



**MILLENNIUM  
CHALLENGE  
CORPORATION**

REDUCING POVERTY THROUGH GROWTH

FRANCES C. MCNAUGHT  
VICE PRESIDENT, CONGRESSIONAL AND PUBLIC AFFAIRS

**CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET**

We wish to inform you of the intent to provide funding of up to US\$11,476,000 for the purpose of facilitating the development of a Millennium Challenge Compact with the Government of Sri Lanka.

This notification is being sent to the Congress on March 16, 2007. Allocation and obligation of funds may be incurred on or after fifteen days from the date of this notification. The obligation of funds will be made at the time the applicable agreement is effective.

Sincerely,

Frances C. McNaught  
Vice President  
Congressional and Public Affairs

Enclosure:  
As stated



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CONGRESSIONAL NOTIFICATION**

March 16, 2007

PROGRAM: FY 2004, 2005, 2006, 2007  
Eligible Country

APPROPRIATIONS CATEGORY: FY 2005 Program Funds

INTENDED FY 2005 OBLIGATION: Up to US\$11,476,000

In accordance with section 515 of the Foreign Operation, Export Financing, and Related Programs Appropriations Act of 2005 (Div. D, P.L. 108-447) ("FOAA"), this is to advise that the Millennium Challenge Corporation ("MCC") intends to obligate up to US\$11,476,000 in FY 2005 MCC program funds pursuant to its authority under Section 609(g) of the Millennium Challenge Act of 2003. MCC plans to apply the obligated funds to activities to facilitate the development of a proposed Millennium Challenge Compact with the Government of Sri Lanka ("GoSL") in a manner designed to accelerate implementation of the proposed Compact should it be entered into. Specifically, these funds will be used for detailed design work on the following four roads projects included in the proposed Compact:

1. the A-7 National Highway from Hatton to Nuwara Eliya (\$1,598,000)
2. the A-12 National Highway from Anuradhapura to Trincomalee (\$4,415,000)
3. the A-28 National Highway from Padeniya to Anuradhapura (\$196,000)
4. a portfolio of primary, secondary and rural roads in the Jaffna Peninsula (\$5,267,000)

The timely completion of designs for the four proposed roads projects and the respective technical specifications for tender documents will provide the following benefits: (i) from a technical perspective the proposed Compact could enter into force *and* undertake procurement for construction activities immediately following Compact signing (contingent upon the satisfaction of all other conditions for entry into force of the Compact ("Entry into Force") and the engagement of the procurement agent and fiscal agent by the time of Compact signing or shortly thereafter); and (ii) defects-liability corrections at the end of construction could be conducted within the Compact term, so that MCC would more likely be assured of quality construction in accordance with specified standards acceptable to MCC. Without this advance work, it is anticipated there would need to be a significant delay between Compact signing and Entry into Force or a significant delay between Entry into Force and commencement of construction, which would not allow for a sufficient period for defects-liability corrections within the Compact term.

The GoSL proposal, originally submitted in July 2005, includes a number of road rehabilitation projects. Roads were identified as a national priority following an extensive consultative process. The proposed projects were included because of the poor state of Sri Lankan roads and the importance of roads as critical links between the countryside and the cities, and between producers and consumers. The specific roads selected have the further value of reaching into both predominantly Tamil and

predominately Sinhalese areas of the country. Due diligence work is well under way, although not fully complete. However, road design work remains a major outstanding task that would determine the commencement of implementation.

It is estimated that the cost of the proposed roads projects will total between US\$150-200 million based on current information and subject to completion of MCC due diligence.

All proposed projects are expected to reduce transportation costs through lower vehicle operating costs and higher vehicle operating speeds. Increased traffic activity and improved maintenance of the roads are also expected outcomes. In addition to this, there are unquantified direct and indirect benefits of road rehabilitation that would likely add further support to the quantified economic analysis. These indirect benefits include improved access to schools, health facilities, wholesale, commercial and retail centers.

In the case of the proposed A-7 highway project, this may, in turn, stimulate increased agricultural production and facilitate governmental regional programs for agricultural, tourism and regional development. In the cases of the proposed A-12 and A-28 highways projects, the general increase in economic activity along the routes is potentially of more relevance to the poor than in other locations of the country due to the fact that the A-12 and the A-28 highways connect the North-Western, the North Central, and the North Eastern Provinces, which are all relatively poor. Jaffna Peninsula roads are heavily deteriorated due to a lack of maintenance and rehabilitation over several decades. As a result, rural communities are severely isolated from the rest of the country. Most residents of Jaffna are unable to easily and cost effectively access basic markets. The proposed roads rehabilitation is expected to greatly increase the economic activity in the region.

The on-going security situation in Sri Lanka clearly has a potential impact on MCC's work and on our ability to achieve our objectives there. Risk assessment has been and continues to be an integral part of MCC's work in Sri Lanka. Prior to committing any Section 609(g) funds and as part of its ongoing Compact development process, MCC will be carrying out further risk assessment drawing on U.S. Government and other sources. Risk assessment will be an on-going concern and focus of MCC as the Sri Lankan Compact proposal moves forward.