

To assist strengthening the environmental protection and the economic development of Sri Lanka

The OECF (The Overseas Economic Cooperation Fund of Japan: President, Chairman of the Board, Mr. Kyosuke Shinozawa) will provide the Democratic Socialist Republic of Sri Lanka with loans amounting to 26,102 million yen for the Transmission and Substation Development Project (II) and other 3 projects. The Loan Agreements were signed today by H.E. Mr. G. Wijayasiri, Ambassador Extraordinary and Plenipotentiary of the Democratic Socialist Republic of Sri Lanka, and Mr. Kyosuke Shinozawa, OECF's President, Chairman of the Board.

As a result, the cumulative total for ODA loan commitments to the Democratic Socialist Republic of Sri Lanka now stands at 461,461 million yen (75 commitments). The ODA loan amounts, conditions and project descriptions are as follows.

1. Loan amount and conditions

Projects	Amount (Mil. Yen)	Interest Rate (% p.a.)	Repayment Period /Grace Period (years)	Tying Status
Transmission and Substation Development Project (II)	4,030	1.8 [0.75*]	30(10) [40(10)]	General-Untied [Recipient&Japan]
Medium Voltage Distribution Reinforcement Project (II)	5,973	1.8 [0.75*]	30(10) [40(10)]	General-Untied [Recipient&Japan]
Telecommunication Network Expansion Project in Colombo Metro Area (II)	13,369	1.8	30(10)	General-Untied
Environmentally Friendly Solutions Fund	2,730	0.75*	40(10)	General-Untied
Total: 4 Loans	26,102	-	-	-

[*] Consulting Services Portion *Preferential Interest Rates for Environmental Projects Even in the case of a non-environmental project, if environmental consideration is necessary, the preferential interest rate also applies to that part of the consulting services portion corresponding to environmental consideration.

II. Features of 31st ODA Loan

OECF decided to provide ODA loans to transmission line project, electric distribution project and telecommunication network project, which are necessary to expand the impact of the economic infrastructure projects. In addition to those infrastructure projects, the two step loan to strengthen environmental protection is taken up, which is the first ODA loan tackling the environmental problem in Sri Lanka.

III. Project Description

1. Transmission and Substation Development Project (II)

(1) Need for the Project

Sri Lankan economy has been growing at a rate of 5-6% per year. Therefore the power sector, the foundation for socio-economic activities, is becoming increasingly important. The electrification ratio was less than 45% in 1996, therefore, the nationwide expansion of electrification is required to uplift the living standards in Sri Lanka. Moreover, an adequate and reliable supply of power is essential from a viewpoint of providing an attractive environment for foreign investment, supporting Sri Lanka's policy on foreign investment promotion. The volume of power sales in Sri Lanka is expected to increase by 9-10% per year, development of power resources and transmission systems is, thus, essential if the country is to have stable power supply. Sri Lanka has to date stressed investment in power generation, and much of the country's transmission infrastructure was provided without a long term investment plan. As a result, the transmission system is facing shortage of capacity and it is currently difficult to maintain consistent voltage and frequency. To meet these needs, the Japan International Cooperation Agency (JICA) conducted a study for a "Master Plan for Development of the Transmission System towards 2015" in 1997 in response to request of the Government of Sri Lanka. The Transmission and Substation Development Project (II) is formulated in line with the Master Plan, and is the continuation of the Transmission and Substation Development Project (3,114mil. yen), for which the Loan Agreement was concluded in August, 1997.

(2) Content of the Project

This project is designed to give stable electricity supply in the project areas by carrying out 6 projects designated as priority projects in the JICA Master Plan for their necessity and urgency. The 6 projects are:

- [1] Construction of Ratnapura 132/33kV Grid Substation.
- [2] Construction of Athurugiriya 132/33kV Grid Substation.
- [3] Reconductoring of Kelanitissa-Kolonnawa 132kV transmission line.
- [4] Expansion of Thulhiriya Grid Substation.
- [5] Installation of additional equipment at Chilaw Grid Substation.
- [6] Installation of static capacitors at Kelanitissa and Pannipitiya Grid Substations.

(3) Impact of the Project

The project will provide a system capability of meeting future demand for electricity, reduce transmission loss, and improve the quality of the power supply system by expanding the existing transmission system and constructing new grid substations.

The Loan will be used for civil works, procurement of equipment, and consulting services. The executing agency is the Ceylon Electricity Board (Address: Sir Chittampalam A Gardiner Mawatha, Colombo 2, Sri Lanka, Tel: 941-324842, Fax: 941-348587)

2. Medium Voltage Distribution Reinforcement Project

(1) Need for the Project

The country's medium-voltage distribution system(33kV,11kV) is an inefficient patch work, with most of the system being of the tree-branch, long-distance type. As a result, there are numerous problems: inadequate capacity, low voltages, and high rates of distribution loss. In order to improve the present situation and satisfy power demand, Ceylon Electricity Board(CEB) drew up the Medium-Voltage Distribution Development Plan 1995-2005, based on projections for power demand for the next decade. The plan proposed the construction of express lines and distribution gantries needed to reinforce the distribution system as the most efficient investment. The Medium Voltage Distribution Reinforcement Project, including express lines and distribution gantries to be completed by 2000, is necessary to reinforce medium-voltage transmission capacity, reduce distribution loss and improve power supply.

(2) Content of the Project

The project will improve and expand the medium-voltage distribution (33kV) network in Sri Lanka by constructing express lines and distribution in various districts.

- [1] Construction of express lines (33kV)
- [2] Construction of distribution gantries (33kV)

(3) Impact of the Project

The project will provide a system capability of meeting future demand for electricity, reduce distribution loss and improve the quality of the power supply system.

The Loan will be used for civil works, procurement of equipment and consulting services. The executing agency is the Ceylon Electricity Board (Address: Sir Chittampalam A Gardiner Mawatha, Colombo 2, Sri Lanka, Tel: 941-430471, Fax: 941-449572)

3. Telecommunication Network Expansion Project in Colombo Metro Area (II)

(1) Need for the Project

The current telephone density* in Sri Lanka is only 1.49, with the number of those who have applied for a connection but could not be connected being as high as 290,000 as of June, 1997. In addition, telephone demand in the Colombo Metro Area accounts for about 50% of the entire national demand, and demand in the area is expected to continue to grow, as the area is the administrative, economic and financial center of Sri Lanka. Sri Lanka does not have enough telephone facilities to meet the growing demand for telephonic services, and it is urgently necessary to construct telephone facilities and improve telephone services. The project is the continuation project of the Telecommunication Network Expansion Project in Colombo Metro Area, for which the Loan Agreement was concluded in 1997.

*telephone density : telephone lines / 100 inhabitants

(2) Content of the Project

This project will provide a telephone communication network capability of meeting the demand in the Colombo Metro Area projected for 2006. The principal project components are:

[1] Switching system

71,700 new subscribers connected at 26 exchanges.

[2] Outside plant

98,800 pairs of primary cables at 36 exchanges.

(3) Impact of the Project

The project will significantly contribute to solving the problem of the long waiting list in the Colombo Metro Area and will improve the quality of telephone facilities generally. The project will stimulate the country's socio-economic activity.

The loan will be utilized for civil and installation works, procurement of telecommunication equipment, and consulting services. The executing agency is Sri Lanka Telecom Limited. (Address: Lotus Road, Colombo 1, Sri Lanka, Tel: 94-1-329711, Fax: 94-1-424800)

4. Environmentally Friendly Solutions Fund (E-FRIENDS)

(1) Need for the Project

Sri Lanka, formerly known almost exclusively as an agricultural country, especially for its tea plantations, has been experiencing steady industrial growth in the manufacturing sector, which accounted for 25% of Gross Domestic Product in 1997. However, industrial pollution is coming to affect the environment seriously, through water pollution, disposal of industrial waste, and noise pollution. To strengthen environmental protection, the Government of Sri Lanka (GOSL) enacted the National Environmental Act (NEA) in 1980, and established the Central Environmental Authority (CEA) in 1981. Moreover, donors are already addressing this issue. For example, the World Bank and the Asian Development Bank have been assisting the CEA with technical assistance, and the KfW established the Pollution Control & Abatement Fund (PCAF).

The industrial polluters have been warned by public organizations and have been the target of complaints from residents. Stricter enforcement of the regulations is expected to increase enterprises' need for capital to improve their pollution-control facilities quite considerably.

(2) Content of the Project

The principal objective is to prevent industrial pollution in Sri Lanka. The National Development Bank (NDB) and the Participating Credit Institutions (PCI) will provide a financial scheme of long-term loans at low-interest to financially viable enterprises to enable them to reduce their pollution. To make the schemes more attractive, the ODA Loan concessional interest rate (Interest Rate: 0.75%, Repayment Period: 40years [Grace Period: 10years]) for environmental projects will apply. Two types of loan, the General Loan and the Technical Assistance Loan, will be available under this project. The General Loan will be for investment in anti-pollution equipment and facilities. The Technical Assistance Loan, for training costs and the hiring of consultants for sub-projects financed by General Loans, will be an interest-free/low interest loan.

[1] General Loan:Enterprises: for equipment investment for environmental protection

[2] Technical Assistance Loan:

Part A: For enterprises: for the cost of technical transfer (e.g. hiring of consultants)

Part B: NDB and PCI: cost of technical training.

(3) Impact of the Project

More than 240 enterprises are expected to be end users under this project. The project's attractive terms will give enterprises an added incentive to invest in anti-pollution equipment.

The Loan will provide enterprises with loans for the cost of equipment and technical transfer for environmental protection. The executing agency is NDB (National Development Bank; Address: 40 Navam Mawatha, Colombo 2, Sri Lanka, Tel: 941-437701, Fax: 941-440262).