

ODA Loans for Sri Lanka

--In Support of the Agriculture and Power Sectors--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed yesterday loan agreements totaling 33,630 million yen for six projects with the Government of the Democratic Socialist Republic of Sri Lanka. These loans make up the 35th ODA loan package to Sri Lanka.
2. This 35th ODA loan package is in line with the Medium-Term Strategy for Overseas Economic Cooperation Operations announced by JBIC in April, 2002, which assigned the following priorities for providing assistance to Sri Lanka: economic infrastructure development, industrial development, assistance for the poor and social development. The ODA loan package provides support for economic infrastructure development and power sector reform, a key economic agenda for Sri Lanka, as well as for the development of rural areas where a majority of people still live in poverty. Given the context of the peace talks currently underway after an indefinite cease-fire agreed in February 2002 between the government of Sri Lanka and the Liberation Tigers of Tamil Elam (LTTE), an anti-government organization, the package also includes a project that incorporates a pilot scheme aimed at rehabilitating irrigation facilities and other rural programs to support the rehabilitation in the North and East provinces, left behind in development due to the 20-year internal conflict.
3. The highlights of the 35th ODA loan package for Sri Lanka are as follows;
 - (1) Support for poverty reduction in rural areas
Plantation Reform Project (II) will provide housing loans and improve common housing in the 15 provinces where the Regional Plantation Companies[1] are located, thereby upgrading living conditions of plantation estate workers, who are recognized as impoverished in the social context. The Pro-poor Economic Advancement and Community Enhancement (PEACE) Project will rehabilitate irrigation facilities and implement income-generating activities in the North Western, North Central, and Central Provinces as well as in the North and East provinces. This project will contribute to development in rural areas, where significant economic disparities remain in comparison to urban areas, and thereby, it is hoped, reduce poverty. Plantation Reform Project (II) follows up on the Plantation Reform Project, for which JBIC provided an ODA loan in fiscal 1996.
 - (2) Support for the promotion of structural reforms in the power sector
The Power Sector Restructuring Program aims at greater efficiency of the power sector as a whole, introducing the principle of market mechanisms through the promotion of private investment and greater transparency by setting up an independent regulatory agency. The project will help establish a regime to ensure stable supply of low-cost, high-quality power over the long term.
 - (3) Support for economic infrastructure development
The Provincial Road Improvement Project will help boost transportation efficiency and invigorate economic activities in the Central and Sabaragamuwa Provinces by rehabilitating provincial roads and bridges, whose surfaces are showing serious deterioration, and strengthening the road operation and maintenance organization. The Power Sector Restructuring Project will construct transmission lines linking the Kerawalapitiya Combined Cycle Power Station, located in the northern part of Colombo City, and the existing Kotugoda sub-station, to ensure a stable power supply that can meet the growing demand. The Small-scale Infrastructure Rehabilitation and Upgrading Project will rehabilitate and develop water supply and irrigation facilities which are small in size and benefit the poor in the rural areas, thereby contributing to higher living standards for the local populace.
4. The list of individual projects is shown below.

(See Appendix for detailed information on these projects here.)

Loan Amount and Conditions

Project Name	Amount (Mil.Yen)	Interest Rate (% per annum)		Payment Period/ Grace Period (Years)		Tying Status	
		Project	Consulting Service	Project	Consulting Service	Project	Consulting Service
Plantation Reform Project (II)	1,836	2.2	-	30/10	-	General Untied	-
Pro-poor Economic Advancement and Community Enhancement Project	6,010	2.2	2.2	30/10	30/10	General Untied	General Untied
Provincial Road Improvement Project	5,811	2.2	2.2	30/10	30/10	General Untied	General Untied
Power Sector Restructuring Project	2,938	2.2	2.2	30/10	30/10	General Untied	General Untied
Power Sector Restructuring Program	7,440	2.2	-	30/10	-	General Untied	-
Small-scale Infrastructure Rehabilitation and Upgrading Project	9,595	2.2	-	30/10	-	General Untied	-
Total	33,630						

* Preferential Terms

[1] In Sri Lanka, the majority of plantations was run by two major state-owned firms from 1975. In 1992, however, breakup and privatization policy was adopted and many plantation companies were successively privatized. As of November, 2002, 20 plantation companies had been privatized, with a remaining three under preparation.

Plantation Reform Project (II)

(a) Background and Necessity of the Project

Most of workers in Sri Lanka's plantation estates are descendants of the Tamils, who migrated from India as a source of cheap labor in the 19th century British colonial period. Approximately 280,000 estate workers (800,000, including their families) live on the plantations that stand on steeply sloping hillsides in the mountains, far from towns.

The average monthly income of estate workers is above the Sri Lankan poverty line (Rs792/month, per person [(Year 2001)]), but their working and living conditions are very poor. They are obliged because almost all estate workers have to live in "lines" (barracks measuring 17~24m²) with three-generation families of 7~8 members, and basic infrastructures (water supply, road and so on) are dilapidated or have never been constructed in these estates. The Sri Lankan government has announced efforts to support estate workers, who are classified as socially poor, in cases where their conditions develop into social problems. Therefore, it is highly necessary to implement this project by ODA loan.

(b) Purpose and Description of the Project

This project will improve the working and living conditions of the estate workers by providing them with housing loans to build houses and by supporting the Regional Plantation Companies to improve facilities. The Social Development Program such as alcoholism prevention training and household budget management programs will be provided in cooperation with NGOs and other bodies.

This project is the Phase 2 of the Plantation Reform Project which was provided by ODA loan in 1996.

The executing agency for the project is the Ministry of Plantation Industries (MPI) (Address: 55/75, Vauxhall Lane, Colombo 2, Sri Lanka, TEL:94-1-305968, FAX:94-1-421573)

Pro-poor Economic Advancement and Community Enhancement Project

(a) Background and Necessity of the Project

The target areas covered by this project include the are North Western Province (Kurunegara and Puttalam Districts), the North Central Province (Anuradapura District) and the Central Province (Matale District). In the project areas, irrigation water shortages, due to the deterioration of irrigation facilities, and few employment opportunities pose as a bottleneck for the increase of farmers' incomes and economic development. The poverty incidence of the project area is relatively high, and the North and East Provinces (the pilot areas for the project) are affected by the conflict ongoing for over 20 years. These areas need a comprehensive program for community restoration and rural development so that the Internally Displaced Persons (IDP) returning to the original areas can be resettled when the peace comes. Such efforts should center on the rehabilitation of irrigation schemes which will form that are the core for the traditional village society.

The restoration of existing irrigation facilities and comprehensive rural development will raise farmers' awareness regarding the regional development and will increase in their incomes. It will also contribute to efficient water management and the sustainable operation and maintenance of irrigation facilities in the project areas, development of economic and social infrastructure, reduction of regional poverty, and balanced development in Sri Lanka, thereby assisting in the country's stable development. The Government of Sri Lanka has also announced its policy of supporting the rural poor.

(b) Purpose and Description of the Project

The project's objective is to reduce poverty, increase farmers' productivity, and achieve sustainable agricultural development through the rehabilitation of irrigation facilities, income-generating activities etc. in the project areas North West, North Central, Central, North and East Provinces in Sri Lanka. NGO facilitation funds will be covered by the Loan to enhance the effectiveness of the project.

The executing agency for the project is the Ministry of Irrigation and Water Management (MIWM) (Address: 500, T.B. Jayah Mahatha, Colombo 10, Sri Lanka, TEL: 94-1-687381, FAX: 94-1-687386).

Provincial Road Improvement Project

(a) Background and Necessity of the Project

During the British colonial period, a road network had been developed throughout Sri Lanka, but the roads have not been improved or maintained for many years and road surface deterioration is severe in many cases suffer from deteriorating road surfaces. Provincial councils operate under tighter financial constraints than the central government, and their organizational makeup means that the capabilities of departments responsible for the roads sector have not been enhanced. Due to these and other factors, regional roads that are managed by provincial councils suffer from more surface deterioration than national roads, with ubiquitous surface subsidence. The result is that land transport for passengers and freight in the regions is impeded.

(b) Purpose and Description of the Project

This project will support the rehabilitation of roads suffering particularly severe surface deterioration in the inland Sri Lankan provinces of Central and Sabaragamuwa. Approximately 300km of roads in each province will be covered. The project will also provide provincial councils with recommendations and technical assistance for improving their operation and maintenance systems, so that they will be able to manage the roads appropriately and maintain the project impacts after implementation. This project is expected to revitalize distribution, and stimulate regional economies, by improving road surface conditions in the targeted provinces.

The executing agency for the project is the Ministry of Home Affairs, Provincial Councils and Local Government (Address: 330, Union Place, Colombo 02, Sri Lanka, TEL: 94-11-329725, FAX: 94-11-673077)

Power Sector Restructuring Project

(a) Background and Necessity of the Project

Sri Lanka's demand for electrical power rose by an average of approximately 8% p.a. through the 1990s. Hydroelectric generation accounts for approximately 60% of the country's power source mix, which leaves power generation vulnerable to the influence of rainfall. Droughts, which have occurred every year since 1999, have restricted the availability of hydroelectric power, and Sri Lanka faces an increasing tight power supply and a difficult demand situation in the medium- and long-term.

The Sri Lankan government is making a strong effort to expand electrical supply facilities and develop thermal generation with private sector investment, with the aim of shifting to a more balanced power source mix so as to meet an increasing power demand over the medium- and long-term. In particular, the government is prioritizing the Kerawalapitiya combined cycle power station development, which is to be built with private sector investment. For the private sector, the existence of transmission lines and other high-quality peripheral infrastructure development is an incentive to invest in power stations. Therefore the project is highly necessary with a view to supporting private sector investment and providing a stable means of power generation and supply.

(b) Purpose and Description of the Project

The Project will build an 18km of transmission line from the power station site, approximately 12km to the north of Colombo, to an existing sub-station in order to provide a stable supply of power generated at the power station and meet the increase in power demand.

The proceeds of the loan will be applied to the procurement of civil works, equipment and materials necessary for building the transmission line and upgrading the sub-station.

The executing agency for the project is the Ceylon Electricity Board (CEB) (Address: 50, Sir Chittampalam A Gardiner Mawatha, Colombo 2, Sri Lanka, TEL:94-1-335922, FAX: 94-1-421744).

Power Sector Restructuring Program

(a) Background and Necessity of the Project

Sri Lanka's power generation sector suffers many problems, including an increasing stretched power supply and demand situation, an under-developed transmission grid, high transmission and distribution losses and a weak financial position. Therefore the government is pursuing power sector reforms, including the introduction of competition through private sector investment, the separation of generation from transmission and distribution to raise efficiency, and the establishment of an independent regulatory agency to ensure transparency. Action is needed to improve the performance of the electricity sector as a whole. Power sector reforms are also important for the sake of appropriate allocation of resources in the Sri Lankan economy as a whole.

The Ceylon Electricity Board (CEB) has been operating inefficiently as a state-owned enterprise and is weak on managerial accountability. As a result, payment of outstanding dues of government agencies to the CEB and the CEB's public debts have accumulated, potentially imposing a heavy burden on a newly established company.

Sri Lanka's current balance of government finance is fragile, and the government, which has already paid substantial sums to the CEB, cannot afford to cover the necessary expenditures of power sector reform. Therefore there is a strong need for JBIC to contribute in financing these expenditures.

(b) Purpose and Description of the Project

The program is an independent program loan which is based on the conditionalities of the Power Sector Development program funded by the Asian Development Bank (\$130 million, approved by the Board of Directors in October 2002), with some independent conditionalities added. The program aims to promote power sector reform in order to establish a system that can provide high-quality, low-cost supply of electricity in the long term, through the introduction of competitive principles, the pursuit of efficiency and greater transparency.

The proceeds of the loan will be applied to approved funds needed for the import of general materials, while a counterpart fund^[1] will be applied to the above mentioned funds, which have gone unpaid to the CEB, to repayment of the CEB's public debts, and similar uses.

The executing agency for the program is the Ministry of Finance (MOF) (Address: P.O. Box 277, Old Secretariat, Galle Face, Colombo 1, Sri Lanka, TEL: 94-1-484693, FAX: 94-1-447633).

Small-Scale Infrastructure Rehabilitation and Upgrading Project

(a) Background and Necessity of the Project

A majority of the poor in Sri Lanka are concentrated in rural areas, so rural development, basic infrastructure building and improved social services are tasks that must be tackled to raise incomes and enhance living infrastructure. After 20 years of civil war, care must be taken to go beyond providing attention for the poor and the socially vulnerable. It is also important to pursue balanced economic development that corrects disparities between regions and between ethnic groups. The Sri Lankan government sees improved access to markets, and employment creation in poor regions, and the associated improvement of living environments, as essential tasks. This project, which aims to raise the standard of living by building small-scale infrastructure in rural areas, is particularly necessary.

(b) Purpose and Description of the Project

The purpose of the project is to contribute to the improvement of basic living conditions for living and socio-economic activities in rural and urban areas through the rehabilitation and upgrading of small-scale pro-poor infrastructure (water supply and sanitation, irrigation, road and bridges, and education).

This project will cover the following small-scale infrastructure:

- (1) Nationally-managed water supply and sanitation at community and provincial levels (Ministry of Housing and Plantation Infrastructure [MHPI])
- (2) Nationally-managed rehabilitation and restoration of irrigation schemes (Department of Irrigation [DI]) under Ministry of Irrigation and Water Management)
- (3) Reconstruction and upgrading of national highways (roads and bridges) (Road Development Authority [RDA] under Ministry of Highways)
- (4) Provincial education improvement program (Central Province)

NGO facilitation funds will be covered by the Loan to enhance the effectiveness of the project.

The executing agency for the project is the Ministry of Policy Development and Implementation: (MPDI) (Address: Old Secretariat, Galle Face, Colombo 1, Sri Lanka, TEL: 94-1-484693, FAX: 94-1-447633).

[1] Local currency gained by the Sri Lankan government from the domestic sale of imported goods. These funds are accumulated in the Central Bank.