

First ODA Loan to Sri Lanka's Microfinance Project - Striving toward national development to achieve a balance between the economic and social infrastructures-

The OECF (Overseas Economic Cooperation Fund, Japan; President, Chairman of the Board: Kyosuke Shinozawa) signed loan agreements with the Democratic Socialist Republic of Sri Lanka on August 4, 1999 for a total amount of up to 23,476 million yen to be used for 6 projects, including the Colombo International Airport Development Project.

The loan agreements were formally signed at the OECF head office in Tokyo by Mr. Kyosuke Shinozawa, OECF President and Chairman of the Board and H.E. Ambassador Gunayavedalage Wijayasiri, Ambassador Extraordinary and Plenipotentiary of the Democratic Socialist Republic of Sri Lanka to Japan.

This loan package brings the cumulative ODA loan commitment to Sri Lanka to 484.9 billion yen for 81 projects.

The loan amount, terms and conditions, and project descriptions are as follows.

1. Amounts, Terms and Conditions

Project Name		Amount (Million Yen)	Interest Rate (% ,p.a.)		Repayment Period /Grace Period (years)		Tying Status	
			Goods and Services	Consulting Services	Goods and Services	Consulting Services	Goods and Services	Consulting Services
1	Bandaranaike International Airport Development Project	12,384	1.8	0.75**	30 / 10	40 / 10	General Untied	Bilateral Tied
2	Road Network Improvement Project	3,078	1.8	0.75**	30 / 10	40 / 10	General Untied	Bilateral Tied
3	Poverty Alleviation Micro Finance Project	1,368	1.8	1.8	30 / 10	30 / 10	General Untied	General Untied
4	Engineering Services for tde Soutdern Highway (E/S)	381	--	0.75**	--	40 / 10	--	Bilateral Tied
5	Project for Reduction of Non-Revenue Water	4,217	1.3*	0.75**	30 / 10	40 / 10	General Untied	Bilateral Tied
6	Urgent Upgrading of Colombo Port Project	2,048	1.8	0.75**	30 / 10	40 / 10	General Untied	Bilateral Tied
Total 6 projects		23,476						

* Standard environmental project

** Special environmental project

2. About ODA Loans to Sri Lanka

(1) Sectorwise Loan Provision

ODA loans were first provided to Sri Lanka in 1976 and consisted primarily of commodity loans to improve the balance of payments in the 1970s. Later they consisted primarily of project loans designed to improve the economic infrastructure, in such fields as transportation, electricity, communications, and irrigation projects. In the 1990s, the ODA loans have covered a wide range of sectors, including not only the economic infrastructure, but the social and environmental sectors as well.

Distribution of Sectors Affected (including this loan package)

Project Type	No. of Projects	Total Approved (million yen)	Ratio (%)
Electricity/Gas	14	96,382	19.9
Transportation	23	157,494	32.5
Social Services	10	49,938	10.3
Mining Industry	4	15,471	3.2
Irrigation/Flood Control/Land Reclamation	9	38,773	8.0
Agriculture/Fishery	1	4,076	0.8
Communications	6	56,771	11.7
Commodity Loans	14	66,032	13.6
Total	81	484,937	100.0

(2) Features of the New Loan Package

-The first ODA loan to Sri Lanka's microfinance project

The new loan package will be used primarily to continue assistance to improve economic infrastructures such as airport, roadways and port, and will contribute to the overall economic development of Sri Lanka. Also intended to assist the social sector, such as water supply and microfinance, this loan aims to achieve a balance between economic and social infrastructural projects.

In the area of water supply, the funds will primarily be used for projects aimed at decreasing the ratio of **non-revenue water** in the capital region, especially in the city of Colombo. It is hoped that the loan will not only help ensure a stable supply of water to the Colombo region, which includes districts of impoverished citizens, but will help improve local health and sanitation conditions.

This loan package also includes funds for the Poverty Alleviation Micro Finance Project, the first microfinance project to be undertaken in Sri Lanka using ODA loans. In the 6 districts where funds are most needed, this project calls for the provision of loans to the rural poor without taking collateral, and for the provision of capital to the rural poor desiring to engage in manufacturing, commercial/service industries, agriculture, livestock, or other enterprises. In implementing this project, local NGOs and other organizations will serve as intermediaries between banks (participating financial institutions) and end-users (borrowers). By monitoring end-users closely and conducting training, these organizations will help improve repayment rates and project effectiveness. The OECF is trying to break into new fields such as microfinance aimed at alleviating poverty by improving the standard of living of borrowers, and is maintaining close relationships with NGOs through information exchange and other activities in order to facilitate these efforts.

non-revenue water :

Water put into supply systems that brings no revenue to the water supply authority concerned.(back)

3. Project Descriptions

(1) Bandaranaike International Airport Development Project

The Bandaranaike International Airport is the sole international airport in Sri Lanka, with routes connecting to India, Pakistan, Europe, the Middle East, Southeast Asia, Australia, Hong Kong, Taiwan and Japan. In 1997, 2.32 million international passengers passed through this airport, along with 97,000 tons of air cargo. Both import and export air cargo statistics are favorable, and are continuing to show double-digit increases. Parts of the taxiway and apron are damaged. Also, the existing international arrival and departure areas, security check, and baggage claim areas are too cramped. The time has come to modernize the outdated air traffic control facilities and to take necessary measures to meet the rapidly increasing demand for air cargo services.

Given these conditions, this project entails repairing and expanding Bandaranaike International Airport's passenger terminal, modernizing its air traffic control facilities, and constructing an air cargo terminal building.

The proceeds of the loan will be used for the repair and expansion of airport facilities, the new construction of a cargo terminal building, the procurement of air traffic control equipment, and consulting services (construction supervision, environmental monitoring, etc.).

The executing agency is the Aviation and Airport Services (Sri Lanka) Limited (Address: Bandaranaike International Airport, Katunayake, Sri Lanka, TEL: 94-1-252861, FAX: 94-1-253187).

[[back to the project list](#)]

(2) Road Network Improvement Project

Sri Lanka has a road network that extends around 20,000 km, giving it a higher road density by area compared to other nations in South Asia. However, a lack of adequate maintenance on existing roads has caused them to badly deteriorate. Since it becomes more difficult to smoothly travel on roads, the time and costs involved in product distribution have increased. Therefore, countermeasures are urgently needed.

This project aims to improve and repair the road network that includes well-worn national highways A5 (Gampola-Nuwara Eliya) and B13 (Gampola-Nawalapitiya) by improving the center alignment of those roads, reinforcing their pavement by paving a road width of 7.4 m with a shoulder of 1.8 m, or a road width of 6.0 m with a shoulder of 1.2 m, and by repairing or widening bridges (two bridges on A5 and three bridges on B13), in order to make the roads more passable and to invigorate economic activity in Sri Lanka.

This project is co-financed with the Asian Development Bank (ADB).

The proceeds of the loan will be used for the civil works for improving and repairing highways A5 and B13 and consulting services (assistance for bidding, construction supervision, environmental monitoring, etc.).

The executing agency is the Road Development Authority: RDA (Sethsiripaya, Battaramulla, Sri Lanka; TEL: 94-1-862721; FAX: 94-1-864801).

[[back to the project list](#)]

(3) Poverty Alleviation Micro Finance Project

This project is the second microfinance project to be implemented by OECF, following a project for assisting the Grameen Bank in Bangladesh, and is the first to be undertaken in Sri Lanka.

Social services, such as education and public health, are relatively well established in Sri Lanka, but a large proportion (22%) of the population is still considered under the poverty line, and the unemployment rate remains high at 10%. Such conditions are especially prevalent in rural areas. It is in light of these conditions that the Sri Lankan government is undertaking a microfinance project to provide aid to the poor while trying to obtain assistance from other aid institutions.

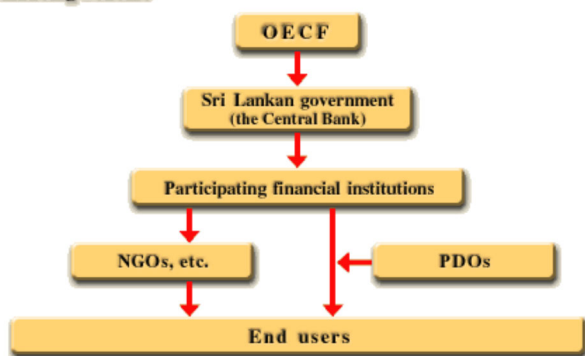
This project will provide unsecured loans in small amounts to poor borrowers who do not have access to funds through formal credit institutions. It aims to promote local economic development and to reduce the income gap by helping the poor start their own business and engage in income-generating activities. It will provide the necessary financing to poor households in the 6 districts of Kurunegala, Matale, Badulla, Nuwara Eliya, Kalutara, and Hambantota to engage in manufacturing, commercial/service industries, agriculture, livestock or other enterprises.

In carrying out this project, local NGOs and Project District Offices (PDOs) will serve as intermediaries between banks (participating financial institutions) and end-users (borrowers), and will oversee lending operations (loans, repayments, group formulation, etc.). They will train end-users by facilitating groupings, providing entrepreneurial education, teaching accounting skills, and offering technical assistance. Training programs in fields such as leadership and supervisory skills will be provided for the staff of the executing agency. This training will help improve repayment rates and project effectiveness.

The proceeds of the loan will be used for loans to end-users, training costs, materials purchases, and consulting services (finance scheme management, training planning, production assistance, etc.).

The executing agency is the Central Bank of Sri Lanka: CBSL (Address: No 61, Equity II Building Janadhipathi Mawatha, Colombo 1, Sri Lanka, TEL: 94-1-431184; FAX: 94-1-421522).

Financing Scheme



unsecured loans :

The loan is unsecured, but before it is provided, the borrower either has to save a certain amount of money for a certain period, or has to enlist a guarantor from a family that has an income. Group formulation is also necessary.(back)

[[back to the project list](#)]

(4) Engineering Services for the Southern Highway

The southern region of Sri Lanka is one of the country's most underdeveloped areas. The Master Plan (M/P) for Southern Development created in 1995-96, which focused on improving the weak infrastructure underlying this lack of development, outlined a basic development plan for that region. Today the development of the southern region has been designated by the government of Sri Lanka as one of its national projects.

The M/P proposes specific projects for promoting economic development in the southern region, and the success of these projects depends upon ensuring access from this area to the greater Colombo region, the political and economic heart of the nation. So far, the southern region can be accessed by railway or by highway A2. The railway, however, is a

single, poorly-maintained line; thus, it has many problems, such as poor track condition, inaccurate operation, etc. Meanwhile, Highway A2 is the only road to the southern region. However, since traffic congestion within the capital region is severe, access to that region is chronically obstructed. The center alignment of the coastal route of highway A2 is extremely poor, and the road is not wide enough in many places. Since the shoulder of the highway is unpaved, in spite of the fact that it is a 2-lane highway, pedestrians and slow-moving vehicles tend to use the road rather than the shoulder, preventing the smooth flow of traffic to the south. Reshaping or widening the road is difficult because houses built along the road would necessitate a large-scale resettlement. This situation has increased the need for a new highway for the exclusive use of automobiles to be built in order to facilitate the development of southern Sri Lanka.

This project aims to promote development in the south and improve economic conditions by constructing a 130-km highway for the exclusive use of automobiles from the outskirts of Colombo to Matala via Galle. This project will create a bypass route for highway A2, easing access between Colombo and southern Sri Lanka.

The proceeds of the loan will be used for the construction of the automobile-only highway described above and consulting services (basic and detailed road designs, access road widening studies, training of executing agency staff, etc.).

The executing agency is the Road Development Authority: RDA (Address: Sethsiripaya, Battaramulla, Sri Lanka, TEL: 94-1-862721, FAX: 94-1-864801).

[[back to the project list](#)]

(5) Project for Reduction of Non-Revenue Water

The OECF has thus far provided loans for four water supply and sanitation projects in the Greater Colombo area. In addition to improving public hygiene and the urban living environment, water supply and sanitation projects are an essential element of the social infrastructure needed for increasing economic activity.

Water demand in the Greater Colombo area has increased rapidly with an increase in population, and forecasts suggest that demand will exceed supply by 2003. To meet this impending demand, the OECF provided loans for the Kalu Ganga Water Supply Project for Greater Colombo in 1997. Because of this project, a stable water supply has been ensured through 2006. Non-revenue water in the Greater Colombo area, however, accounts for 47%, while in the jurisdiction of the Colombo Municipal Council, that figure is as high as 57%. A breakdown of major causes for this reveals system leakage (28%), water loss (leakage and squanderage) and unbilled water in the low income settlement (19%), and illegal connections (5%), etc.

Aimed at reducing the non-revenue water rate, this project will repair and reinforce the aging water supply system in the areas around the jurisdiction of the Colombo Municipal Council and will include a rehabilitation program to reduce non-revenue water in the low income settlement. Plans to repair and reinforce the water supply system consist of the following: (a) repair and reinforce large and medium-sized water pipes in all areas overseen by the Colombo Municipal Council; (b) repair and reinforce small water pipes in the northern areas overseen by the Colombo Municipal Council; and (c) construct new reservoirs and reinforce existing ones. Plans to reduce non-revenue water consist of the following: (a) repair leakage and eliminate illegal connections; and (b) promote individual connections to each residence.

The proceeds of the loan will be used for construction, equipment and materials, and consulting services (assistance for bidding, project supervision and environmental monitoring, etc.).

The executing agency is the National Water Supply and Drainage Board: NWSDB (Address: Golle Road, Ratmalana, Sri Lanka, TEL: 94-1-867774, FAX: 94-1-869960).

[[back to the project list](#)]

(6) Urgent Upgrading of Colombo Port Project

Colombo Port is geographically suitable for marine transportation routes connecting Europe and Asia, and has developed considerably as a key port for cargo transshipment to India. The handling of transshipment cargo has been increasing in accordance with the economic development in the subcontinent of India, and the volume of container handling has grown by an average of 20% annually for the last five years.

OECF has been supporting the development of Colombo Port with loans for 10 port projects in the past. As a result, Colombo Port has become a hub for Southwest Asia. The container transshipment business has grown into a major Sri Lankan industry, and provides a steady influx of foreign currency for the nation. On the other hand, these increases in transshipment containers have also contributed to increased congestion at Colombo Port. The average waiting time for vessels entering the port is long, at 14 hours. Improvements to port services are vital if the loss of this container demand is to be prevented.

This project calls for the dredging of the north channel of Colombo Port to increase its current depth of -11 m to -13 m. This modification will make it possible for large container vessels to pass through the northern channel, thus allowing inbound and outbound vessels to use separate lanes.

Since this project is also designed to shorten port entry and departure times, it should also result in improved port services and increased foreign currency acquisition resulting from the growing quantity of containers handled. By giving Colombo Port two channels, this project will enhance the safety and convenience of the port, thereby strengthening its competitiveness in the region.

The proceeds of the loan will be used for dredging the channel, lighthouse and channel buoy installation, and consulting services (detailed design, assistance for bidding, project management, environmental monitoring, etc.).

The executing agency is the Sri Lanka Ports Authority (Address: 45 Layden Bastian Road, P.O. Box 595, Colombo 1, Sri Lanka, TEL: 94-1-323024, FAX: 94-1-440651).

[[back to the project list](#)]