



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to sign a Millennium Challenge Compact with the Government of Sri Lanka.

The attached notification is being sent to the Congress on April 25, 2019. 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 compact.

If you or your staff would like to discuss the compact, please contact MCC's Congressional Affairs team at (202) 521-3880.

Sincerely,

/s/

Karen Sessions
Vice President
Congressional and Public Affairs

Enclosure:
As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

April 25, 2019

| | |
|---------------------------------|---|
| PROGRAM: | Eligible Countries |
| APPROPRIATIONS CATEGORY: | Fiscal Years 2006, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, and 2018 Program Funds |
| OBLIGATION AMOUNT: | \$480,000,000 |

Pursuant to section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), and the other statutory references cited in the Statutory References and Fiscal Year Funding Sources Table below, the Millennium Challenge Corporation (“MCC”) wishes to notify the Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Sri Lanka, through which MCC will grant an amount not to exceed \$480,000,000 to the Government of Sri Lanka under the Act. To accelerate implementation of the Compact, MCC intends to obligate up to \$32,500,000 (“Compact Development Funding”) of the overall grant under section 609(g) of the Act, using fiscal year 2011 funds, when the Compact is signed by the parties. Under section 605 of the Act, MCC intends to obligate up to \$447,500,000 when the Compact enters into force. After the Compact enters into force, Compact Development Funding that is not needed to accelerate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding. The Statutory References and Fiscal Year Funding Sources Table sets forth the amount of funding under sections 605 and 609(g) of the Act for each fiscal year of funding.

Compact funding will support economic growth in Sri Lanka through assistance in the transport and land sectors.

Economic Justification

Transport Project: The estimated economic rate of return for the Transport Project is 19 percent over 20 years. The project is expected to alleviate transport cost burdens on the profitability of a wide range of economic activity in a region that has been and remains the focus of much of the economic growth that supported recent achievements in poverty reduction in Sri Lanka. Traffic congestion imposes direct costs on businesses and effectively shrinks the size of the market through lower travel speeds and longer trip times. The Advanced Traffic Management System Activity and Bus Transport Service Modernization Activity are mutually supporting elements of a comprehensive strategy to manage congestion and help safeguard continued economic growth in the rapidly urbanizing Colombo Metropolitan Region, which is also the principal logistics center for the country. The Central Ring Road Network Activity is expected to improve regional

connectivity between one of the poorest regions of the country and markets and ports, boosting the rural economy and facilitating labor mobility. The beneficiary population for the Advanced Traffic Management System Activity and Bus Transport Service Modernization Activity includes all residents of the Western Province, which accounts for approximately 50 percent of the country's gross domestic product. Assuming a provincial population growth rate of about 1.6 percent per year, there are expected to be 5.34 million beneficiaries 20 years after compact closure. The number of beneficiaries of the Central Ring Road Network Activity is estimated to be 1.26 million individuals.

Land Project: The estimated economic rate of return for the Land Project is 26 percent over 20 years. The Land Project will increase land values by improving tenure security through improved documentation of land rights and will ease the process of making land transactions through improved land information systems. The beneficiary pool includes individuals whose land plots will be affected by the projected activities in seven of the country's 25 districts and who will experience the gains from the project within the timeframe of the economic rate of return analysis. The number of beneficiaries at the end of the 20-year analytical period is thus an estimated 5 million individuals.

Statutory References and Fiscal Year Funding Sources Table

| Statutory Reference Requiring Congressional Notification | Program Funding under Section 605 of the Act (up to) | Compact Development Funding under Section 609(g) of the Act (up to) |
|---|---|--|
| Section 515 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 | \$16,100,000 | |
| Section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009 | \$800,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation (Including Transfer of Funds)” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010 | \$19,600,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation (Including Transfer of Funds)” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010, as carried forward by the Full-Year Continuing Appropriations Act, 2011 | \$28,700,000 | \$32,500,000 |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012 | \$12,700,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2012, as carried forward by the Full-Year Continuing Appropriations Act, 2013 | \$700,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2014 | \$46,300,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign | \$12,800,000 | |

| Statutory Reference Requiring Congressional Notification | Program Funding under Section 605 of the Act (up to) | Compact Development Funding under Section 609(g) of the Act (up to) |
|--|---|--|
| Operations, and Related Programs Appropriations Act, 2015 | | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016 | \$107,200,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017 | \$189,300,000 | |
| Section 7015(c) and the heading “Millennium Challenge Corporation” of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2018 | \$13,300,000 | |
| Total | \$447,500,000 | \$32,500,000 |

SUPPLEMENTAL INFORMATION—SRI LANKA COMPACT

Overview

The Board of Directors (the “Board”) of the Millennium Challenge Corporation (“MCC”) has approved a five-year, \$480 million Compact with the Government of Sri Lanka (the “Government”) aimed at reducing poverty through economic growth. The Compact seeks to assist the Government in addressing two of the country’s binding constraints to economic growth: (1) inadequate transport logistics infrastructure and planning; and (2) lack of access to land for agriculture, the services sector, and industrial investors.

Background and Context

Sri Lanka’s performance on MCC’s policy indicators has steadily increased in parallel with the reforms undertaken by the Government since January 2015. In FY 2017, Sri Lanka passed more than half of the indicators, including both democratic rights indicators—political rights and civil liberties—and the control of corruption indicator. MCC’s Board selected Sri Lanka to develop a compact in December 2016.

With MCC’s assistance, the Government completed a constraints-to-growth analysis in November 2016 identifying three binding constraints to economic growth: (1) policy uncertainty, especially regarding revenue collection and tax policy; (2) transport bottlenecks resulting in traffic congestion in the Western Province and the slow movement of people, goods and services between the Western Province and other regions; and (3) the difficulty of the private sector in accessing state-owned land for commercial purposes.

Sri Lanka has made impressive economic headway over the past few decades, but significant challenges remain. Economic growth declined to 3.2 percent in 2018, down from 3.4 percent in 2017, and 4.5 percent in 2016. Between 2002 and 2016, the country made significant strides to reduce poverty. Excluding the Northern and Eastern Provinces (for which 2002/2003 data was not available), the poverty rate fell from 22.7 percent in 2002/2003 to 6.1 percent in 2014. The national poverty rate, including the Northern and Eastern Provinces, fell further to 4.1 percent in 2016.

Despite this encouraging reduction in poverty, living standards remain modest for most of the country, and pockets of severe poverty persist. Living standards of the near-poor—those above the national poverty line but below the 40th percentile—are similar to those of the poor. Significant pockets of poverty remain in the central region and former conflict areas in the north and east.

The current coalition government, elected in 2015 on a platform of political and economic reform, has developed an agenda to accelerate economic growth and continue to reduce poverty in Sri Lanka. The Government’s goal is to increase per capita income to \$5,000 per year by 2025, increase foreign direct investment to \$5 billion per year from its current \$1 billion, and further reduce poverty.

Prior to Board approval of the program, on October 26, 2018, President Maithripala Sirisena dismissed Prime Minister Ranil Wickremesinghe, and replaced him with former president

Mahinda Rajapaksa. Questions immediately arose regarding the constitutionality of both actions. On December 13, the Supreme Court ruled that President Sirisena had acted in violation of the Constitution. Rajapaksa subsequently resigned as Prime Minister on December 15 and Wickremesinghe was reinstated a day later. The Supreme Court decision, Rajapaksa's resignation, and the re-instatement of Prime Minister Wickremesinghe were important developments that brought the immediate constitutional crisis to a close.

MCC assesses partner country governments' ongoing commitment to MCC's eligibility criteria by examining their policy performance, including their commitment to the rule of law. The current democratically constituted government has expressed its continued support for and commitment to the terms of the Compact as negotiated.

MCC's assessment of policy performance in Sri Lanka recognizes that if this or a future government engages in a pattern of actions inconsistent with MCC's eligibility criteria, there could be consequences for our partnership, in line with MCC's Policy on Suspending or Terminating Assistance.

Compact Overview and Budget

The proposed Compact will be composed of two projects: a Transport Project and a Land Project. The Transport Project aims to increase the relative efficiency and capacity of the road network and bus system in the Colombo Metropolitan Region and to reduce the cost of transporting passengers and goods between the central region of the country and ports and markets in the rest of the country. The goal of the Land Project is to increase the availability of information on private land and underutilized state lands or all land in Sri Lanka to which the Government is lawfully entitled or which may be disposed of by the Government ("State Lands") in order to increase land market activity. The Land Project would increase tenure security and tradability of land for smallholders, women, and firms through policy and legal reforms. The Compact budget is summarized in the table below.

Table 1: Sri Lanka Compact Budget

| Component | Total (in millions) |
|---|----------------------------|
| 1. Transport Project | |
| 1.1 Advanced Traffic Management System Activity | \$159.9 |
| 1.2 Bus Transport Service Modernization Activity | \$50.0 |
| 1.3 Central Ring Road Network Activity | \$140.1 |
| Subtotal | \$350.0 |
| 2. Land Project | |
| 2.1 Parcel Fabric Map and State Land Inventory Activity | \$23.4 |
| 2.2 Deeds Registry Improvement Activity | \$11.4 |
| 2.3 Land Valuation System Improvement Activity | \$6.5 |
| 2.4 Land Grants Registration and Deed Conversion Activity | \$19.3 |
| 2.5 Land Policy and Legal Governance Improvement Activity | \$6.7 |
| Subtotal | \$67.3 |
| 3. Monitoring and Evaluation | \$12.7 |
| 4. Program Administration and Oversight | \$50.0 |
| Total Program Budget | \$480.0 |

Project Summaries

The planned projects and activities are as follows:

The **Transport Project (\$350 million)** consists of three activities that aim to increase the relative efficiency and capacity of the road network and bus system in the Colombo Metropolitan Region and to reduce the cost of transport in order to facilitate the flow of passengers and goods between the central region of the country and ports and markets.

- The **Advanced Traffic Management System Activity** seeks to decrease relative travel time by reducing traffic delays and improving road safety in the most heavily congested arterial corridors. Civil works and technology enhancements along the roadways are expected to optimize the efficiency of the existing road networks along the eight most heavily congested corridors in the Colombo Metropolitan Region. The civil works and the modernization of the traffic system interventions include improvements to approximately 132 junctions and the creation of up to 50 additional pedestrian crossings. The advanced traffic management system consists of a real-time traffic management system and a traffic management center. The traffic management center will serve as the nerve center overseeing road traffic information, incident management, automated traffic enforcement, and bus prioritization and management.
- The **Bus Transport Service Modernization Activity** aims to make improvements to the speed and quality of the public bus system and to slow down and reverse the trend of declining use of public transport. The activity will be closely integrated with the Advanced

Traffic Management System Activity to help reduce traffic congestion and journey times in the Colombo Metropolitan Region. The activity will focus primarily on institutional and regulatory reforms and reinforce these reforms with supporting technology such as GPS devices for monitoring passenger ridership and travel times and minor infrastructure improvements. Planned policy and structural changes include (i) transition from the current farebox compensation model to a performance-based system; (ii) use of an automated fare collection system with smart card technology to track and monitor revenue and service; (iii) improved bus route planning and scheduling; and (iv) and improvements in the quality of bus services and safety, especially for female passengers and vulnerable groups.

- The **Central Ring Road Network Activity** aims to reduce the transport costs of moving people and goods by improving five sections along the road network connecting Central, Sabaragamuwa, Uva, and the Eastern Provinces to the Western Province. The activity will upgrade deteriorated road sections to bring them to the national road Class A standard and enhance the capacity and safety of the roadway; rehabilitate the pavement structure and surface layers of these roads in order to extend their service life; and support the development of a multiyear road maintenance plan and a sustainable financing plan to ensure the continued maintenance of these and other interprovincial roads.

The **Land Project (\$67.3 million)** consists of five activities that seek to improve access to private and state land, provide more uniform valuation of land, and assist the Government in improving the land policy and governance framework under which land is managed and administered.

- The **Parcel Fabric Map and State Land Inventory Activity** will create a parcel fabric map that covers up to 28 percent of the land area of Sri Lanka, focused on seven districts in the Central, North-Western, North-Central, and Eastern Provinces. The parcel fabric map is intended to become the base map for completion of an inventory of State Lands in the same districts, which is intended to help the Government determine which State Lands are underutilized and available for investment and which lands are in active use. This inventory will also establish a basis for the state to determine the rights of citizens who are occupying State Lands and gather available documentation for citizens' claims to the land for future adjudication.
- The **Deeds Registry Improvement Activity** will assist the Land Registrar's Office to convert paper-based records to a digital format, aiming to protect them from damage, theft, and alteration, and preventing fraud in property transactions. Scanning, indexing, and entering records into the Government's existing electronic registry system will expand the geographic coverage area for the digitized system and are expected to encourage greater use of the system by commercial banks, valuers, lawyers, and private parties. The records would also be linked to the digital parcel fabric map, further facilitating land-dependent economic activity.
- The **Land Valuation System Improvement Activity** aims to support the scanning and digitization of key information from valuation files for properties in targeted districts.

This includes the scanning of paper files and the extraction and entry into the computerized valuation system of key property information and characteristics of up to 100,000 parcels. The valuation information would be linked to the property registration system and the digital parcel fabric map using a unique parcel identification number. The activity will also support capacity building for land valuation officers and the upgrading of valuation offices to allow the full use of the digital platform by property valuers, and the provision of technical assistance in the design of the procedures, the development of policies, and the training of staff for property valuation.

- The **Land Grants Registration and Deed Conversion Activity** aims to strengthen tenure security by supporting the conversion of State Lands to the private domain, creating a marketable and bankable title to this land in the name of the landholder. The Government will register the absolute land grants in the title registration system, allowing the use of land as collateral for loans and the free transfer of this land without excessive government restrictions. The activity would also support the capacity building, expansion, and improvement of a government program to convert private properties from the deeds system to the title registration system. Property in the title registration system carries a state guarantee of ownership of land to the registered holder, which improves tenure security over the land, compared to the deeds registry, and greatly simplifies the completion of subsequent private land transactions.
- The **Land Policy and Legal Governance Improvement Activity** aims to establish a land policy council that will direct policy studies and support the Government's efforts to adopt new land policy and enact supporting legislation; provide technical assistance to consultants; organize study tours for government decision makers and line staff that inform decision-making efforts related to adoption of new policy; and organize and mobilize public outreach campaigns and events in support of new policy and legislation informing the public of policy and legal amendments in the land sector.

Policy Reform and the Compact

Transport Project: Policy, legal, regulatory, and institutional reforms undergird the Transport Project. The success of the Advanced Traffic Management System Activity, for instance, requires the accomplishment of several key policy milestones, including identifying an operations and maintenance strategy to maintain Transport Project assets; collection and management of data related to behavior change and the Transport Project's impacts on that behavior; integrating bus modernization principles and pedestrian safety; and adoption of an operational framework to enable the traffic management center to function. Specific reforms include the following Government actions:

- Including a distinct budget category in the national budget for the Advanced Traffic Management System Activity and allocating sufficient funds to cover the cost of staffing and operations and maintenance requirements at each stage of the activity's implementation; and

- Establishing a steering committee composed of relevant stakeholders to develop, manage, maintain, and update the concept of operations for the traffic management system, as well as to facilitate maintenance and protection of traffic during construction.

For the Bus Transport Service Modernization Activity, the most critical reform is to institutionalize private bus operators' revenue incentives away from competitive single-bus profit maximization to performance-based revenue sharing. In addition, institutional reform is required to address the incentives facing bus transport regulators, which may entail restructuring these regulating organizations. Specific reforms include the following Government actions:

- Working with provincial authorities to enforce performance standards and optimize bus route networks and schedules according to passenger demand forecasts; and
- Facilitating the deployment and adoption of an automated farecard system and performance-based bus operations.

For the Central Ring Road Network Activity, adequate maintenance of the Central Ring Road Network is critical to sustainability of the activity. To accomplish this, the Government will need to adopt a multiyear maintenance plan for roads developed through the project and commit to regular updates and funding of the maintenance plan.

Land Project: The Government has prepared two draft legislative acts that seek to (1) convert permits and grants to State Lands to absolute land grants that allow permit-holders to sell or lease their land or use it as collateral with few restrictions, and (2) create a data base that gathers information on State Lands and facilitates investment in underutilized State Lands. Prior to enactment of these acts, the Government must address legislative gaps focused on decentralizing authority for the approval of absolute land grants, simplifying procedures, and ensuring gender equality in the issuance of absolute land grants, among other issues. Specific reforms target gender issues and revisions to the Government's Registration of Title Act:

- Gender issues—The practices of giving permits and grants for State Lands to men as head of the household and of the eldest son inheriting land under the land laws creates significant barriers for women's economic opportunities and empowerment. It also places women and their children at risk when there is divorce, abandonment, death, or discord within the family. The Government will address this gender inequality through legislation whereby absolute land grants are presumptively registered jointly in the name of both spouses.
- Registration of Title Act revisions—In an effort to extend tenure security and convert deeds to tiles, the Government must implement amendments to the Registration of Title Act to allow for (1) joint ownership of land when a property owner conveys the rights to another party via grant, sale, or other transfer; (2) titling of land using a general boundary survey that can later be upgraded to a cadastral survey; (3) streamlining and decentralization of the approval for issuance of title certificate and registration of rights; and (4) alternative dispute resolution mechanisms to resolve disputes and other problems that may prevent the titling and registration of rights in land.