serve as observers.

(ii) Roles and Responsibilities. The Board will be responsible for overseeing the implementation of the Program and will have final decision-making authority over the implementation of the Program. The Board will hold regular meetings, at a minimum once per

quarter. The specific roles of the members and observers are set forth in the Bylaws and the Governance Guidelines.

(b) Management Unit.

(i) Composition. The Management Unit will initially include the following key officers: (1) the CEO; (2) the Deputy CEO Operations; (3) the Deputy CEO Administration; (4) the Finance and Administration Director; (5) the Procurement Director; (6) the Infrastructure Development Director; (7) the Environment and Social Performance Director; (8) the Social and Gender Assessment Director; (9) the Monitoring and Evaluation and Economics Director; (10) the Communications and Outreach Director; (11) the Information Technology Director; (12) the Legal Director; (13) the Internal Auditor ; and (14) Grants Director. These key officers will be supported by appropriate additional staff to enable the Management Unit to execute its roles and responsibilities, in accordance with any applicable staffing plan approved by MCC.

(ii) Roles and Responsibilities. The Management Unit will be based in Lusaka, Zambia, and will be responsible for managing the day-to-day implementation of the Program, with oversight from the Board. The Management Unit will serve as the principal link between MCC and the Government, and will be accountable for the successful execution of the Project and each Activity. MCA-Zambia will be subject to Government audit requirements. As a recipient of MCC Funding, MCA-Zambia will also be subject to MCC audit requirements.

(c) Stakeholders' Committee(s).

(i) Composition. The Stakeholders Committee (or, if appropriate and approved by MCC, committees) will provide input to the Board and the Management Unit on matters that relate to the Program, promoting transparency and ongoing consultation. The size, composition and manner of selection of members of the Stakeholders Committee(s) are subject to ongoing discussions between the Government and MCC, and will be dictated by the project areas of the Program. Membership will at least reflect the non-governmental organizations, private sector, civil society and local and regional governments that were consulted by the Government in developing its proposal for the Compact.

(ii) Roles and Responsibilities. Consistent with the Governance Guidelines, the Stakeholders Committee(s) will be responsible for continuing the consultative process throughout implementation of the Program. While the Stakeholders Committee(s) will not have any binding decision-making authority, it will be responsible for, among other things, reviewing, at the request of the Board or the Management Unit, certain reports, agreements and documents related to the implementation of the Program in order to provide advice and input to MCA-Zambia regarding the implementation of the Program.

4. Implementing Entities.

Subject to the terms and conditions of this Compact, the Program Implementation Agreement and any other related agreement entered into in connection with this Compact, MCC and the Government may identify certain entities or institutions to receive technical assistance or other support under this Compact, or to assist MCA-Zambia with the implementation of the Project or any Activity (or any component thereof) in furtherance of this Compact (each, an "***Implementing***

Entity"). The identification of any Implementing Entity will be subject to review and approval by MCC. As of the date of this Compact, the Government and MCC have identified LWSC and LCC as Implementing Entities with respect to the Project. The Government will ensure that the roles and responsibilities of each Implementing Entity and other appropriate terms are set forth in an agreement, in form and substance satisfactory to MCC (each an "***Implementing Entity Agreement***").

5. Fiscal Agent.

Unless MCC agrees otherwise in writing, the Government, through MCA-Zambia, will appoint a fiscal agent (the "***Fiscal Agent***"), which will be responsible for assisting the Government with its fiscal management and assuring appropriate fiscal accountability of MCC Funding. The roles and responsibilities of the Fiscal Agent will be set forth in the Program Implementation Agreement and such agreement as MCA-Zambia enters into with the Fiscal Agent, which agreement will be in form and substance satisfactory to MCC.

6. Procurement Agent.

Unless MCC agrees otherwise in writing, the Government, through MCA-Zambia, will appoint a procurement agent (the "***Procurement Agent***") to carry out and certify specified procurement activities in furtherance of this Compact. The roles and responsibilities of the Procurement Agent will be set forth in the Program Implementation Agreement and such agreement as MCA-Zambia enters into with the Procurement Agent, which agreement will be in form and substance satisfactory to MCC. The Procurement Agent will adhere to the procurement standards set forth in the MCC Program Procurement Guidelines and ensure procurements are consistent with the procurement plan adopted by the Government pursuant to the Program Implementation Agreement, unless MCC agrees otherwise in writing.

ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

This Annex II summarizes the Multi-Year Financial Plan for the Program.

A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A to this Annex II. By such time as specified in the Program Implementation Agreement, the Government will adopt, subject to MCC approval, a multi-year financial plan that includes, in addition to the multi-year summary of estimated MCC Funding and the Government's contribution of funds and resources, the annual and quarterly funding requirements for the Program (including administrative costs) and for the Project, projected both on a commitment and cash requirement basis.

EXHIBIT A

MULTI-YEAR FINANCIAL PLAN SUMMARY

(US$)							
Component	**CIF[1]**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
1. Lusaka Water Supply, Sanitation, and Drainage Project							
(A) Infrastructure Activity							
(B) Institutional Strengthening Activity							
Subtotal	**10,561,039**	**21,307,520**	**67,592,363**	**84,753,880**	**80,808,204**	**45,524,334**	**310,547,340**
2. Monitoring and Evaluation (M&E)							
Monitoring and Evaluation							
Subtotal	**58,000**	**1,627,000**	**1,852,000**	**2,052,000**	**177,000**	**75,000**	**5,841,000**
3. Program Administration and Audit							
(A) Program Management and Oversight							
(B) Fiscal Agent/Procurement Agent							
(C) Audits							
Subtotal	**4,669,900**	**7,436,000**	**6,651,000**	**6,518,200**	**6,506,700**	**6,587,500**	**38,369,300**
GRAND TOTAL	**15,288,939**	**30,370,520**	**76,095,363**	**93,324,080**	**87,491,904**	**52,186,834**	**354,757,640**

[1] Pursuant to Section 2.2(b) of the Compact, MCC will directly administer and manage a portion of the Compact Implementation Funding.

ANNEX III

DESCRIPTION OF MONITORING AND EVALUATION PLAN

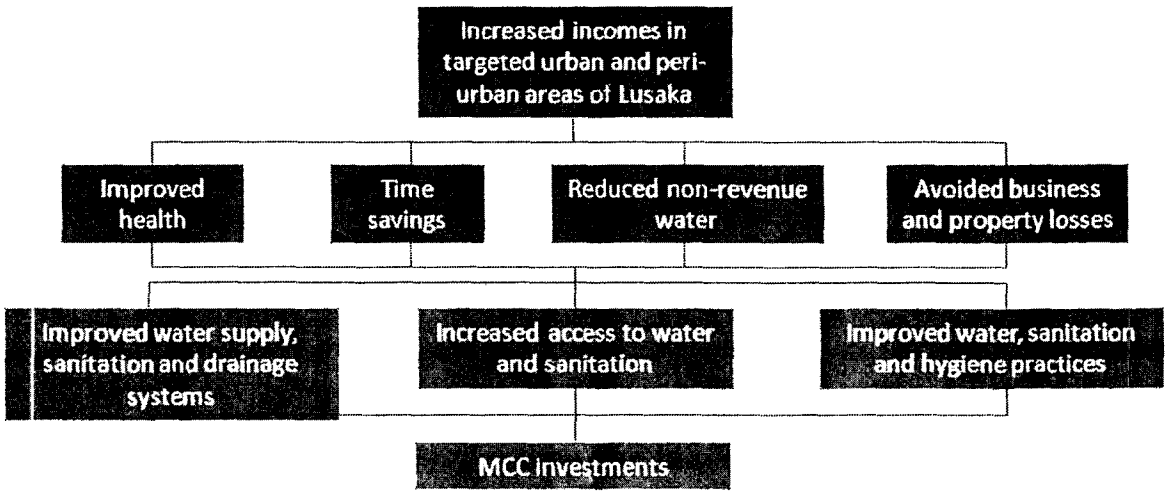
This Annex III generally describes the components of the monitoring and evaluation plan ("***M&E Plan***") for the Program. The actual content and form of the M&E Plan will be agreed to by MCC and the Government in accordance with the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs posted from time to time on the MCC Website (the "***MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs***"). The M&E Plan may be modified from time to time with MCC approval without requiring an amendment to this Annex III.

1. Overview.

MCC and the Government will formulate and 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 and the Project Objective will be monitored, ("***Monitoring Component***"), (b) a process and timeline for the monitoring of planned, ongoing, or completed Activities to determine their efficiency and effectiveness, and (c) a methodology for assessment and rigorous evaluation of the outcomes and impact of the Program ("***Evaluation Component***"). Information regarding the Program's performance, including the M&E Plan, and any amendments or modifications thereto, as well as progress and other reports, will be made publicly available on the website of MCA-Zambia and elsewhere.

2. Program Logic.

The M&E Plan will be built on the logic model below, which illustrates how the Program, the Project and the Activities contribute to the Compact Goal and the Project Objective.



3. Monitoring Component.

To monitor progress toward the achievement of the impact and outcomes, the Monitoring Component of the M&E Plan will identify (a) the Indicators (as defined below), (b) the definitions of the Indicators, (c) the sources and methods for data collection, (d) the frequency for data collection, (e) the party or parties responsible, and (f) the timeline for reporting on each Indicator to MCC.

Further, the Monitoring Component will track changes in the selected Indicators for measuring progress towards the achievement of the objectives during the Compact Term. The M&E Plan will establish baselines that measure the situation prior to a development intervention, against which progress can be assessed or comparisons made (each a, "***Baseline***"). The Government will collect Baselines on the selected Indicators or verify already collected Baselines where applicable and as set forth in the M&E Plan.

(a) Indicators. The M&E Plan will measure the results of the Program using quantitative, objective and reliable data ("***Indicators***"). Each Indicator will have benchmarks that specify the expected value and the expected time by which that result will be achieved ("***Target***"). All Indicators will be disaggregated by gender, income level and age, and beneficiary types to the extent practicable. Subject to prior written approval from MCC, the Government may add Indicators or refine the definitions and Targets of existing Indicators.

(i) Compact Indicators.

(1) Goal. The M&E Plan will contain the following Indicator related to the Compact Goal. Although the Project will contribute to this goal, the results are attributable to many factors in the economy:

(A) Increased incomes of households in Project areas.

(2) Other Indicators. The M&E Plan will contain the Indicators listed in the following tables.

Result	Indicator	Definition	Baseline Value	End of Compact
Cross-Cutting Outcomes				
Improved household health	Incidence of water-borne diseases	Number of cases of infectious diarrhea and cholera per 1,000 population	138 per 1,000	32 per 1,000
Decreased economic impact of water-related diseases	Days of work missed due to illness	Average Number of days of work missed per beneficiary, per year (disaggregated by sex)	TBD	18% reduction
	Days of school missed due to illness	Average Number of days of school missed per school age beneficiary, per year (disaggregated by sex)	TBD	20% reduction

Result	Indicator	Definition	Baseline Value	End of Compact
Water Supply Infrastructure Rehabilitation and Expansion				
Improved water service coverage	Access to improved water supply	Number of new household connections to the water network made possible through the Compact	0	16,790
Improved quality of service delivery	Continuity of service	Average hours of service per day for water supply	17	24
	Volume of water produced	Total volume of water produced in cubic meters per day for the service area	225,000	240,000
Reduced water losses	Non-revenue water	The difference between water supplied and water sold (*i.e.* volume of water "lost") expressed as a percentage of water supplied.	48%	25%
Time savings for households	Time spent fetching water	Average time spent by household members to fetch water in the past week (hours) (disaggregated by sex)	16	9.5
Improved water supply infrastructure	Length of the water distribution network (km)	Total length of the distribution network in km	1,372	1,547
	Water points constructed	The number of non-networked, stand-alone water supply systems constructed (kiosks)	532	596

Result	Indicator	Definition	Baseline Value	End of Compact
Sanitation Infrastructure Rehabilitation and Expansion				
Improved sanitation coverage	Access to improved sanitation	Number of new household connections to sewage network made possible through the Compact	0	13,147
Improved sanitation infrastructure	Length of the sewer system	Total length of the sewerage network in km	408	490

Result	Indicator	Definition	Baseline Value	End of Compact
Drainage Infrastructure Rehabilitation				
Improved drainage system	Length of the drainage system	Total km of drainage channel rehabilitation funded by the Compact	0	30

(b) Data Collection and Reporting. The M&E Plan will establish guidelines for data collection and reporting, and identify the responsible parties. Compliance with data collection and reporting timelines will be conditions for Disbursements for the relevant Activities as set forth in the Program Implementation Agreement. The M&E Plan will specify the data collection methodologies, procedures, and analysis required for reporting on results at all levels. The M&E Plan will describe any interim MCC approvals for data collection, analysis, and reporting plans.

(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 valid, reliable, and timely 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 those levels of quality are not possible, given the realities of data collection.

(d) Management Information System. The M&E Plan will describe the information system that will be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the Program information collected and verified pursuant to the M&E Plan is at all times accessible and useful to those who wish to use it. The system development will take into consideration the requirement and data needs of the components of the Program, and will be aligned with existing MCC systems, other service providers, and ministries.

(e) Role of MCA-Zambia. The monitoring and evaluation of this Compact spans one Project and will involve governmental, nongovernmental, and private sector institutions. In accordance with the designation contemplated by Section 3.2(b) of this Compact, MCA-Zambia is responsible for implementation of the M&E Plan. MCA-Zambia will oversee all Compact-related monitoring and evaluation activities conducted for the Project, ensuring that data from all implementing entities is consistent, accurately reported and aggregated into regular Compact performance reports as described in the M&E Plan.

4. Evaluation Component.

The Evaluation Component of the M&E Plan will contain three types of evaluations: (i) impact evaluations; (ii) project performance evaluations; and (iii) special studies. The Evaluation Component of the M&E Plan will describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. The results of all evaluations will be made publicly available in accordance with the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs.

Possible evaluations include:

- Infrastructure Activity. An evaluation of this activity would focus on household level impacts including health outcomes and expenditures; time savings; property values; and the availability and reliability of water, sanitation, and drainage services. Although a specific methodology has not been identified, due to the high potential for learning from these investments, MCC and MCA-Zambia will work together to develop as rigorous an evaluation of the infrastructure investments as possible.

- Institutional Strengthening Activity. The Institutional Strengthening Activities would likely undergo performance evaluations aimed at assessing their effectiveness and contribution to the overall sustainability of the infrastructure investments.

- Innovation Grant Program. The innovation grant (IG) program under the Institutional Strengthening Activity will seek opportunities to rigorously evaluate the activities that are proposed for funding. To the extent the IG program supports innovative ideas in the realm of water, sanitation, and drainage services, rigorous evaluations would serve an accountability function and, if possible, a learning function.

(a) Impact Evaluation. The M&E Plan will include a description of the methods to be used for impact evaluations and plans for integrating the evaluation method into Project design. Final impact evaluation strategies are to be included in the M&E Plan.

(b) Final Evaluation. The M&E Plan will make provision for final Project-level evaluations ("***Final Evaluations***"). With the prior written approval of MCC, the Government will engage independent evaluators to conduct the Final Evaluations at the end of the Project. The Final Evaluations will review progress during Compact implementation and provide a qualitative context for interpreting monitoring data and impact evaluation findings. They must at a minimum (i) evaluate the efficiency and effectiveness of the Activities; (ii) determine if and analyze the reasons why the Compact Goal and the Project Objective, outcome(s) and output(s) were or were not achieved; (iii) identify positive and negative unintended results of the Program; (iv) provide lessons learned that may be applied to similar projects; and (v) assess the likelihood that results will be sustained over time.

(i) Special Studies. The M&E Plan will include a description of the methods to be used for special studies, as necessary, funded through this Compact or by MCC. Plans for conducting the special studies will be determined jointly between the Government and MCC before the approval of the M&E Plan. The M&E Plan will identify and make provision for any other special studies, *ad hoc* evaluations, and research that may be needed as part of the monitoring and evaluating of this Compact. Either MCC or the Government may request special studies or *ad hoc* evaluations of the Project, the Activities, or the Program as a whole prior to the expiration of the Compact Term. When the Government engages an evaluator, the engagement will be subject to the prior written approval of MCC. Contract terms must ensure non-biased results and the publication of results.

(c) Request for Ad Hoc Evaluation or Special Study. If the Government 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 the Project or any Activity or to seek funding from other donors, no MCC Funding resources may be applied to such evaluation or special study without MCC's prior written approval.

5. Other Components of the M&E Plan.

In addition to the monitoring and evaluation components, the M&E Plan will include the following components for the Program, the Project and the Activities, including, where appropriate, roles and responsibilities of the relevant parties and providers:

(a) Costs. A detailed cost estimate for all components of the M&E Plan; and

(b) Assumptions and Risks. Any assumption or risk external to the Program that underlies the accomplishment of the Project Objective and Activity outcomes and outputs. However, such assumptions and risks will not excuse any Party's performance unless otherwise expressly agreed to in writing by the other Party.

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

The approval and implementation of the M&E Plan, as amended from time to time, will be in accordance with the Program Implementation Agreement, any other relevant Supplemental Agreement and the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs.

ANNEX IV

CONDITIONS PRECEDENT

TO DISBURSEMENT OF COMPACT IMPLEMENTATION FUNDING

This Annex IV sets forth the conditions precedent applicable to Disbursements of Compact Implementation Funding other than Disbursements for MCC CIF Contracted Activities (each a "***CIF Disbursement***"). Capitalized terms used in this Annex IV and not defined in this Compact will have the respective meanings assigned thereto in the Program Implementation Agreement. Upon execution of the Program Implementation Agreement, each CIF Disbursement will be subject to the terms of the Program Implementation Agreement.

1. Conditions Precedent to Initial CIF Disbursement.

Each of the following must have occurred or been satisfied prior to the initial CIF Disbursement:

(a) The Government (or MCA-Zambia) has delivered to MCC:

(i) an interim fiscal accountability plan acceptable to MCC; and

(ii) a CIF procurement plan acceptable to MCC.

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

Each of the following must have occurred or been satisfied prior to each CIF Disbursement:

(a) The Government (or MCA-Zambia) has delivered to MCC the following documents, in form and substance satisfactory to MCC:

(i) a completed Disbursement Request, together with the applicable Periodic Reports, for the applicable Disbursement Period, all in accordance with the Reporting Guidelines;

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

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

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

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

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

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

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

(f) For any CIF Disbursement occurring concurrently with or after the Initial Disbursement of Program Funding in accordance with Section 3.3 and 3.4 of the Program Implementation Agreement: MCC is satisfied, in its sole discretion, that (i) MCC has received copies of any reports due from any technical consultants (including environmental auditors engaged by MCA-Zambia) for any Activity since the previous Disbursement Request, and all such reports are in form and substance satisfactory to MCC; (ii) the Implementation Plan Documents and Fiscal Accountability Plan are current and updated and are in form and substance satisfactory to MCC, and there has been progress satisfactory to MCC on the components of the Implementation Plan for any relevant Projects or Activities related to such CIF Disbursement; (iii) there has been progress satisfactory to MCC on the M&E Plan and Social and Gender Integration Plan for the Program or relevant Project or Activity and substantial compliance with the requirements of the M&E Plan and Social and Gender Integration Plan (including the targets set forth therein and any applicable reporting requirements set forth therein for the relevant Disbursement Period); (iv) there has been no material negative finding in any financial audit report delivered in accordance with this Compact and the Audit Plan, for the prior two quarters (or such other period as the Audit Plan may require); (v) MCC does not have grounds for concluding that any matter certified to it in the related MCA Disbursement Certificate, the Fiscal Agent Disbursement Certificate or the Procurement Agent Disbursement Certificate is not as certified; and (vi) if any of the officers or key staff of MCA-Zambia have been removed or resigned and the position remains vacant, MCA-Zambia is actively engaged in recruiting a replacement.

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

ANNEX V
DEFINITIONS

Activity *has the meaning provided in paragraph 1 of Part B of Annex I.*

Additional Representative *has the meaning provided in Section 4.2.*

Applicable Acts *has the meaning provided in Annex VI.*

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

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

Board *has the meaning provided in paragraph 3 of Part C of Annex I.*

Bylaws *has the meaning provided in paragraph 3 of Part C of Annex I.*

CEO *has the meaning provided in paragraph 3(a)(i) of Part C of Annex I.*

CIF Disbursement *has the meaning provided in Annex IV.*

Compact *has the meaning provided in the Preamble.*

Compact Contract *has the meaning provided in Annex VI.*

Compact Goal *has the meaning provided in Section 1.1.*

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

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

Compact Term *has the meaning provided in Section 7.4.*

Comprehensive Urban Development Plan *has the meaning provided in paragraph 1(a) of Part B of Annex I.*

Covered Provider *has the meaning provided in Section 3.7(c).*

Disbursement *has the meaning provided in Section 2.4.*

Eligible Entities *has the meaning provided in Annex VI.*

Eligible Individuals *has the meaning provided in to Annex VI.*

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

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

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

Fiscal Agent *has the meaning provided in paragraph 5 of Part C of Annex I.*

Governance Guidelines *means MCC's Guidelines for Accountable Entities and Implementation Structures, as such may be posted on MCC's Website from time to time.*

Government *has the meaning provided in the Preamble.*

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

GRZ Sanitation Connection Action Plan *has the meaning provided in Section 7.2(d).*

IEC *has the meaning provided in paragraph 1(b)(i)(4) of Part B of Annex I.*

IFC Performance Standards *has the meaning provided in paragraph 3 of Part A of Annex I.*

Implementation Letter *has the meaning provided in Section 3.5.*

Implementing Entity *has the meaning provided in paragraph 4 of Part C of Annex I.*

Implementing Entity Agreement *has the meaning provided in paragraph 4 of Part C of Annex I.*

Indicators *has the meaning provided in paragraph 3(a) of Annex III.*

Infrastructure Activity *has the meaning provided in paragraph 1 of Part B of Annex I.*

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

Institutional Strengthening Activity *has the meaning provided in paragraph 1 of Part B of Annex I.*

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

LPO *has the meaning provided in Schedule D to Annex VI.*

LCC *has the meaning provided in paragraph 1 of Part B of Annex I.*

LWSC *has the meaning provided in paragraph 1 of Part B of Annex I.*

LWSC's Retained Earnings *means, as calculated at the end of any fiscal year, the Retained Earnings at the beginning of such fiscal year plus the portion of net income retained after payment of any dividends.*

LWSC Sustainability Agreement *has the meaning provided in Section 7.2(g).*

LWSSD Project *has the meaning provided in paragraph 2 of Part A of Annex I.*

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

Management Unit *has the meaning provided in paragraph 3 of Part C of Annex I.*

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

MCA-Zambia *has the meaning provided in Section 3.2(b).*

MCC *has the meaning provided in the Preamble.*

MCC Contracted CIF Activities *has the meaning provided in Section 2.2(b).*

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

MCC Funding *has the meaning provided in Section 2.3.*

MCC Gender Policy *means the MCC Gender Policy (including any guidance documents issued in connection with the guidelines) posted from time to time on the MCC Website or otherwise made available to the Government.*

MCC Gender Integration Guidelines and Operational Procedures *means MCC's Gender Integration Guidelines and Operational Procedures, as such may be posted on MCC's Website from time to time.*

MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs *has the meaning provided in Annex III.*

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

MCC Social and Gender Integration Plan Guidelines *means MCC's Social and Gender Integration Plan Guidelines, as such may be posted on MCC's Website, or otherwise provided by MCC, from time to time.*

MCC Website *has the meaning provided in Section 2.7.*

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

Multi-Year Financial Plan Summary *has the meaning provided in paragraph 1 of Annex II.*

NWASCO *has the meaning provided in paragraph 1 of Part A of Annex I.*

NRW *has the meaning provided in paragraph 1 of Part B of Annex I.*

Party *and* ***Parties*** *have the meaning provided in the Preamble.*

Permitted Account *has the meaning provided in Section 2.4.*

Principal Representative *has the meaning provided in Section 4.2.*

Procurement Agent *has the meaning provided in paragraph 6 of Part C of Annex I.*

Program *has the meaning provided in the Preamble.*

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

Program Funding *has the meaning provided in Section 2.1.*

Program Guidelines *means collectively the Audit Guidelines, the MCC Environmental Guidelines, the MCC Gender Policy, the Governance Guidelines, the MCC Program Procurement Guidelines, the*

Reporting Guidelines, the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs, the MCC Cost Principles for Government Affiliates Involved in Compact Implementation (including any successor to any of the foregoing) and any other guidelines, policies or guidance papers relating to the administration of MCC-funded compact programs, and, in each case, as from time to time published on the MCC Website.

Program Implementation Agreement *has the meaning provided in Section 3.1.*

Project *means the LWSSD Project.*

Project Objective *has the meaning provided in Section 1.2.*

Provider *has the meaning provided in Section 3.7(c).*

Reporting Guidelines *means the MCC "Guidance on Quarterly MCA Disbursement Request and Reporting Package" posted by MCC on the MCC Website or otherwise publicly made available.*

Retained Earnings *means the portion of net income retained after payment of any dividends.*

Social and Gender Integration Plan *has the meaning provided in paragraph 3 of Part A of Annex I.*

Stakeholders Committee *has the meaning provided in paragraph 3 of Part C of Annex I.*

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

Statutory Instrument *has the meaning provided in Annex VI.*

Target *has the meaning provided in paragraph 3(a) of Annex III.*

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

Third Schedule *has the meaning provided in Schedule E to Annex VI.*

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

USAID *has the meaning provided in paragraph 5 of Part B of Annex I.*

VAT *has the meaning provided in Schedule D to Annex VI.*

Vendor *has the meaning provided in Annex VI.*

Zambia *has the meaning provided in the Preamble.*

ZRA *has the meaning provided in Schedule D to Annex VI.*

ANNEX VI

TAX SCHEDULES

1. Introduction.

In accordance with, and without limiting the generality of, Section 2.8 of the Compact, the Government will ensure that all MCC Funding is free from the payment or imposition of any existing or future Taxes in or of Zambia. This will include any interest or earnings on MCC Funding, and any MCC Funding disbursed, directly or indirectly, to or for: (i) MCA-Zambia; (ii) any goods, works, services, technology and other assets and activities under the Program or the Project; (iii) any persons and entities, including without limitation any Implementing Entity, contractor (prime and subcontractors), consultant or grantees, that provide such goods, works, services, technology and assets, or perform such activities (each, a "***Vendor***"); and/or (iv) any income, profits, and payments with respect to the foregoing, except as otherwise allowed pursuant to Section 2.8 of the Compact.

This Annex VI sets out the mechanisms for exempting MCC Funding from the principal Taxes otherwise imposed by the Government. Should any potential liability for Taxes on MCC Funding arise that is not contemplated by the mechanisms set out in this Annex VI, the Parties will, in accordance with Section 2.8 of the Compact, agree to the means by which MCC Funding will be exempt from such Taxes.

For the purposes of this Annex VI, MCA-Zambia and any Vendor are referred to variously as "***Eligible Entities***" or "***Eligible Individuals***," as appropriate.

In addition, for the purposes of this Annex VI, any Compact-related contracts, agreements or grants with an Eligible Entity or Eligible Individual are referred to as a "***Compact Contract***."

2. General Background.

For most Tax exemptions or Tax rebates, the applicable tax-related laws of Zambia (the "***Applicable Acts***") have vested powers in the Minister of Finance and National Planning to grant such exemptions or rebates through the issuance of subsidiary legislation, each referred to as a "***Statutory Instrument***." For every Statutory Instrument that is issued in respect of a tax exemption or rebate, the Minister of Finance and National Planning submits an explanatory memorandum to the Committee on Delegated Legislation of Parliament. The memorandum explains why the Statutory Instrument has been issued.

In general, MCC Funding will be treated in accordance with the provisions of donor-funded projects, under which there is authority to exempt any goods, services or works that are purchased using such funds from taxation in Zambia. In terms of income tax and other exemptions, for which existing exemption mechanisms are not specifically referenced in the Applicable Acts, the Minister of Finance and National Planning will issue a specific Statutory Instrument.

3. Miscellaneous Additional Requirements.

For the purposes of determining if a natural person is a permanent resident of Zambia or if a legal person has been formed under the laws of Zambia under Section 2.8(a) of the Compact, the taxable status of such natural or legal person will be based on its status at the time it is awarded

or executes a Compact-related agreement, contract, or grant, and such initial determination will not change regardless of: (i) the type of agreement, contract or grant used to employ or engage such natural or legal person; (ii) any laws of Zambia that purport to change such status based on period of contract or grant performance, or period of time residing and/or working in Zambia; and/or (iii) any requirement under the laws of Zambia that a company or other legal person must establish a branch office in Zambia, or otherwise register or organize itself under the laws of Zambia, in order to provide goods, works or services in Zambia.

In addition, in complying with the tax exemption obligations set forth in the Compact, the Government will also exempt MCA-Zambia, the Fiscal Agent, the Procurement Agent and/or any other Vendor from any obligation imposed by the laws of Zambia, including the Applicable Acts, to withhold any Taxes from any payments made to any Eligible Entities or Eligible Individuals.

4. General Mechanism Exemption.

The general mechanism that the Government will use to implement its tax exemption obligations under the Compact is as follows:

(a) The Minister of Finance and National Planning and MCA-Zambia will cooperate in drafting an explanatory memorandum to the Committee on Delegated Legislation of Parliament explaining the policy behind the issuance of the Statutory Instrument to exempt MCC Funding from the payment or imposition of any Taxes, and specifically the requirement to exempt Eligible Entities and/or Eligible Individuals from the following types of Taxes with respect to MCC Funding:

(i) Corporate Income Tax;

(ii) Personal Income Tax;

(iii) Withholding Tax;

(iv) Excise Tax on Fuel; and

(v) Any other taxes that require a Statutory Instrument for exemption.

(b) The explanatory memorandum will, at a minimum, specify:

(i) The project or activity that will benefit from the exemption;

(ii) The expected timeframe of each project or activity;

(iii) The expected cost of each project or activity; and

(iv) A complete list of Taxes that will be exempted.

(c) For tax exemptions not provided for by means of a Statutory Instrument, the exemption will be provided by the means set out in this Annex VI, or as otherwise agreed by the Parties.

SCHEDULE A

CORPORATE INCOME TAX

1. Procedures.

(a) The Minister of Finance and National Planning will issue a Statutory Instrument to exempt Eligible Entities receiving MCC Funding from payment of corporate income tax on any income derived from that MCC Funding, in accordance with the Income Tax Act.

(b) Any Eligible Entity earning income derived from MCC Funding in Zambia in any given tax year will be exempt from the payment or imposition of any Zambian income (and other) taxes on such income, and as such will not be required to have any taxes withheld on any income derived from MCC Funding during the tax year.

(c) At the end of a given tax year, any Eligible Entity earning only income derived from MCC Funding in Zambia in that tax year will file a tax return indicating that such income is not subject to taxation in Zambia in accordance with the Compact, the Statutory Instrument issued by the Minister of Finance and National Planning and the Compact Contract. The Eligible Entity will include a copy of the applicable Compact Contract and the Statutory Instrument with its tax return.

(d) Any Eligible Entity earning both income derived from MCC Funding and non-Compact-related income in Zambia in any given tax year will:

(i) Maintain its books and records to segregate financial activity related to its Compact-funded activities from those financial activities that are not related to the Compact.

(ii) At the end of any such tax year, file its tax return on income that is not derived from MCC Funding, as applicable, providing the documentation required in paragraph 3 above.

SCHEDULE B

PERSONAL INCOME TAX

1. Procedures.

(a) The Minister of Finance and National Planning will issue a Statutory Instrument to exempt Eligible Individuals receiving MCC Funding from payment of personal income tax on any income earned from that MCC Funding, in accordance with the Income Tax Act.

(b) MCA-Zambia will send a letter to the Minister of Finance and National Planning listing any exempt natural persons (as determined by Section 2.8(a) of the Compact and this Annex VI) working on Compact-related projects or activities, and will attach a copy of the agreement or contract under which the exempt natural person will be working. The letter should also include a request to exempt such natural person from any social security and other related benefits required under the laws of Zambia.

(c) Any Eligible Individual earning only income derived from MCC Funding in Zambia in any given tax year will be exempt from the payment or imposition of any Zambia taxes on such income, and as such will not be required to have taxes withheld on any such income earned during the tax year. At the end of the tax year, such Eligible Individual will file a tax return indicating that such income is not subject to taxation in Zambia, in accordance with the Compact, the Statutory Instrument issued by the Minister of Finance and National Planning and the Compact Contract. The Eligible Individual will include a copy of the applicable Compact Contract and the Statutory Instrument with its tax return.

(d) Any Eligible Individual earning both income derived from MCC Funding and non-Compact-related income in Zambia in any given tax year will be permitted to exclude the gross amount of personal income derived from MCC Funding for the purposes of filing his/her year-end individual income taxes in Zambia for any such tax year. Such Eligible Individual will include a copy of the applicable Compact Contract and the Statutory Instrument with its tax return.

SCHEDULE C
WITHHOLDING TAX

1. Description.

The withholding tax is a flat, general tax at the rate of 15 percent withheld at the source of payment in connection with such things as interest, dividends, royalties, rents, management and consultancy fees, commissions and public entertainment fees.

2. Procedure.

The Minister of Finance and National Planning will issue a Statutory Instrument to exempt Eligible Entities and Eligible Individuals receiving MCC Funding from the requirement to have withholding tax withheld at the source of payment for management and consultancy fees, as well as other payments that would otherwise be subject to the withholding tax that are paid with MCC Funding. For the avoidance of doubt, the Statutory Instrument will also exempt MCA-Zambia from the requirement to withhold and remit such tax.

SCHEDULE D
VALUE ADDED TAX

1. Description.

The value added tax ("***VAT***") is a consumption-based tax that is levied in the supply chain at each point where value is added to a good or service. VAT is incurred by the final person or entity in the chain of supply that is not registered for VAT. Persons registered for VAT will claim back, through their respective tax return, the input VAT incurred in the course of their business, and remit to the Zambia Revenue Authority ("***ZRA***") the output VAT collected in excess of their input VAT paid. Therefore, registered suppliers do not pay VAT.

2. Procedure.

(a) For the purposes of VAT, the tax exemption required under the Compact will be provided via the zero rating of goods or services supplied or imported under a technical aid program or project which is:

(i) Paid for through donor funding, such as MCC Funding through the Compact; and

(ii) Provided by the donor, or by a contractor of the donor, under a written agreement with the Government.

(b) Each applicable Compact Contract will explicitly state that goods, works or services purchased using MCC Funding under the Compact are zero rated for the purposes of VAT. The zero rating will then be implemented through the issuance of Local Purchase Orders (each an "***LPO***").

(c) MCA-Zambia will provide the following information, on MCA-Zambia official letterhead, for each Compact Contract to the Permanent Secretary (Budget and Economic Affairs), Ministry of Finance and National Planning, P.O. Box 50062, Lusaka, Zambia:

(i) Name of Eligible Entity or Eligible Individual;

(ii) Name of the Project/Activity undertaken through Compact Contract;

(iii) Total contract value;

(iv) Location(s) where the goods, works or services will be provided; and

(v) Name and address of the senior official of the Eligible Entity or Eligible Individual who will be responsible and accountable for the issuance of the LPO.

(d) The Ministry of Finance and National Planning will direct ZRA to issue an LPO booklet to the Eligible Entity or Eligible Individual in the amount of the total value of the Compact Contract.

(e) The Eligible Entity or Eligible Individual will pay for Compact-funded purchases less VAT, complete the LPO certificate in the amount of the VAT for that particular purchase, and provide the LPO certificate to the vendor as proof for VAT zero-rating of the purchase.

SCHEDULE E

EXCISE DUTY ON FUEL

1. Description.

The excise duty is a tax on particular goods or products, whether imported or produced domestically, imposed at any stage of production or distribution. Excise duties are determined by reference to weight, strength or quantity of the goods or products, or by reference to their value. The excise duty is charged on the "Excisable Value" (*i.e.*, the customs value plus customs duty). Fuel is generally subject to an excise duty under the laws of Zambia, including the Applicable Acts.

2. Procedure.

Fuel that will be purchased for official use under the Compact using MCC Funding will be exempt from the payment or imposition of any Taxes, including excise duties.

Subject to the procedures below, ZRA will advise MCA-Zambia, and each Eligible Entity and Eligible Individual, of the designated fuel suppliers/filling stations where fuel is deemed to be supplied in bond (*i.e.*, from bonded premises or filling stations).

MCA-Zambia will be listed in the "Third Schedule of the "Customs and Excise (General) Regulations, 2000" (the "***Third Schedule***") as exempt from customs and excise taxes. Accordingly, MCA-Zambia will be entitled to purchase fuel free from taxation at the designated fuel suppliers/filling stations when such fuel is purchased using MCC Funding.

With regard to Eligible Entities and Eligible Individuals, a letter of rebate confirmation will be issued by the Ministry of Finance and National Planning to ZRA. To facilitate issuance of this letter, MCA-Zambia will send a letter to the Ministry of Finance and National Planning confirming those entities or individuals eligible for the exemption, providing a copy of the applicable Compact Contract.

Upon issuance of the letter of rebate confirmation by the Ministry of Finance and National Planning, the Eligible Entity and/or Eligible Individual will be entitled to purchase fuel free from taxation at the designated fuel suppliers/filling stations when such fuel is purchased using MCC Funding.

SCHEDULE F

CUSTOMS DUTY AND TARIFF TAXES

1. Description.

Customs duty is charged on the "Customs Value" of imported capital equipment and raw materials (0 to 5 percent), intermediate goods (15 percent), and finished goods (25 percent).

2. Procedure.

(a) Goods imported by MCA-Zambia.

The Minister of Finance and National Planning will issue a Statutory Instrument to list MCA-Zambia in the Third Schedule. The listing of MCA-Zambia in the Third Schedule will enable MCA-Zambia to qualify for an exemption from the payment of customs duty and tariffs on all goods that will be imported for the official use of MCA-Zambia for Compact-related purposes.

Accordingly, all imports for official use by MCA-Zambia will be cleared free of customs duties and tariffs by ZRA on the basis of MCA-Zambia being listed as exempt on the Third Schedule.

(b) Goods imported by Eligible Entities and Eligible Individuals.

With regard to goods imported by Eligible Entities and Eligible Individuals, a letter of rebate confirmation will be issued by the Ministry of Finance and National Planning to ZRA. To facilitate issuance of this letter, MCA-Zambia will send a letter to the Ministry of Finance and National Planning confirming those entities or individuals eligible for the exemption, providing a copy of the applicable Compact Contract, including the approved bills of quantities.

Upon issuance of the letter of rebate confirmation by the Ministry of Finance and National Planning, the Eligible Entity and/or Eligible Individual will be cleared free of customs duties and tariffs by ZRA to the extent of the Compact Contract, including the approved bill of quantities.

(c) Goods imported by staff to take up employment.

The "Customs and Excise (General) Regulations, 2000" provides for an exemption from the payment of custom duties and tariffs on household and personal effects, including one motor vehicle per household, for new residents in Zambia. The individual requiring the exemption will need to inform ZRA on arrival in Zambia that they are new residents and show proof (normally passport and any other documentation that may be required). The Applicable Acts provide that such persons must import these items within six months of arrival to benefit from this rebate.

(d) Machinery and Equipment imported by Eligible Entities and Eligible Individuals for use on Compact-related projects or activities.

The "Customs and Excise (General) Regulations, 2000" provide for an exemption from payment of custom duties and tariffs on machinery and equipment imported for any Compact-related projects or activities when such machinery and equipment will remain on the project or activity, or will be the property of either MCA-Zambia or the Government at the end of the Program.

Regarding machinery or equipment imported for use in connection with any Compact-related projects or activities, the Applicable Acts separately provide for the temporary importation of machinery or equipment by Eligible Entities and Eligible Individuals using machinery or equipment that they already own, but which is located outside Zambia. Such machinery or equipment may be imported exempt from the payment of custom duties or tariffs.

Subject to the conditions indicated above, the procedure for the exemption of custom duties or tariffs on machinery and equipment imported by Eligible Entities or Eligible Individuals for use on Compact-related activities or projects will be as follows:

- Importation of equipment on short term projects (*i.e.*, twelve months or less). In such cases, machinery or equipment can be imported into the country through a Temporal Import Permit. The applicable Eligible Entity or Eligible Individual will apply to ZRA by providing proof (normally a copy of the Compact Contract, together with confirmation from MCA-Zambia and any other documentation that may be required) that such entity or individual will be carrying out Compact-related projects or activities, and that such machinery or equipment is being imported for twelve months or less for the purposes of implementing such Compact-related projects or activities.

- Importation of equipment on long term projects (*i.e.*, more than twelve months). In such cases, MCA-Zambia will send a letter to the Ministry of Finance and National Planning to request a temporal exemption from the payment of custom duties and tariffs on such machinery and equipment, and will provide a copy of the applicable Compact Contract, including the bill of quantities.

In any case, the provisions of the "Customs and Excise (General) Regulations, 2000" will apply to the disposal of all machinery and equipment imported by an Eligible Entity or an Eligible Individual in connection with its Compact-related projects and activities when such machinery and equipment will no longer be used to carry out Compact-related projects or activities.

SCHEDULE G
IMPORT VAT

1. Description.

Import VAT is collected on behalf of the VAT Division and is applied to imported goods that attract VAT. VAT is charged on the "Taxable Value" (*i.e.*, the customs value plus customs duty, plus excise duty, where applicable) at the rate of 16 percent.

For equipment imported from outside Zambia on a temporary basis *(i.e.*, for the duration of the Compact) the Eligible Entity or Eligible Individual must remove the equipment from Zambia within a reasonable period of time after the end of the Compact (or the applicable period of performance) or pay any residual taxes that had been exempted (see related provisions in Schedule F above).

2. Procedure MCA-Zambia and any Eligible Entities or Eligible Individuals.

(a) MCA-Zambia will send letter to Ministry of Finance and National Planning requesting exemption from import VAT, either for itself or on behalf of the Eligible Entity or the Eligible Individual. This letter must include:

(i) Copy of the Compact Contract; and

(ii) Copy of the bill of quantities for goods to be imported by MCA-Zambia, or the Eligible Entity or Eligible Individual (as the case may be).

(b) Ministry of Finance and National Planning will direct ZRA to issue an exemption certificate to MCA-Zambia, or the Eligible Entity or the Eligible Individual (as the case may be).

(c) MCA-Zambia, or the Eligible Entity or Eligible Individual (as the case may be), will present the following to the Bureau of Customs:

(i) Bill of lading;

(ii) Invoice for goods; and

(iii) Certificate of exemption issued by ZRA.

(d) The Credibility and Controls Unit of the Bureau of Customs is responsible for clearance of the imported items. The Credibility and Controls Unit will issue instructions to the Port Authority to allow the import VAT exemption and release the goods.

(e) Estimated time for this clearance is three (3) to four (4) days.

SCHEDULE H

MEDICAL LEVY TAX

1. Description.

The medical levy was introduced through the "Medical Levy Act, 2003" in an effort to raise additional revenue for the health sector. Banks and other financial institutions are required to deduct the Medical Levy from gross interest earned by any person and partnership on any savings or deposit accounts, treasury bills or government bonds. The Medical Levy (1 percent) is charged on all interest earnings from banks and other financial institutions.

2. Procedure.

The Minister of Finance and National Planning will issue a Statutory Instrument to exempt MCA-Zambia from payment of the medical levy.