



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to obligate up to \$7,400,000 to facilitate the development and implementation of a Millennium Challenge Compact with the Government of Sri Lanka.

The attached notification is being sent to the Congress on June 20, 2017. Obligation of funds may be incurred on or after 15 days from the date of this notification.

In addition, we have attached supplemental information that further describes the planned use of the funds.

Sincerely,

/s/

James Mazarella
Vice President (Acting)
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

June 20, 2017

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	FY 2008 Program Funds: \$1,400,000 FY 2016 Program Funds: \$3,800,000 FY 2017 Program Funds: \$2,200,000
OBLIGATION AMOUNT:	\$7,400,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008, the heading “Millennium Challenge Corporation” and sections 7015(c) and 7015(f) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, and the heading “Millennium Challenge Corporation” and sections 7015(c) and 7015(f) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, this is to advise that the Millennium Challenge Corporation (“MCC”) intends to obligate up to \$1,400,000 in fiscal year (“FY”) 2008 funds, \$3,800,000 in FY 2016 funds, and \$2,200,000 in FY 2017 funds under section 609(g) of the Millennium Challenge Act of 2003, as amended, for the purpose of facilitating the development and implementation of a Millennium Challenge Compact (“Compact”) with the Government of Sri Lanka.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed investments, further design activities, and develop implementation strategies.

SUPPLEMENTAL INFORMATION - MCC 609(g) Activities for Sri Lanka

Background

Sri Lanka restored the country's image as one of Asia's oldest and most resilient democracies after marking the end of a significant internal conflict in 2009 and conducting presidential elections in January 2015. Reflecting these trends, Sri Lanka passed 13 of the 20 policy indicators on MCC's eligibility scorecard in fiscal year (FY) 2017, including the hard hurdles on both Democratic Rights and Control of Corruption. In addition, Sri Lanka proved to be a committed partner during the initial development of its MCC threshold program in 2016. Given this strong partnership and policy performance, MCC's Board of Directors selected Sri Lanka to develop a compact proposal in December 2017.

Despite its progress, Sri Lanka faces continued challenges with post-conflict reconstruction and reconciliation, as well as a rapidly urbanizing population that has placed growing strains on its infrastructure. Although economic growth over time has enabled Sri Lanka to make progress in reducing poverty, significant inequalities in income, opportunity, and living standards persist, largely along geographical and gender-based lines. Concentrations of poverty remain in the northern and eastern parts of the island and among people engaged in low-productivity estate farming. Also, women have not been able to fully participate in Sri Lanka's economic growth. Currently, the majority of tertiary students and the working age population are women, but women constitute only about 35 percent of the labor force.

Growth could accelerate if the country attracted more foreign direct investment (FDI), but FDI inflows have remained an anemic 1.5 percent of gross domestic product (GDP) since 2009 due to many contributing factors, including the fact that Sri Lanka offers a small consumer market for investors. Additionally, wages are relatively high compared to many of its neighbors, reducing its competitiveness. Growth could also accelerate if the government addresses some of the constraints to growth and investment identified in the economic analysis done jointly with MCC, namely the problems of transportation bottlenecks and traffic congestion, as well as access to land for commercial and investment purposes. MCC intends to fund strategic investments in Sri Lanka to address some of these problems through the agency's approach of selecting country-led solutions with the potential for high economic rates of return. If successful, given the scale of investments, MCC could have a much bigger impact on growth and poverty reduction than assistance currently being offered by other international donors seeking increased influence in the region.

Constraints Analysis

In 2016, MCC and the Sri Lankans agreed on the three key binding constraints to economic growth in Sri Lanka: (i) policy uncertainty, especially regarding revenue collection and tax policy; (ii) transport bottlenecks resulting in traffic congestion in the Western Province, which accounts for 42 percent of the country's GDP, and the slow movement of people, goods and services between the Western Province and other regions; and (iii) the difficulty of the private sector in accessing state-owned land for commercial purposes.

Building on this analysis, the Sri Lankans selected public transport and access to land as the focal sectors for the country's proposed compact program. An MCC investment could increase attractiveness of public transport and reduce congestion on Colombo's roads, enhance the heavy rail, road, and logistics sectors for moving freight between regions, offer capacity building and incentivize reform in transport planning and coordination. An MCC investment could also make state and private land more easily accessible for investment purposes by supporting mapping and titling of state and privately-owned land as well as policy, legal, and institutional reforms. MCC and the Sri Lankan government intend to use the planned funding to conduct further due diligence on these proposed sectors to identify specific projects, examine the technical feasibility and calculate the potential economic rates of return of these projects.

Planned 609(g) Activities

In order to assist Sri Lanka to further develop the proposed compact program, MCC plans to assess the expected impact of the compact, further design the activities being proposed, and develop implementation strategies for the projects. MCC intends to fund preparatory work, such as infrastructure feasibility studies, including public-private partnership opportunity assessments, gender and social inclusion assessments, political economy analyses, and cost-benefit analysis.

In addition to supporting the development of these project activities, part of the 609(g) funding is planned to be dedicated to establishing local counterpart capacity, including hiring a recruitment firm to expedite recruitment for the accountable entity and begin staffing key positions and basic program administration costs in order to get the accountable entity's facilities up and running quickly.

Funding compact development activities reflects MCC's commitment to preparing projects in a comprehensive manner prior to compact signing, to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.