



Millennium Challenge Corporation

Reducing Poverty Through Growth

January 4, 2006

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-447, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of the Republic of Vanuatu ("GOV"), through which MCC will grant up to sixty-five million six hundred and ninety thousand U.S. Dollars (USD \$65,690,000) of FY 2005 Millennium Challenge Account ("MCA") funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. This five-year Compact will implement a program, proposed by the GOV, which will address Vanuatu's extremely poor transportation infrastructure. Consisting of up to eleven infrastructure projects – including roads, wharves, and airstrips – the program aims to benefit poor, rural agricultural producers and providers of tourist-related goods and services by reducing transportation costs and improving the reliability of access to transportation services. The Compact also includes an institutional strengthening component that will benefit the entire transportation infrastructure network in Vanuatu, not only those assets built or rehabilitated with MCC funds.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GOV on July 22, 2005. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms and substantially the form of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
the United States of America,
Acting through the Millennium Challenge Corporation, and
the Government of the Republic of Vanuatu**

Executive Summary

Vanuatu is a small island nation in the South Pacific comprised of more than 80 separate islands, where approximately half of the population lives in poverty. Costly and unreliable transportation is a major impediment to growth in Vanuatu. As a small, open, island economy, agriculture and tourism are central to Vanuatu's growth. These two sectors together employ 92% of Vanuatu's working population and represent approximately 32% of Vanuatu's GDP.

The proposed Compact is a five year program which addresses the country's extremely poor transportation infrastructure. The MCC program is expected to have a transformative impact on Vanuatu's economic development by increasing average income per capita by 15% within 5 years and directly impacting the lives of more than 65,000 poor, rural inhabitants – almost a third of the total population. GDP is expected to increase by an additional 3% each year as a result of the program. Moreover, the average economic rate of return for the overall program is estimated to be 25% based on a twenty year time horizon.

Vanuatu's MCC program consists of two principal components: (i) civil works for the reconstruction of priority transport infrastructure on eight islands, covering roads, wharfs, an airstrip and warehouses; and (ii) institutional strengthening efforts in Vanuatu's Public Works Department (PWD) that will benefit the entire transportation infrastructure network in Vanuatu, not only those assets built or rehabilitated with MCC funds. Through the institutional strengthening component of the program, MCC funds will be used to: assist PWD in setting up service performance contracts for maintenance; provide new plant and equipment; establish local community maintenance schemes; and introduce user fees. As part of the Compact, the GOV is expected to implement several major policy changes to ensure sustainable operation and maintenance of the proposed infrastructure assets, including appropriate budget allocations. The Compact has received strong support from members of Vanuatu's civil society and private sector, as well as other donors.

The GOV will create an independent entity (MCA-Vanuatu) housed within the Ministry of Finance and Economic Management, which will primarily be responsible for program monitoring and evaluation. To oversee MCA-Vanuatu, the GOV is establishing a Steering Committee consisting of five Director-General level and three Director level civil servants, one senior level civil servant, one private sector representative, and two civil society representatives, with all members of the Steering Committee possessing voting rights. Observers to the Steering Committee will include two Government Directors and an MCC representative.

The PWD will serve as the project manager and be responsible for oversight of the specific activities of the Transport Infrastructure Project. Outside professional services will be contracted through MCA-Vanuatu to assist PWD in its functions. The Department of Finance in the Ministry of Finance and Economic Management will serve as the fiscal agent on behalf of MCA-Vanuatu. For procurements, an external procurement agent will be used and will be selected competitively. Procurements will be conducted in accordance with international procurement rules.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents, will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Vanuatu, detailed financial plans, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GOV must, among other things, execute a Disbursement Agreement, a Procurement Agreement, and certain other ancillary agreements or term sheets in connection with such ancillary agreements.

Where To Find Key Provisions

Compact:

- Article I: Objectives; Term
- Article II: Funding and Disbursement Provisions; Government Contributions; Limitations on the Use or Treatment of MCC Funding
- Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances
- Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement
- Article V: Final Clauses, including Termination and Suspension
- Annex I: Descriptions of the implementation framework and the program elements, which include the Transport Infrastructure Project and its two components: (1) the Transport Infrastructure Activity and (2) the Institutional Strengthening Activity
- Annex II: Summary of Multi-Year Financial Plan
- Annex III: Description of the Monitoring and Evaluation Plan