

JBIC Signs ODA Loan Agreement with Sri Lanka

--Towards Economic and Social Development through Poverty Reduction and Reduction in Regional Disparities--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed on March 28 ODA loan agreements with the aggregate total of up to 39,233 million yen for three projects with the Government of the Democratic Socialist Republic of Sri Lanka.
2. In the Development Forum held in Sri Lanka last January, the participants from the Sri Lankan government and donors discussed strategic directions and policies for social and economic development in the context of the 10-year development framework, Mahinda Chintana, issued by the Sri Lankan government. The framework, which aimed to accelerate growth, while maintaining macroeconomic stability, placed priority on building infrastructure across the country, including road networks and water supply and sewerage systems, and on reducing poverty and pursuing growth-oriented development in an effort to achieve the Millennium Development Goals (MDGs). In addition, the framework seeks to develop North and East regions where development is lagging due to the 20-year conflict.
3. This year's ODA loan package for Sri Lanka addresses major development challenges cited in the framework. Highlights of the package are as follows:
 - (1) Developing Road Infrastructure Based on Local Needs in Predominantly Poor Regions, including Eastern Province where Development is Lagging Due to Conflict
Regional disparities have been increasing every year in Sri Lanka. The poverty ratio, while declining in urban areas, remains high or is even increasing in rural areas. There is also a distinct gap in infrastructure development between urban and rural areas, which is one factor behind income disparities. Thus, to reduce poverty in rural areas with higher incomes and living standards, it is essential to increase the access to markets and social services through road infrastructure development. In the "Pro-Poor Rural Development Project", road development in the regions that include Eastern Province will increase access to markets and social services, thereby reducing poverty and regional disparities. Project sites and sub-projects were selected based on regional needs and priorities, after taking into account the poverty ratio and the regional and ethnic balance, and listening to voices in the targeted provinces, districts, sub-districts and villages. The project component also includes training for capacity development of the staff of local authorities, including provincial councils, on project management, monitoring and supervision of implementation, and operation and maintenance (O&M).
 - (2) Mitigating Congestion in Greater Colombo and Improving Regional Disparities
Road transport plays a significant role in economic and social activities in Sri Lanka. However, a road network linking Greater Colombo and key regional cities is not well-developed, and road development is not catching up with the steadily increasing traffic volume. Therefore, there is chronic congestion in Greater Colombo where economic activity is concentrated, posing a bottleneck to freight transport and hindering economic growth. The "Greater Colombo Urban Transport Development Project" aims to relieve road congestion around Colombo, the capital city, and improve connections among regions by building an outer circular highway in the outskirts of Colombo. The project will thereby strengthen the nation's economic underpinnings and improve regional disparities.
 - (3) Improving the Living Environment in Sri Lanka's Two Major Cities
The rate of the population with access to water remains low at 30% (2005) in Sri Lanka. In particular, the capacity of existing water supply systems in Greater Colombo and Greater Kandy is not catching up with the sharply increasing demand for water from the growing population. There is therefore an urgent necessity to fill this demand-supply gap. While increasing the water supply enlarges the amount of water discharged, a sewerage system exists only in Greater Colombo (less than 3% of the population is served with sewerage systems). In other regions, untreated sewage is discharged into rivers and the sea. The "Water Sector Development Project", will support the construction of water supply facilities in Greater Colombo and Greater Kandy, and the basic design of a sewerage system in Greater Kandy. The project will help to expand the water supply and sewerage/sanitation facilities and contribute to improving the living environment.

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Loan Amount and Terms

Project Name	Amount (mil. yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period (years)	Procurement
Pro-Poor Rural Development Project	4,085	1.5	30/10	General Untied
Greater Colombo Urban Transport Development Project	21,917	1.5	30/10	General Untied
Water Sector Development Project	13,231	1.5	30/10	General Untied
	39,233			

(1) Pro-Poor Rural Development Project

(Project Background and Necessity)

In Sri Lanka, poverty reduction is one of the major policy issues, and the national poverty ratio^[1] has improved to 23% (down 3% compared to 1990) due to the implementation of a range of poverty reduction programs by the Sri Lankan government. Nevertheless, while the poverty ratio has improved in urban areas, it remains high in rural areas, and the regional disparities between urban and rural areas have grown, so strategies for rural areas are a pressing issue. In particular, Uva Province and Southern Province are areas with high poverty ratio (about 30%) compared to the national average, and Northern and Eastern Provinces are considered among the poorest regions as a result of damage from the December 2004 tsunami in addition to the effect of prolonged ethnic conflict.

Furthermore, there are marked disparities between urban and rural areas in the provision of infrastructure, and this is one factor in income disparities. In particular, compared to the high rate of provision in the road sector in Western Province, where income levels are relatively high, there is a conspicuously low rate of provision in Southern Province, where the poverty rate is high. Therefore, there is a need to provide roads in the countryside, improving access to markets and social services in order to reduce poverty by raising incomes and living standards.

(Project Objectives and Outline)

The project aims to improve access to markets and social services, thus contributing to rural development and poverty reduction by repairing, improving and constructing national roads and rural roads in Badulla District and Moneragala District, Uva Province, Hambantota District, Southern Province, and Ampara District, Eastern Province, which have been selected in view of such factors as poverty ratio and inter-regional balance. The specific divisions within the districts that are to be the target of the project are being selected, taking into account such factors as priority levels in each province and district and the poverty ratio in each division. Furthermore, projects are being selected based on the needs and priorities of the target regions, paying attention to opinions in the provinces, districts and divisions in the targeted areas. In addition to this, the implementation of training and seminars related to the strengthening of the project monitoring system, the formulation of frameworks for project evaluation and maintenance and management is planned under the project in an attempt to improve the capacity of local administrators in order to promote proper project implementation, operation and maintenance.

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(2) Greater Colombo Urban Transport Development Project

(Project Background and Necessity)

Road transport in Sri Lanka plays a significant role in the nation's economic and social activity, being responsible for 95% of land passenger transportation and 98% of freight distribution. However, the provision of roads has not kept pace with the increase in the traffic volume, and existing roads are often not well maintained or managed, which impedes efficient distribution.

In particular, there are structural problems with the road network in Greater Colombo, which include a marked increase in the number of cars accompanying population growth and rising income levels of citizens as well as the fact that, although traffic flow in Greater Colombo radiates out from Colombo city center with seven trunk roads going north, east and south, there is no ring road network to interconnect these radial trunk roads. As a result, there is chronic traffic congestion in Colombo city caused by traffic being forced to pass through the city, which impedes transport efficiency. Based on this situation, there is an urgent need to establish a new outer circular highway in the outskirts of Colombo in order to disperse the city's through traffic in Colombo.

Moreover, with much economic activity in Sri Lanka concentrated in Colombo, the importance of balanced national development and regional development has been recognized, and there is also a need to establish a road network that aims to enhance transport capacity between Greater Colombo and regional areas and between the leading regional cities.

(Project Objectives and Outline)

The project aims to contribute to strengthening the economic foundation in Sri Lanka and correcting inter-regional economic disparities by alleviating road traffic congestion in the metropolitan areas and improving connections to allow travel between regional cities without passing through Colombo with the constructing the Colombo outer circular highway connecting Kottawa and Kaduwela (about 12km for this project out of an approximate total 29km) in the suburbs of Colombo, interchanges (two locations) and the construction and extension of regional highways adjoining the interchanges.

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(3) Water Sector Development Project

(Project Background and Necessity)

The water access ratio in Sri Lanka is still about 30% or less in 2005. Demand for water is increasing dramatically with the growing population. Even in Greater Colombo, where water supply is relatively well advanced, only 56% of population has access to water in 2005, there are still many areas without water supply. Furthermore, in some areas with water supply system, water is served only for six hours a day or less. In addition, larger parts of the current water supply system in Greater Colombo were constructed during the British colonial era, and there is marked degradation, leading to an urgent necessity for the rehabilitation.

Water access ratio has improved from 27% (2001) to 56% (2005) in Greater Kandy, second largest city as well as one of the tourist sites with world heritage. There are, however, still many areas without water supply and its expansion is required. The volume of sewage has risen with increase in water supply, the population and the tourists. Currently, sewage is treated by septic tanks in some areas, but treatment is insufficient. In other areas, sewage is discharged into Kandy Lake and adjacent rivers without treatment, leading to deterioration of environment including contamination of water quality in rivers, which are water resources. Therefore, sewage system is also required.

(Project Objectives and Outline)

The project aims to contribute to improving the living environment in Greater Colombo and Greater Kandy by improving water supply system in Greater Colombo and Greater

Kandy, as well as improving sewerage system in Greater Kandy. The project includes construction of reservoirs and the laying of water pipes, as well as provision of communal water taps in poor residential areas in Greater Colombo. In Kandy, the project supports the construction of water supply system as well as the preparation of basic design for sewerage system and capacity development for sewerage system in Kandy City. The project also aims to enhance the institutional capabilities of the executing agency including the financial planning, management plans for existing water supply and sewerage, future investment planning, tariff revisions and human resource management plans.

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[1] The poverty ratio is the percentage of the population whose monthly per capita consumption expenditure is lower than the district poverty line (percentage of population in poverty). The poverty line is calculated by Sri Lanka's Department of Census and Statistics from the cost of basic needs (monthly per capita consumption expenditure; costs related to nutrient and calorie intakes and costs related to daily necessities other than food) based on its data and methods of computation.