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Unpacking Sri Lanka's MCC Compact

An LKI Roundtable with Jenner Edelman,
Resident Country Director for MCC in Sri Lanka

Discussants: Herath Gunatilake, former Director, Asian Development Bank; and
Asanga Gunawansa, Head, Colombo Law Alliance

Reported by Chattalie Jayatilaka*

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***Chattalie Jayatilaka** is a Research Assistant at LKI. These *Takeaways* summarise the insights and discussion at a recent LKI event. They are not the views of the reporting author or the institutional views of LKI, and are not a complete report of the event.

Three key takeaways from the round table discussion with Jenner Edelman:

- 1. The Millennium Challenge Corporation (MCC) Compact is a USD 480 million grant, which does not need to be repaid.**
 - 2. Sri Lanka may be at risk of losing the grant due to its graduation into upper-middle-income country status in July 2019.**
 - 3. The benefits of the MCC Compact may be maximised if it is integrated by Sri Lanka into a comprehensive development strategy involving all stakeholders.**
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Introduction

- Jenner Edelman, Resident Country Director for MCC in Sri Lanka, addressed a Foreign Policy Round Table titled ‘Unpacking Sri Lanka’s MCC Compact,’ on 24 September 2019 at the Lakshman Kadirgamar Institute (LKI).
- The discussants were Professor Herath Gunatilake, former Director at the Asian Development Bank, and Dr. Asanga Gunawansa, Head of Colombo Law Alliance. The session was moderated by Dr. Ganeshan Wignaraja, Executive Director of LKI.
- The round table was attended by senior officials from the Ministry of Foreign Affairs and other government agencies, as well as senior representatives from academia, the media, think tanks, and the private sector.

Takeaways from Ms. Jenner Edelman’s Presentation:

Sri Lanka’s MCC Compact

- The MCC is an independent US government-funded development organisation, whose mission globally is to alleviate poverty through economic growth.
- The MCC approved a grant (also known as a compact) of USD 480 million for Sri Lanka in April 2019. The grant would be spread over five years and is pending approval by the Sri Lankan government. Unlike commercial loans, this funding does not need to be repaid. It would be divided between [two projects focusing on improving transportation and land administration](#).
- These sectors were identified based on a constraints analysis carried out by Harvard University’s Centre for International Development at the request of the Sri Lankan government. This attempts to identify the issues that, when resolved, would have the greatest impact on economic growth and poverty alleviation.
- Sri Lanka was awarded the MCC grant as it performs well relative to other countries in the same lower middle-income category on 20 transparent, third-party indicators of rule of law, economic freedom, and investing in people.
- The grant projects will not be implemented by MCC. Instead, they will be overseen by a Sri Lankan Board of Directors, comprised of senior government officials as well as private sector and civil society representatives, and handled by a management unit of around 65 Sri Lankan professionals.

- During the five-year implementation period, MCC would expect the Government of Sri Lanka to continue to demonstrate a commitment to good governance. Projects must also be implemented efficiently and in line with best practice.
- If the grant is approved by the Sri Lankan cabinet, MCC requires that it also receive parliamentary ratification or enactment.

Concerns and Misconceptions

Why is the US offering Sri Lanka this grant?

- The US government spends around 0.18% of the country's GDP on overseas development assistance every year. Sri Lanka has been a recipient of over USD two billion in grant funding from the US over the past 70 years.
- The US believes that prosperous and economically stable countries make better trade and investment partners, and it is, therefore, in its long-term interest to support countries to achieve greater economic development. Sri Lanka is already an important source of imports for the US, and the MCC grant will help the U.S. protect its supply chains.

Will the MCC grant lead to an increased US military presence in Sri Lanka?

- The MCC is an independent development organization with no connection to the US military. By statute, it is prohibited from using its funds to assist or train military agencies.
- The MCC is not connected to any proposed military agreements between Sri Lanka and the US, including the Acquisition and Cross Servicing Agreement (ACSA) or the Status of Forces Agreement (SOFA). The MCC Compact was finalised in October 2018, while renewal of the ACSA and SOFA agreements were publicly conflated with MCC in early 2019.

Clarifications on misconceptions regarding the projects

- The notion that MCC is planning to build an economic corridor or electrified railway from Colombo to Trincomalee came from the mistaken presentation of the Government's National Physical Planning Department (NPPD) map produced several years ago as a map of the MCC compact.
- There is no railway or transportation infrastructure of any kind from Colombo to Trincomalee in the MCC grant; nor is there any mention of this conceptual corridor in the grant agreement. The so-called Colombo-Trincomalee Economic Corridor is a high-level conceptualization of the Government of Sri Lanka's plans to create several proposed economic or development corridors by 2050.
- The MCC land project does not include the purchase of land in Sri Lanka by the US government on any US agency.

Takeaways from the Discussion:

- Sri Lanka must open up services more and deregulate monopolies in the non-tradable sectors to integrate into world markets. However, this may be difficult to execute as it is widely opposed by sceptics who argue that opening up the economy and inviting foreign labourers will reduce job opportunities for locals. Greater political will and a strong consensus is needed in order to move forward.
- Countries like Sri Lanka can benefit from the US-China trade war by exploiting opportunities created by the diversion of trade between the warring parties. One way that Sri Lanka can leverage this particular scenario is to lower trade tariffs to take advantage of the openings created by the trade dispute.
- Sri Lanka has been classified as an upper-middle-income country as of last month; however, the country still faces a number of development challenges. Sri Lanka ranked 65th on the World Economic Forum's 2018 Global Competitiveness Rankings. The big agenda for 2020 should be handling domestic reforms and placing a greater emphasis on debt management to boost Sri Lanka's competitiveness in the global marketplace.

Suggested Readings:

Collins, A. (2019). *The Millennium Challenge Corporation and Sri Lanka*. Lakshman Kadirgamar Institute. [online] Available at: <https://www.lki.lk/publication/the-millennium-challenge-corporation-and-sri-lanka/> [Accessed 23 October 2019].

Wignaraja, G. (2019). *Making the Millennium Challenge Corporation Compact Work for Sri Lanka*. East-West Center. [online] Available at: <https://www.eastwestcenter.org/publications/making-the-millennium-challenge-corporation-compact-work-sri-lanka> [Accessed 23 October 2019].

Millennium Challenge Corporation. (2017). *Sri Lanka Constraints Analysis Report*. [online] Available at: <https://assets.mcc.gov/content/uploads/constraints-analysis-sri-lanka.pdf> [Accessed 23 October 2019].

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