

## JBIC Signs ODA Loan Agreements with Sri Lanka

### --In Support of Socioeconomic Development through Poverty Alleviation and Correction of Regional Disparities--

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1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) signed today Japanese ODA loan agreements totaling up to 35 billion yen with Democratic Socialist Republic of Sri Lanka to finance five projects.
2. This year's Japanese ODA loan package for Sri Lanka takes into account the key development issues set forth in the MAHINDA CHINTANA (A Ten Year Horizon Development Framework 2006-2016 Discussion Paper),<sup>[1]</sup> the basic development policy announced by the current administration of Sri Lanka in November, 2006, and aims to assist the country's socioeconomic development while ensuring good balance among regions and sectors.
3. The highlights of this year's Japanese ODA loan package are as follows:
  - (1) Providing microfinance to the poor: Supporting poverty reduction in North and East provinces and neighboring districts  
Despite an improvement in poverty rate<sup>[2]</sup> in Sri Lanka, poverty remains a major issue for the country, with some 23% of its population still living in poverty (as of 2006). To achieve the target of reducing poverty to 13% across the country by the year 2015, the government has been addressing poverty reduction and bridging of regional gaps through the development of rural areas. The development priority is being given to the ensuring of economic and social stability in northern and eastern Sri Lanka where the poverty rate is particularly high, and micro finance is considered as an effective means to realize such stability. Poverty Alleviation Micro Finance Project (II) aims to boost income level of the poor by financing small-sized enterprises undertaken by poor residents in North and East provinces, and neighboring districts inhabited by a large number of people in poverty.
  - (2) Improving road network: Supporting economic infrastructure enhancement and correction of regional disparities  
In Sri Lanka, the road network connecting major cities remains underdeveloped and the road development has failed to catch up with the ever increasing traffic volume in Sri Lanka, thereby posing a bottleneck to the economic growth. From the perspective of well-balanced national development, it is essential to develop a new road network and strengthen the transport capacity among major cities. The Greater Colombo Urban Transport Development Project Phase 2 (I) and the Southern Highway Construction Project (II) aim to strengthen economic infrastructure and to correct regional disparities by constructing highways and mitigating traffic congestion. In the former Project, Japanese technology will be utilized to address soft ground and rapid/small-footprint construction work in urban areas and small plots of land.
  - (3) Improving water supply: Continuously supporting better access to water for the residents including the low income households in the Greater Colombo area  
Households having access to piped water supply account for only 30% (2006) of the total in Sri Lanka. In the Greater Colombo area in particular, increasing water demand driven by rapid urbanization is outpacing water supply, thus raising a need for improving access to water. The Water Sector Development Project (II) aims to provide a safe and stable supply of water by developing water supply system in the Greater Colombo area, thereby improving the living environment in the area.
  - (4) Stabilizing power supply: Supporting the first natural gas based power development project in Sri Lanka  
Power demand is forecasted to grow by around 8% annually in Sri Lanka, and ensuring a stable and inexpensive power supply to meet this robust demand is one of the key agenda for the country. The Energy Diversification Enhancement Project (Engineering Services) aims to finance engineering services, including basic design, for the first natural gas project in Sri Lanka, with its sights set on diversifying power sources.

(Click here for details.)

(Click here for map. [PDF/253KB])

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[1] It means a vision by Mahinda (name of the President).

[2] Poverty incidence is percentage of people living under poverty line to total population. Since 2002 the Department of Census and Statistics has adopted FEI values to calculate poverty incidence, and announced Official Poverty Line for Sri Lanka, which is fixed at a level of real total food and non-food consumption expenditure per person per month to meet basic human needs.

## 1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)		Repayment Period/ Grace Period(Years)	Procurement
		Goods and Services	Consulting Service		
Poverty Alleviation Micro Finance Project(II)	2,575	0.65*	0.01	40/10	General Untied
Greater Colombo Urban Transport Development Project Phase2(I)	5,718	0.2**	0.01	40/10	Tied
Southern Highway Construction Project (II)	17,499	1.4	0.01	30/10	GeneralUntied
Water Sector Development Project (II)	8,388	1.4	0.01	30/10	General Untied
Energy Diversification Enhancement Project (Engineering Services)	820	-	0.01	30/10	General Untied
Total	35,000				

\*These terms are more favorable than those applied to ordinary Japanese ODA loans with a view to proactively promoting peace building efforts by developing countries.

\*\* Special Terms for Economic Partnership (STEP) are applied to this loan, since the project will draw on advanced technology and knowhow that Japan possesses on road development.

### (1) Poverty Alleviation Micro Finance Project (II)

(Project Background and Necessity)

Despite visible improvements attained over the past two decades, some 23% of people still live in poverty as of 2006 in Sri Lanka. Poverty reduction and regional disparities thus remain as one of the key agenda for the country. In particular, northern and eastern Sri Lanka registered a negative economic growth (-6.2%) in 2001, when the country's growth as a whole averaged 5.5% annually. Therefore, there is a need to promote peace building and improve the economic situation in these areas.

Aiming to reduce nationwide poverty rate to 13% by the year 2015, the government of Sri Lanka has pledged to tackle poverty reduction and correction of regional disparities through the development of rural villages. Reflecting the significance that the current government attaches to the realization of economic and social stability in the North and East provinces, the basic policy of the government sets out: "If our aspiration is fulfilled for a peaceful environment where residents are given subsistence rights in North and East provinces, it will surely facilitate Sri Lanka's efficient socioeconomic development."

In the meantime, microfinance, which is intended to support small-size enterprises, can efficiently meet the community needs and can be made available even in the areas where situation is unstable. What is more, microcredit directly benefits the people living in poverty. Because of these advantages, microfinance is regarded as a sustainable tool serving to increase living standards, and is given priority in poverty reduction measures in rural villages.

(Project Objectives and Description)

The project consists of financing small-size enterprises including commerce, handicraft industry and agriculture undertaken by poor residents in North and East provinces and neighboring districts, where a large number of people live in poverty. The objective of the project is to increase incomes of the poor, thereby alleviating poverty and stabilizing social and economic conditions in the target region. Under the project, financing will be provided not only via financial institutions such as banks, but through NGOs and other microfinance entities as well that have seasoned knowledge of the local conditions, in order to ensure that the poor receive funds in an efficient manner. In addition, aiming to help local residents' capacity development for producing quality goods with commercial value, and to make income growth sustainable, the project will also provide training programs conducive to improved income for the poor, through financial institutions and microfinance agencies.

Project Executing Agency

Central Bank of Sri Lanka (address: 30 Janadhipathi Mawatha, Colombo 1, Sri Lanka,  
TEL:94-11-247-7447 FAX:94-11-247-7734)

### (2) Greater Colombo Urban Transport Development Project Phase 2 (I)

(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, roads development 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 the Greater Colombo area. One of such structural problems is the rapid increasing in the number of cars due to population growth and rising income levels of citizens, another problem is the absence of ring road network to interconnect radial trunk roads, although traffic flow in the Greater Colombo area radiates out from Colombo city center with seven trunk roads going north, east and south. 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 city in order to disperse the traffic passing through the city of Colombo.

Moreover, with much economic activity in Sri Lanka concentrated in the Greater Colombo area, 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 the Greater Colombo area and rural areas and between the leading regional cities.

(Project Objectives and Description)

The project consists of the construction of the Colombo outer circular highway connecting Kadawata and Kaduwela (stretching some 30km, of which this project targets around 8km. A Japanese ODA loan agreement was signed in March, 2007, for the 12km-long southern section), the construction of two interchanges and the installation of toll gate machinery and equipment. The project aims to contribute to strengthening of 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.

In this Project, Japanese technology will be utilized to address soft ground and rapid/small-footprint construction work in urban areas and small plots of land.

Project Executing Agency

Ministry of Highways and Road Development (address: 9th Floor, Sethsiripaya, Battaramulla, Sri Lanka,  
Tel:94-11-288-7463 Fax:94-11-288-7464)

### (3) Southern Highway Construction Project (II)

(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, road development 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.

There is a particularly large regional disparity between the Western state, which encompasses the city of Colombo, and other regions, with the Western state accounting for approximately 50% of GNP and much of the country's economic activities concentrating in the Greater Colombo District. With regard to poverty rate by state, the Western state shows 11% in contrast to around 30% in the Uva, Sabaragamuwa and Southern states. Under these situations, the government has come to recognize the significance of well-balanced land development and regional development, as well as the need to promote infrastructure development in the southern states where development is lagging behind. The Southern Region Development Master Plan prepared by the government of Sri Lanka gives top priority to the construction of a highway connecting the city of Colombo and the southern region, reflecting the awareness by the government of the need to secure reliable access to the Great Colombo District, the center of the country's political and economic activities.

(Project Objectives and Description)

The project aims to alleviate traffic congestion in the Greater Colombo District and to increase traffic efficiency between the Greater Colombo District and the southern regions by constructing a highway connecting Kottawa near Colombo and Matara in the Southern state, thereby contributing to improved traffic safety and economic growth in the southern region. JBIC provided a Japanese ODA loan in March, 2001, to finance the first phase of this Project. The proceeds of the latest loan will be applied to the construction of four-lane roads and toll gate facilities.

Project Executing Agency

Ministry of Highways and Road Development, 9th Floor, Sethsiripaya, Battaramulla, Sri Lanka,  
TEL:94-11-288-7464 FAX:94-11-288-7463

\*The project is co-financed with the ADB. The Japanese ODA loan provided by JBIC will finance the construction of the 67km-section (Kottawa ~ Kurundugahahetekma) located in the north.

#### (4) Water Sector Development Project (II)

(Project Background and Necessity)

While 76% of the total population has access to safe drinking water using wells and surface water in Sri Lanka, only 30% of households are connected to piped water (2006). In addition, water demand is increasing dramatically due to population growth, with the nationwide water supply consumption jumping from 147 million cubic meters in 1995 to 247 million cubic meters in 2005. Even in the Greater Colombo area, where water supply is relatively advanced and 58% of its population of around 3.6 million has access to the water supply, water demand is outpacing water supply with rapid urbanization. The ratio of non revenue water standing high at 37% is also contributing to the widening supply-demand gap in the region. In particular in the city of Colombo, leakage occurs in huge volume (leakage ratio: around 30%, wasting approximately 78,000 cubic meters of water/day)[1] due to extremely dilapidated water supply pipes, which constitutes a major factor for non revenue water. In addition, in the Greater Colombo area, water consumption per person has been decreasing in recent years even in the areas having access to water supply, and the areas where water is served for 24 hours a day make up only half of the total service areas. There is an urgent necessity for improving access to water. The basic policy prepared by the current administration of Sri Lanka also designates better access to water as one of the goals, with special reference to the need for improving water supply situation in the Greater Colombo area.

(Project Objectives and Description)

The project consists of the development/expansion of the water purifying plant and water intake/water pipe facilities connected to it along the Kalu Ganga in the Greater Colombo area. The project will also reduce non revenue water by replacing water supply pipes and promoting direct connection to each of low income households in the city of Colombo. The project is thus expected to ensure safe and stable supply of water for daily use, thereby contributing to improving living environment in the area.

Project Executing Agency

National Water Supply and Drainage Board (NWSDB), (address: PO Box 14, Mount Lavinia, Sri Lanka, TEL/FAX:94-11-263-6449)

#### (5) Energy Diversification Enhancement Project (Engineering Services)

(Project Background and Necessity)

Power development in Sri Lanka has largely centered around hydropower and most of major promising sites for exploiting hydropower had been developed by the mid-1990s. In recent years, although mainly coal-fired power projects have been planned, the construction of such large power plants is lagging behind schedule due to financing problems and environmental effects. As a result, small diesel power generation, which is costly per unit volume of power, has come to account for one quarter of the total power generation capacity.

If Sri Lanka is to achieve sustainable economic development, it is critical to supply stable and low-cost power to meet power demand that is projected to grow about 8% annually until 2025. The national energy policy is thus aiming to supply low-cost energy to meet basic needs of citizens, improve their living standards and increase their economic opportunities. For these purposes, energy sources have to be diversified to include new sources such as LNG, in addition to oil and hydropower.

(Project Objective and Description)

The Project consists of construction of the country's first LNG storage facilities and a gas pipeline to a LNG-fueled thermal power plant that will enable the generation and stable supply of low-cost electric power compared with oil, thereby contributing to economic development and social stability in Sri Lanka. This loan will be provided for an engineering service for the basic design of the project.

Project Executing Agency

Ministry of Power and Energy (address: No. 493/1, T. B. Jayah Mawatha, Colombo 10, Sri Lanka,  
TEL:94-11-2687013 FAX:94-11-2687014)

[1] The equivalent of 260,000 bathtubs of water is wasted per day.

# MAP of Japanese ODA loan to Sri Lanka

