

JBIC Provides ODA Loan Package for Sri Lanka

--Preferential Term for Peace Building applied for the First Time--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today loan agreements for the 36th annual ODA loan package totaling 26.631 billion yen, with the Government of the Democratic Socialist Republic of Sri Lanka. The package covers three projects.
2. The loan is in line with the Medium-Term Strategy for Overseas Economic Cooperation Operations JBIC prepared in April 2002, which assigned the following priorities in providing assistance for Sri Lanka: economic infrastructure development, private sector development, assistance for the poor and social development. In particular, to support sustainable economic growth, the package focuses on social sector development, including education and healthcare for the poor ("Small-scale Infrastructure Rehabilitation and Upgrading Project (II)*"), private sector development through fostering small and medium enterprises (SMEs) ("Small and Micro Industries Leader and Entrepreneur Promotion Project (III)*"), and increasing business firms' environmental considerations ("Environment Friendly Solution Fund Project (II)*").

3. The highlights of the 36th ODA loan package are as follows:

(1) Support for peace building efforts After an indefinite cease-fire was agreed in February 2002 between the Government of Sri Lanka and the Liberation Tigers of Tamil Elam (LTTE), a number of peace building, reconstruction and development efforts have been undertaken. All three projects in the package are covering northern and eastern regions that are lagging in development due to 20-year-long civil conflict, and preferential terms for peace building, initiated by the Japanese government this year, will be applied for the first time.

(2) Support for poverty reduction through social sector development In Sri Lanka, poverty is concentrated in rural areas where social infrastructures including schools and medical facilities are yet to be sufficiently developed, and it has posed bottlenecks for improving the living conditions of the needy populace. The Small-scale Infrastructure Rehabilitation and Upgrading Project (II) aims at rehabilitating and upgrading small-scale infrastructure in the education, healthcare and rural development sectors across the nation, including regions that were devastated by civil conflict, thereby improving the living standard of Sri Lanka.

(3) Development finance support for fostering small and micro industries and promoting environmental considerations SMEs in Sri Lanka have strong and urgent financial needs. The Small and Micro Industries Leader and Entrepreneur Promotion Project (III) and the Environment Friendly Solution Fund Project (II) will provide two-step loans to SMEs, via financial intermediaries in Sri Lanka, in support of their capital investment activities. These two projects will thus help foster SMEs and encourage them to take environmental measures. To ensure that ODA loan funds are allocated throughout the country including the conflict-affected regions, consideration was made to have financial intermediaries possessing the national-level operational network participate in the project.

4. Project names, loan amounts and conditions of the package are shown below.

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period / Grace Period (Years)	Procurement
Small-scale Infrastructure Rehabilitation and Upgrading Project (II)	11,776	0.75*	40/10	General Untied
Small and Micro Industries Leader and Entrepreneur Promotion Project (III)	9,619	0.75*	40/10	General Untied
Environment Friendly Solution Fund Project (II)	5,236	0.75*	40/10	General Untied
Total	26,631			

* Lending terms under the MIRAI Initiative[1].

**International competitive bidding among companies of participating countries and member countries as defined by the agreement on the establishment of the African Development Fund (AfDF).

(Click here for details.)

1. Small-scale Infrastructure Rehabilitation and Upgrading Project (II)

(1) Background and Necessity of the Project

Under the poverty reduction policy of Sri Lanka, top priority is given to the improvement of living conditions of local residents by investing in human resource development sectors such as education and healthcare. Particularly in rural farming areas, underdeveloped infrastructures such as schools, medical facilities and distribution and logistics facilities necessary for farmers' economic activities have posed bottlenecks for improving their living conditions.

In Sri Lanka, meanwhile, a range of peace building efforts have been made since the ceasefire agreement was signed in February 2002. It should be noted, however, that civil conflict has been caused by complex factors such as ethnic feuds. In addition, poverty in Sri Lanka is widely distributed across the nation rather than being concentrated in the conflict regions. It is thus crucial to ensure that the "dividend of peace" is widely shared by the people of the country. By covering not only the northern and eastern regions that were affected by civil conflict, but the southern and plantation regions as well, the project will help ease the sense of unfairness among regions and ethnic groups, and upgrade the living environment of the poor throughout Sri Lanka.

(2) Purpose and Description of the Project

The purpose of the project is to increase primarily the underprivileged peoples' access to social services and improve their living standard by rehabilitating and upgrading small-scale, basic infrastructure in education, healthcare, and the rural development sectors across Sri Lanka, thereby contributing to better socio-economic conditions in the poor regions.

The major target of the project is small-scale infrastructure improvement in rural areas. Specifically, the project will finance: 1) the construction and rehabilitation of school buildings undertaken by the Ministry of Education, Ministry of Skills Development, Vocational & Technical Education, and the Provincial Councils; 2) the rehabilitation of medical facilities and procurement of medical equipment and materials undertaken by the Ministry of Healthcare Nutrition and Wellassa Development and the Provincial Councils; and 3) the development of distribution/logistics facilities aimed at upgrading farmers' income level undertaken by the Ministry of Small and Rural Industries. The project has been designed based on the master plans prepared by Japan International Cooperation Agency (JICA.) In addition, to increase project effectiveness, some activities will be carried out through partnership with UNICEF and NGOs.

The executing agency for the project is the Ministry of Finance and Planning (MOFP) (Address: the Galle Face Secretariat, Colombo 1, Sri Lanka, Tel: 94-11-2484693, Fax: 94-11-2447633).

2. Small-scale Infrastructure Rehabilitation and Upgrading Project (II)

(1) Background and Necessity of the Project

In Sri Lanka, SMEs are operating in a broad range of industries, including agriculture, mining, manufacturing, construction, and other services. SMEs play an important role in the manufacturing sector in particular. They account for 96% of the total number of companies, employ 36% of employees, and produce 20% of the industrial value-added output.

SMEs thus hold the key to creating employment and achieving sustainable growth, the two top economic issues the Sri Lanka government must address. On the other hand, whereas SMEs have strong needs for long-term funds, an insufficient level of financing is being provided due to the underdeveloped long-term financial market. In addition, when SMEs and micro firms receive a loan from commercial banks, a huge margin is added to the market rate, thus giving constraints on their access to financing.

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(2) Purpose and Description of the Project

The purpose of the project is to: 1) build and expand production bases for SMEs; 2) upgrade the technical and financial management capacity of SMEs; and 3) improve financial management capacity of financial intermediaries, thereby creating employment and contributing to the well-balanced economic growth of Sri Lanka.

The project provides two types of concessional loans: general loans, which are intended to meet the financial needs of SMEs for capital investment; and technical transfer loans, which will help finance training programs necessary for SMEs to improve their technical and financial management ability, as well as the procurement of consulting services.

The executing agency for the project is the Ministry of Small and Medium Enterprise Development (MSMED) (Address: Level 6, DHPL Building, 42, Nawam Mawatha, Colombo 2, Sri Lanka, Tel: 94-11-2394760, Fax: 94-1-2424960).

3. Environment Friendly Solution Fund Project (II)

(1) Background and Necessity of the Project

The major industry of Sri Lanka has traditionally been plantation-based agriculture and fisheries. In recent years, however, with the development of the manufacturing sector such as textiles and apparel, the industrial sector has come to occupy a significant share. On the other hand, amid ongoing industrialization, industrial pollution problems are becoming increasingly serious. Only 50% of companies have acquired the Environment Protection License to date, which is one of the regulations laid out for environmental protection.

Greater efforts should be made by the government to develop and implement environmental conservation measures.

Sri Lanka has been pursuing the development of industry as the country's ultimate objective. With the infrastructure and legal framework remaining underdeveloped, however, the country is vulnerable to the rise of industrial pollution. In addition, fueled by economic growth, the people of Sri Lanka are quickly adopting aspects of Western lifestyle, thus creating new urban-type pollution problems and making their solution even more difficult. The country is now in need of remedial measures.

While companies face growing pressure to acquire an Environment Protection License to comply with ever tightening environmental laws and regulations, funds for taking environmental steps are not sufficiently supplied to companies in Sri Lanka. To help SMEs in environmental considerations, the provision of institutional financing is urgently called for.

(2) Purpose and Description of the Project

The purpose of the project is to prevent and alleviate industrial pollution problems by encouraging private companies in Sri Lanka to make greater investments for environmental conservation, thereby improving the country's environment.

The Project will provide concessional loans to private companies, via financial intermediaries, to: 1) make environment-related investments, including those for pollution control technology; and 2) procure consulting services and training programs that are necessary for assisting the technical and environmental aspects of such corporate efforts.

The executing agency for the project is the Ministry of Small and Medium Enterprise Development (MSMED) (Address: Level 6, DHPL Building, 42, Nawam Mawatha, Colombo 2, Sri Lanka, Tel: 94-11-2394760, Fax: 94-1-2424960).