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# 1. Foreign Aid Profile

## 1.1 Aid Commitments

- The total aid commitment made to Sri Lanka in 2006 by all donors amounted to US\$ 1561 million, This amount was committed to the Government of Sri Lanka as the Official Development Assistance (ODA)

- These commitments were made in the form of loans, grants and technical cooperation. Of the commitments, loans account for US \$ 1343 million or 86 percent of the total, while the balance US \$ 218 million or 14 percent is in grants. A graphical presentation of the donorwise aid commitment is given in the

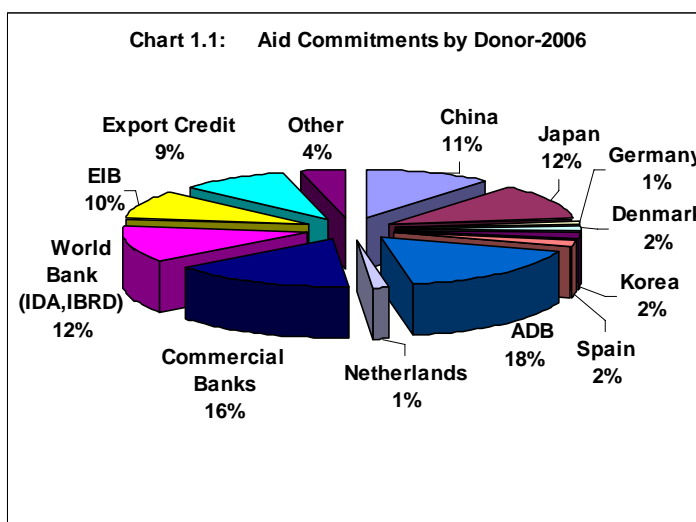


Chart 1.1 while the table 1.1 below shows a summary of the foreign aid received in 2006.

**Table 1.1: Aid Commitments by Major Donors**

Donor/Creditor	Amount committed (US\$ mn)	Percentage
Asian Development Bank	274.7	17.6%
World Bank	191.9	12.3%
Government of Japan	184.6	11.9%
Government of China	173.2	11.8%
European Investment Bank	150.8	9.7%
Government Republic of Korea	36.6	2.3%
Government of Denmark	25.8	1.7%
Government Spain	27.7	1.8%
Netherlands	20.2	1.3%
Government of Germany	16.1	1.0%
UN Agencies	20.0	1.3%

- Export/Mixed credits which are less concessional compared to the bilateral and multilateral credit, totalled to US\$ 147.9 million or 9.5 per cent of the total aid commitment in 2006.
- The foreign commercial borrowings which are non concessional was US\$ 250 million.

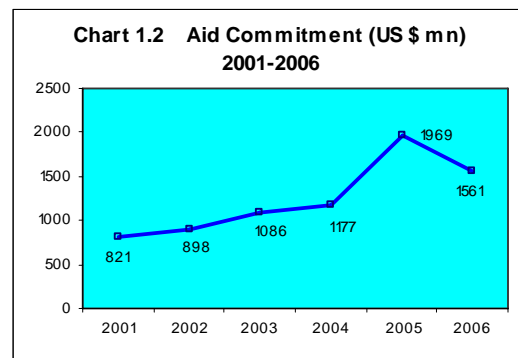
**Table 1.2 Foreign Aid Commitments 2001 – 2006 (US \$ Mn)**

Year	2001	2002	2003	2004	2005	Ave. 2001 -2005	2006
Loans	738	777	909	948	1068	888	1343
Grants	83	122	177	229	902	303	218
<b>Total</b>	821	899	1086	1178	1970	1191	1561

The total aid commitment in 2006 shows a significant increase in comparison to the annual average of the foreign aid commitments for the period of 2001-2005, the following significant features can be noted in 2006:

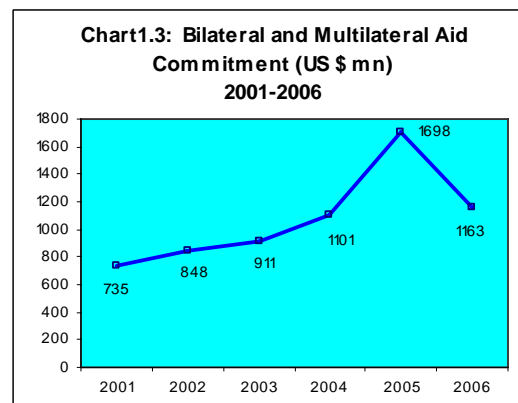
- The total aid commitment was increased by US\$ 370 million or 31 percent.
- The total loan commitment increased by US\$ 455 million or 51 percent
- The total grant commitment decreased by US\$ 85 or 28 percent .

The chart 1.2 shows the trend in the annual aid commitments from 2001 to 2006. Due to the Tsunami assistance, the highest commitment was made in 2005. Though the annual commitment in 2005 is larger than that of 2006, the aid commitment has been in an increasing trend.



## 1.2 Bilateral and Multilateral Aid Commitments

The total commitment made by all bilateral and multilateral donors in 2006 was US\$ 1163 million. This is a decrease of US\$ 535.5 million or 31.5 percent compared to 2005. The year 2005 can be treated as an exceptional year since there was an unusual increase in donor commitments to facilitate the post-tsunami reconstruction programme. Commitments have come back to normal level in 2006. No significant deviation in the overall upward trend in 2001-2005 period can be observed.



**Table 1.3 Bilateral and Multilateral Aid Commitments 2001 – 2006 (US \$ Mn)**

Source	2001	2002	2003	2004	2005	Average 2001-2005	2006
Bilateral	534	367	444	433	1014	558	526
Multilateral	201	482	468	669	685	501	637
Total	735	849	912	1102	1699	1059	1163

In comparison to the annual average aid commitment by bilateral and multilateral donors during 2001-2005 period, following significant factors can be observed in 2006.

- Total bilateral/multilateral aid commitment increased by US\$ 120 million or 11 percent.
- Total multilateral commitment increased by US\$ 144 million or 29 percent.
- Total bilateral commitment decreased by US \$ 25 million or 4 percent.

The details on aid commitments made by donors and agencies are given in the Appendices 1, 2, 3 and 4.

### 1.3 Loan Commitments

Aid commitments classified under bilateral and multilateral donors are concessionary loans of which grant elements are over 35 %. The export credits fall to both less concessionary and non concessionary categories while the market borrowings fall to non concessionary category.

**Table 1.4 Loan Commitments by Type of Financing(2001-2006)**  
(US\$ mn)

Type of Financing	2001	2002	2003	2004	2005	Average 2001-2005	2006
<b>Concessionary</b>	<b>716.11</b>	<b>777.10</b>	<b>773.41</b>	<b>856.46</b>	<b>431.94</b>	<b>711.00</b>	<b>506.51</b>
Bilateral	476.21	313.28	320.91	310.23	259.81	336.09	227.40
Multilateral	160.53	413.29	383.72	526.23	172.13	331.18	220.56
Export Credit	79.37	50.53	68.78	20.00	0.00	43.74	58.55
<b>Non Concessionary</b>	<b>21.67</b>	<b>0.00</b>	<b>135.53</b>	<b>91.82</b>	<b>635.56</b>	<b>176.92</b>	<b>836.33</b>
Bilateral	0.00	0.00	30.00	35.86	364.65	86.10	196.08
Multilateral	15.00	0.00	0.00	0.00	0.00	3.00	300.91
Export Credit	6.67	0.00	5.53	53.84	40.91	21.39	89.34
Market Borrowings*	0.00	0.00	100.00	2.12	230.00	66.42	250.00
<b>Total</b>	<b>737.78</b>	<b>777.10</b>	<b>908.94</b>	<b>948.28</b>	<b>1067.50</b>	<b>887.92</b>	<b>1342.84</b>

\* Market Borrowings have been raised from commercial banks..

## 1.4 Foreign Aid Disbursements

- The total amount of foreign aid disbursed in 2006 was US \$ 1388 million, of which US\$ 1,072 million was in loan funds and US\$ 316 million in grant funds.
- Of the total disbursement, US\$ 729 million was from bilateral and multilateral official development assistance and the balance US \$ 343 million from export credit agencies and commercial banks.

The Government of Japan the Asian Development Bank and the World Bank were the three major donors who reported the highest disbursements in 2006. Government of Japan disbursed US\$ 303 (22%), million and the Asian Development Bank (and the World Bank disbursed US\$ 201 14.5%) and US\$ 167 (12 %) million respectively.

The details of disbursement of loans and grants are presented in the following Table 1.5

**Table 1.5 Foreign Aid Disbursements by Type 2001 – 2006 (US \$ Mn)**

Year	2001	2002	2003	2004	2005	Average. 2001 -2005	2006
Loans	458	498	915	719	890	696	1072
Grants	87	86	109	82	339	140	316
<b>Total</b>	544	584	1024	800	1229	836	1388

When compared with the annual average foreign aid disbursements for the period 2001-2005 the following significant factors can be observed on the disbursements in 2006.

- Total disbursements increased by US \$ 552 million or 66 percent.
- Disbursement of loan funds increased by US \$ 376 million or 54 percent
- Disbursement of grant funds increased by US \$ 176 million or 125 percent

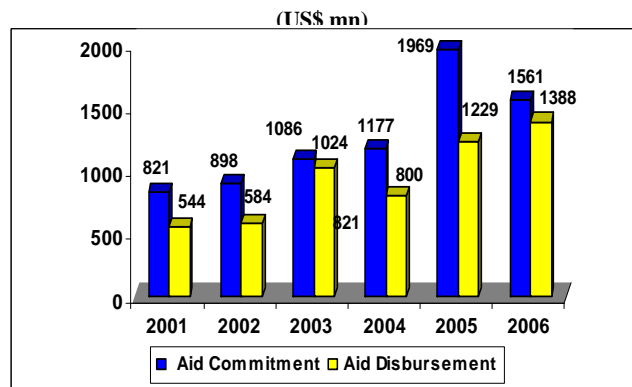
A graphical presentation of the share of the disbursement by major donors and creditors is given in the Chart 1.4 while the Table 1.6 shows disbursement of loan funds by type of financing for the period of 2001-2006

**Table 1.6 Disbursement of Loan Funds by Type of Financing 2001-2006 (US \$ Mn)**

Source	2001	2002	2003	2004	2005	Average 2001-2005	2006
ODA(Bilateral/Multilateral)	522	532	850	720	953	715	1045
Export Credit	22	52	74	80	44	54	93
Commercial Borrowings	0	0	100	0	232	66	250
<b>Total</b>	<b>544</b>	<b>584</b>	<b>1024</b>	<b>800</b>	<b>1229</b>	<b>836</b>	<b>1388</b>

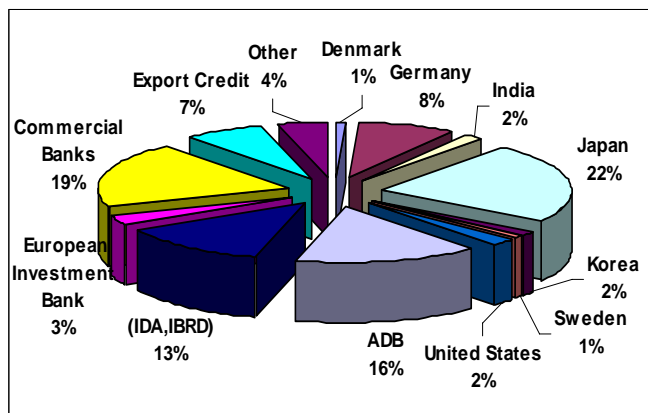
The annual aid commitments and disbursements for the period 2001 to 2006 are shown in Chart 1.5. The shaded columns show the annual commitments while the unshaded columns show disbursements. The highest annual disbursement was in 2006 while the highest annual commitment was in 2005. This was due

**Chart 1.4 Aid Commitments and Disbursements 2001-2006**



to the flow of Tsunami assistance in 2005. However, overall trend in aid commitments and disbursements for the period of 2001-2006 was in an upward direction.

**Chart 1.5 Aid Disbursements by Major Donors and**

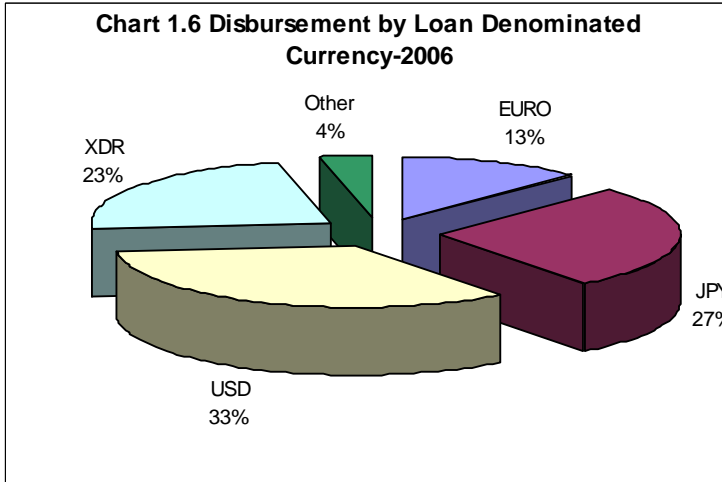


The details of aid disbursement made by donors are given in the Appendices 5, 6, 7 and 8.

## 1.5 Disbursements by Loan Denominated Currency

The fluctuation of exchange rates causes to reducing or increasing debt service payments in terms of the local currency. Therefore the fluctuation of exchange rates is an important factor that can be taken into account in the external debt servicing as well as interest, service charges and

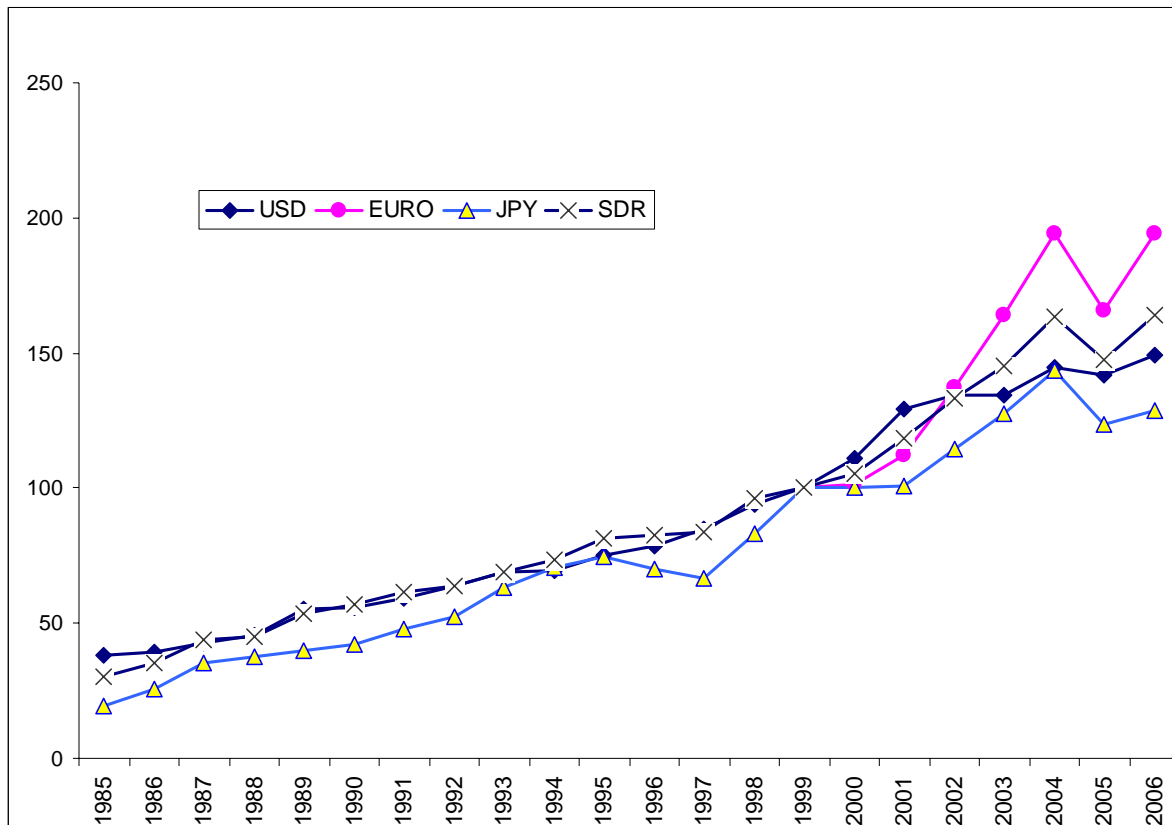
commitment charges. Also, debt service payments depend on the types of the currency by which the loans are denominated. The chart 1.6 shows the disbursements of funds by loan denominated currency and the Chart1.7 shows the fluctuation of currency rates against rupee for the period of 1985 to 2006.



Out of the total amount disbursed in 2006, US\$ 421 million was denominated in United State Dollars (USD) while US\$ 325 million in Japanese Yen (JPY), US\$ 302 million in Special Drawing Rights (SDR), US\$ 191 million in Euro and US\$ 149 million in other currencies.

**Chart 1.7: Currency Appreciation against the Sri Lankan Rupee:**

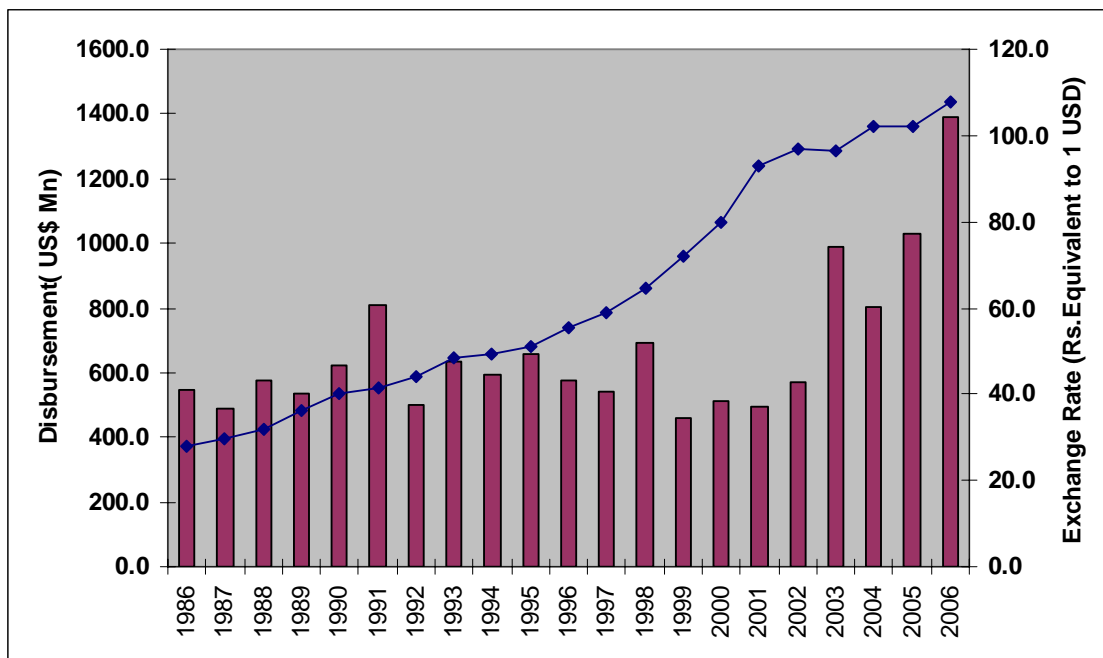
1999 = 100



The fluctuation of the major loan currencies against the Sri Lankan Rupee (LKR) in the period 1985-2006 is illustrated in the Chart 1.7 above. As evident from the Chart, the major loan denominated currencies i.e, United State Dollar (USD), Japanese Yen (JPY), EURO (EUR) and Special Drawings Rights (SDR) appreciated against the Sri Lankan Rupee except in 2005 where Rupee appreciated mainly due to the flow of funds as Tsunami assistance. The appreciation of Euro against LKR was faster than that of US Dollar during recent years.

The foreign aid disbursement during the period from 1986 to 2006 is shown in Chart 1.8 below. The exchange rate parity variation between the Sri Lankan Rupee and the US Dollar is also shown in the Chart 1.8 as a line graph.

**Chart 1.8: Aid Disbursements 1986-2006**



### 1.6 Foreign Aid Disbursement Ratio (FADR)

The foreign aid disbursement ratio (FADR) is the commonly used indicator to measure utilization of foreign aid.

- The annual disbursement as a percentage of committed undisbursed balance (CUB) of foreign aid at the beginning of the year is defined as the FADR of that year.

Note that definition of FADR was changed since 2006, that is, FADR is as to the annual disbursement as a percentage of committed undisbursed balance (CUB) of foreign aid at the middle of the year.

- FADR depends on the average project/loan portfolio life. For instance, if the average portfolio life is five years, one fifth of the loan should be disbursed annually and therefore the Disbursement Ratio should be around 20%.

The disbursement ratios for different donor categories for the period from 2001 to 2006 are given in Table 1.7 below

**Table 1.7: Disbursement Ratios for the Period 2001 - 2006( Loans and Grants)**

<b>Donor</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Japan	14.5%	15%	17.7%	15.8%	20.4%
ADB	23.5%	20.5%	19.6%	21.2%	18.3%
World Bank	40.8 %	33.2%	24.7%	34.3%	26.3%
Other Bilateral	20.9%	27.2%	30.7%	30.5%	20.7%
Other Multilateral	21.8%	20.7%	29.3%	76.8%	32.5%
Export Credit	57.6%	73.5%	84%	36.4%	52.7%
Overall	21.5%	21.7%	23%	27.3%	23.47%

About 90 percent of the projects in the aid portfolio have life spans between 5 – 6 years and therefore the satisfactory levels of the overall Disbursement Ratio should be between 16 percent to 20 percent. As shown in Table 1.7, the overall Disbursement Ratio for the year 2006 shows considerably higher figure than this level.

- Disbursement under the programme loans takes place faster than the disbursement under project loans and grants. Therefore, programme loans cause to make the disbursement ratio higher. However, contribution of programme loan is less in 2006.
- Of the major donors, the ADB and Japan show lower disbursement ratios, while the other categories show high disbursement ratios
- The Disbursement Ratios for Japan and ADB are low due to the larger life cycles of loan portfolios which are higher than the average portfolio life.
- In general, the Export Credit category has a higher disbursement ratio in comparison to other aid categories. This was due to shorter lifetime of projects

The Disbursement Ratios of major donors for the period from 2002 to 2006 together with the amounts disbursed and Cumulative Undisbursed Balances (CUB) of the loan portfolio are presented in Table 1.8.

**Table 1.8: Aid Utilization for the Period 2002-2006**

Donor	Description	Currency	2002	2003	2004	2005	2006
<b>Japan</b>	<u><i>Aid Utilization( Loan &amp; Grant)</i></u>						
	Disbursement	Yen	23.2	25.6	30.6	26.4	35.2
	CUB*	billion	160.5	170.3	172.4	167.4	172.5
	Disbursement ratio		14.5%	15.0%	17.7%	15.8%	20.41%
	<u><i>Utilization of Loans</i></u>						
	Disbursement		20.2	23.6	28.5	21.9	31.4
	CUB		156.4	168.1	170.7	165.1	165
	Disbursement ratio		12.9%	14.0%	16.7%	13.3%	19.03%
	<b>ADB</b>	<u><i>Aid Utilization( Loan &amp; Grant)</i></u>		SDR			
Disbursement		Million	118.1	107.6	106.7	145.1	134.6
CUB			501.6	523.8	543.3	684.6	737.6
Disbursement ratio			23.5%	20.5%	19.6%	21.2%	18.25%
<u><i>Utilization of Loans</i></u>							
Disbursement			114	105.2	103.8	136.5	120.6
CUB			484.2	509.4	528.4	670.3	610.3
Disbursement ratio			23.5%	20.6%	19.6%	20.3%	19.76%
<b>World Bank</b>		<u><i>Aid Utilization( Loan &amp; Grant)</i></u>		SDR			
	Disbursement	Million	73.5	57.7	48.7	105.8	113.6
	CUB		180	173.8	196.8	308.3	431.9
	Disbursement ratio		40.8%	33.2%	24.7%	34.3%	26.30%
	<u><i>Utilization of Loans</i></u>						
	Disbursement		70.6	52.7	46.1	76.4	67.8
	CUB		175.8	164.5	152.8	189.1	261.2
	Disbursement ratio		40.1%	32.0%	30.2%	40.4%	25.96%
	<b>Other Multilateral</b>	<u><i>Aid Utilization( Loan &amp; Grant)</i></u>		US\$			
Disbursement		Million	18.6	33	47.6	123.8	134.3
CUB			85.2	158.9	162.5	161.2	413.1
Disbursement ratio			21.8%	20.7%	29.3%	76.8%	32.51%
<u><i>Utilization of Loans</i></u>							
Disbursement			5.2	13.1	33.9	28.1	47.3
Beginning CUB			49.7	93.4	99.3	81.6	152.4
Disbursement ratio			10.5%	14.0%	34.1%	34.4%	31.04%
<b>Other Bilateral</b>		<u><i>Aid utilization (loan &amp; grant)</i></u>		US\$			
	Disbursement	Million	63.4	90.4	120.4	135.1	227.6
	CUB		303.1	332.4	392.4	443.1	1099.6
	Disbursement ratio		20.9%	27.2%	30.7%	30.5%	20.70%
	<u><i>Utilization of Loans</i></u>						
	Disbursement		35.5	54.9	76.2	65.4	122
	CUB		216.4	231.6	264.7	293.1	706.5
	Disbursement ratio		16.4%	23.7%	28.8%	22.3%	17.27%
	<b>Export Credit</b>	<u><i>Utilization</i></u>					
Disbursement		US\$	53	67.8	85.9	45.0	98
CUB		Million	92	92.2	102.3	123.6	185.8
Disbursement ratio			57.6%	73.5%	84.0%	36.4%	52.74%

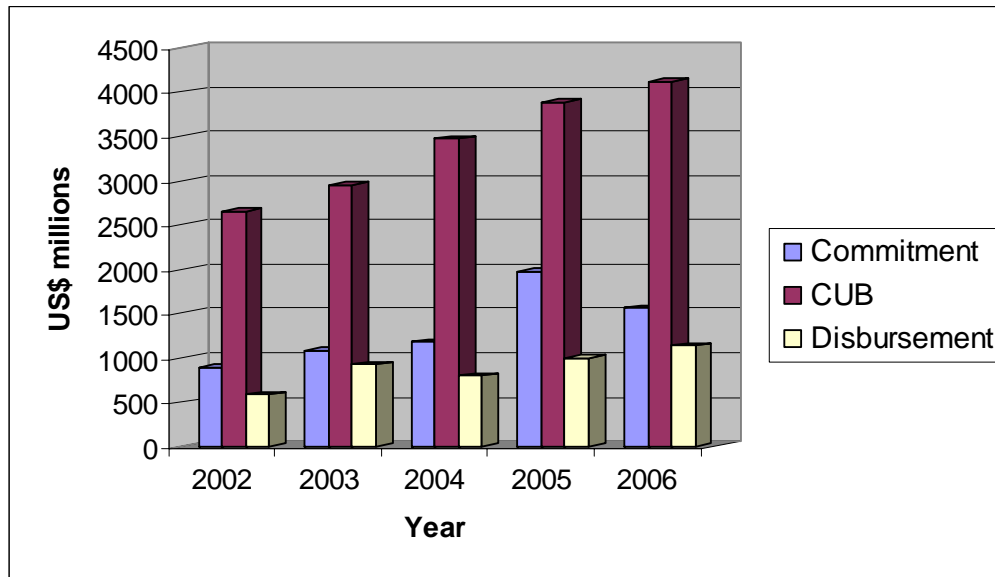
Donor	Description	Currency	2002	2003	2004	2005	2006
Overall	<u>Aid utilization (loan &amp; grant)</u>						
	Disbursement	US\$	584.1	924.0	800.5	996.8	1138.4
	CUB	Million	2650.3	2952	3472.6	3879.5	4218.2
	Disbursement ratio		21.5%	21.7%	23.0%	27.3%	23.47%
	<u>Utilization of Loans</u>						
	Disbursement	US\$	498.0	814.9	718.9	657.9	822.2
	CUB	Million	2467.2	2733	3074.0	3281.3	3702
	Disbursement ratio		20.1%	20.5%	22.4%	23.3%	22.21%
	<u>Utilization of Grants</u>						
	Disbursement	US\$	86.1	109.1	81.6	338.9	316.6
	CUB	Million	183.1	216	310	455.9	949.5
	Disbursement ratio		40.6%	38.2%	29.1%	58.4%	29.0%

\* CUB= Committed Undisbursed Balance.

\*\* The CUB at the beginning of the year has been used for the calculation of FADR up to 2006. In order to the disbursement ratio to be more realistic, the CUB at the middle of the year has been used from 2006 onwards.

A graphical presentation of the Aid Commitment, the Cumulative Undisbursed Balance (CUB) and the Aid Disbursement from 2002 to 2006 are given in the Chart 1.9

**Chart 1.9: Relationship between Annual Commitments, Cumulative Undisbursed Balance (CUB) and Annual Disbursements 2002 to 2006**



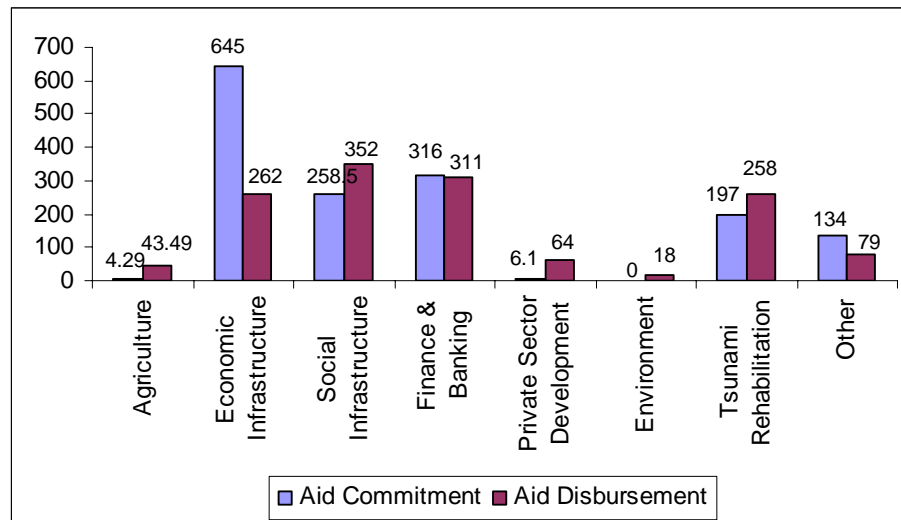
## 1.7 Foreign Aid Commitment and Disbursement by Sector

The following sectors accounted for major portions of the foreign aid commitment and disbursement in 2006.

- Economic Infrastructure
- Finance and Banking
- Social Infrastructure
- Tsunami Rehabilitation and Reconstruction

The Charts 1.10 shows the sectoral distribution of aid commitments and disbursements in 2006.

**Chart 1.10: Aid Commitments and Disbursements by Sector –2006 (US\$ Mn)**



The detailed sectorwise foreign aid commitments and disbursements are given in Appendix 9 and 10 respectively.

## **2.0 Foreign Aid Commitment and Disbursement by Major Donors**

### **2.1 Bilateral Donors**

#### **2.1.1 Japan**

The government of Japan committed US\$ 185 mn or 12 percent. These commitments were made through 3 loan agreements signed in 2006. No grant agreements were signed in 2006.

The loan agreements signed in 2005 are:

<b>Project.</b>	<b>Amount (US\$ mn)</b>
1. The Galle Port Development Project (I)	124.17
2. Pro-Poor Eastern Infrastructure Development Project.	38.17
3. Tourism Resources Improvement Project.	22.29

The terms of the loans are given in the Appendix-10

Total disbursements by Japan amounted to US\$ 302.65 million, which is equivalent to 22 percent of the total disbursement made by all donors in the year 2006. Of this amount US\$ 268 million was disbursed in loan funds and the balance US\$ 34 million in grants.

#### **2.1.2 China**

China committed US\$ 173 million or 11 percent of the total aid commitment made by all donors in 2006. These commitments were made through one loan agreement and six grant agreements signed in 2006. The loan agreement of US \$ 155 million was signed under the Preferential Buyer's Credit Scheme for Puttalam Coal Power Project.

The grant agreements are;

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Technical Guidance on Maintenance of BMICH	0.06
2. Agreement on Economic and Technical cooperation.	2.48
3. Assistant for South Asian Games	0.43
4. Economic & Technical Cooperation between Government of Sri Lanka and China	5.12
5. The Construction of a Few Selected Road Infrastructure Elements	10.00
6. Project of Upgrading Facilities at the BMICH	0.06

Disbursement made by China during the year 2006 was US \$ 9.3 million out of loan funds.

### 2.1.3 Germany

The Government of Germany committed US\$ 16 million in 2006. Of this amount US\$ 8 million was in the form of loans and the balance US\$ 8 million was in the form of grants. These commitments were made through two loan agreements and two grant agreements signed in 2006.

The loan agreements signed during the year 2006 are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Rehabilitation Electricity Supply Jaffna Region [Transmission Line]	1.95
2. DFCC V Credit Line for SME in the North and East	6.07

The grant agreements signed during the year 2006 are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1 Promotion of Food Security and Reconciliation in Baticaloa District	3.04
2 Rehabilitation of Social, Technical and Productive Infrastructure	4.53
3 Environmentally Sound Disposal of Tsunami Debris & Reforestation of the Coastal Regions in the Batticaloa District.	0.42

Germany made disbursement of US\$ 108 million or 7.8 percent of the total disbursement made by all donors in 2006. Of this amount US\$ 55 million was in the form of loans and the balance US\$ 53 million was in grants.

### 2.1.4 Finland

Finland committed a grant of US\$ 9.15 million for Water Supply Project in Ampara District in 2006.

No disbursement was reported by Finland by the end of year 2006.

### 2.1.5 Canada

Canada committed a grant of US \$ 0.3 million for Environmental Assessment of the Permanent Housing Programme for the Tsunami Displaced in 2006.

No disbursement was reported by Canada by the end of year 2006.

## 2.1.6 France

No commitments were made by the Government of France in 2006.

The loan disbursement on account of an ongoing project was amounted to US\$ 0.9 million in 2006.

## 2.1.7 United States of America (USA)

USA committed US\$ 10 million or a 0.6 percent of the total commitment made by all donors in 2006. These commitments were made through 7 grant agreements signed for the following projects.

The grant agreements are :

<b>Project</b>	<b>Amount (US\$ mn)</b>
1 Peace, Good Governance and Citizen Rights	5.37
2 Improved Integration of Targeted Disadvantaged groups into the Community	1.37
3 Tsunami Recovery & Reconstruction Support	2.00
4 Feasibility Study For Addressing Post Tsunami Road Construction Equipment Requirement	0.37
5 Promoting livelihood of the Tsunami affected people	0.16
6 TA on Water Supply Capacity Building Project	0.56
7 TA for the Emergency Communications System	0.30

The disbursement made by USA in 2006 was US \$ 28.6 mn. All disbursements were made in the form of grants.

## 2.1.8 Korea

Government of Korea committed US \$ 36.6 million or 2.4 percent of the total commitment made by all donors in 2006. These commitments were made through one loan agreement and three grant agreements. The loan agreement of US\$ 20 million was signed for Administrative Complex in Hambantota. .

The grant agreements are;

<b>Project</b>	<b>Amount (US\$ mn)</b>
1 Establishment of the Korea-Sri Lanka Friendship Hospital	6.7
2. Construction of Storm Water Drainage at Valachchenai	3.9
3. The Construction of the International Convention Centre in Hambantota	6.0

The disbursement reported by Korea amounted to US\$ 20 million which was equivalent to 1.4 percent of the total disbursement made by all donors in the year. All disbursements were made in the form of loan funds.

### **2.1.9 Sweden**

Sweden committed US\$ 6.6 million through five grant agreements signed in 2006. This represents 0.4 percent of the total commitment made by all donors.

The grant agreements signed during the year are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Establishment of E- Learning centre at the University of Colombo	1.98
2. Consultancy Fund 2006-2007	1.33
3. Capacity Building of Faculty of Fisheries & Marine Sciences, University of Ruhuna	0.55
4. Emergency Bridge Project - Sweden.	2.45
5. University of Kelaniya Research Project	0.26

The total disbursement by Sweden accounted for US\$ 11.3 million during the year 2006. Of the total disbursement US\$ 1.6 million was in the form of loans and the balance US \$ 9.7 million was in grant funds.

In addition, Sweden has made disbursement of US\$ 1.19 million in 2006 under the Swedish Research Cooperation Programme.

### **2.1.10 Kuwait**

No commitments were made by the Government of Kuwait in 2006. The disbursement reported by Kuwait was in loan funds and amounted to US\$ 3.8 million which was 0.3 percent of the total disbursement made by all donors in the year 2006.

### **2.1.11 The Netherlands**

The Netherlands committed US\$ 20.2 million through six grant agreements.

The grant agreements are :

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Netherlands Sri Lanka Cultural Assistance programme	4.08
2. Construction of Museum cum Visitor Centre at Kataragama	0.64
3. Conservation of Ancient Ramparts in Galle Fort	1.30
4. Conservation of Dutch Forts in Matara and Katuwana	0.34
5. Conservation of the Dutch Warehouse in Galle & Establishment of a Maritime Museum	0.44
6. Upgrading of the Disaster Response in the Western Province and Selected Urban Areas under ORET Programme	13.44

The total disbursement by the Netherlands accounted for US\$ 1.2 million or 0.1 percent of the total disbursement made by all donors in 2006. All the disbursements were in grant funds.

### **2.1.12 Switzerland**

The Government of Switzerland committed US\$ 8.5 million through a grant agreement signed for Post-Tsunami Rehabilitation of Houses in 2006.

The disbursement made by Switzerland was US\$ 4 million in 2006. All disbursements were in grant funds.

### **2.1.13 Denmark**

The Government of Denmark committed US\$ 25.79 million through a loan agreement signed for Nuwara Eliya District Group Water Supply Project.

The disbursement made by Denmark was US\$ 17.2 million in 2006. All disbursements were in loan funds.

#### **2.1.14 Italy**

The Government of Italy committed US\$ 2.3 million in 2006, through a grant agreement signed or Lines of intervention to support Microfinance activities in Sri Lanka

The disbursement of US\$ 0.97 mn was reported by Italy in 2006

#### **2.1.15 Norway**

Government of Norway committed US \$ 2.1 million through a grant agreement signed for Delimitation of Outer Edge-Sri Lanka in 2006.

The total disbursement by Norway accounted for US\$ 2.9 million which was 0.2 percent of the total disbursement made by all donors in 2006. All disbursements were in the form of grant funds.

#### **2.1.16 Spain**

Kingdom of Spain committed US\$ 27.7 million through two loan agreements signed in 2006.

The loan agreements are;

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. The Supply and Construction of Pre-Fabricated Metal Bridges	18.79
2. The Supply and Construction of Pre-Fabricated Metal Bridges	8.95

The disbursement made by Spain was US\$ 4.7 million in 2006. All disbursements were in loan funds.

#### **2.1.17 India**

No commitments were made by India in 2006.

Total disbursements by India amounted to US\$ 21.5 million which was 1.6 percent of the total disbursement by all donors. All disbursements were in loan funds.

### **2.1.18 Saudi Fund for Arab Economic Development**

No commitments were made by Saudi Fund in 2006.

Loan disbursement of US\$ 3.1 million was made on the account of ongoing projects.

### **2.1.19 OPEC Fund for International Development**

No commitments were made by OPEC Fund in 2006.

The Disbursement of US\$ 6 million of loan funds was made during the year 2006.

### **2.1.20 Australia**

Australia committed US\$ 2.5 million through a grant agreement signed for Community Reconstruction of Housing and SPORT Project in 2006.

## **2.2 Multilateral Financing Agencies**

### **2.2.1 Asian Development Bank (ADB)**

The Asian Development Bank committed US\$ 275 million, or 18 percent of the total commitment made by all donors in 2006. These commitments were made through five loan agreements and six grant agreements signed during the year 2006. Of this amount US\$ 271.3 million was committed in loan funds and the balance US\$ 3.4 million in grants.

The loan agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. 3rd Water Supply & Sanitation Sector	5.14
2. Local Government Infrastructure Improvement Project	49.29
3. Technical Education Development	19.44
4. National Highway Sector Project	150.00
5. Secondary Towns & Rural Community Water/Sanitation Supply	47.44

The Grant agreements are:

1. Micro Insurance Sector Development	0.60
2. Education Sector Development Program	0.70

3. Strengthening Local Government Infrastructure Financing Project.	0.50
4. Independent External Monitoring of Resettlement Activities of the Southern Transport Development Project.	0.42
5. Capacity Building of the Environmental & Social Division of the Road Development Authority Project.	0.40
6. TA for Preparing the Agribusiness Development Project	0.80

The loans from the ADB Special Resources Fund (ADF) are repayable in 32 years inclusive of 8 years grace period with interest charge of one percent per annum during the grace period and 1.5 percent per annum thereafter.

The loans from the ADB's Ordinary Capital Resources (OCR) are repayable in 25 years including a grace period of 5 years. The interest rate is London Inter Bank Offered Rate (LIBOR) plus a margin of 0.6 percent. The commitment charge of the loan is 0.75 percent per annum on undrawn balance of the loan.

Total disbursements by the ADB amounted to US\$ 201.6 million, which was 14.5 percent of the total disbursement made by all donors in 2006. Of this amount, US\$ 180.3 million was in loan funds. The balance US\$ 21.3 million was in the form of grants.

## 2.2.2 The World Bank (IDA & IBRD)

The World Bank (IDA, IBRD) committed US\$ 191.9 million, or 12.3 percent of the total commitment made by all donors, through 3 loan agreements and 5 grant agreements signed in 2006. Of this amount US\$ 99.3 million was in loan funds while the balance US\$ 92.6 million was in the form of grants.

The loan agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Road Sector Assistance	98.75
2. Preparation of the proposed Puttalam Housing Project	0.10
3. Preparation of National Water Management Improvement Project	0.50

The Grant agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
----------------	-------------------------

1. Education Sector Development Project	59.31
2. Tsunami Emergency Recovery Project Phase-ii	24.87
3. North East Housing Reconstruction Project	7.45
4. National Water Management Improvement Project	0.55
5. Gamidiriya II Project	0.38

The all loans are from IDA resources which are repayable in 30 years after a grace period of 10 years with a service charge of 0.75 percent per annum.

Total disbursement by the World Bank amounted to US\$ 166.8 million. This was 12 percent of the total disbursement made by all donors in 2006. Of this amount US\$ 99 million was in the form of loans while the balance US\$ 67.8 million was in grants.

### **2.2.3 UN Agencies**

UN agencies committed US\$ 20 million or 1.3 percent of the total commitment made by all donors in 2006. These commitments were made through 13 grant agreements signed during the year 2006 under UNDP, FAO and UNFPA. Total disbursement made by the UN agencies (FAO, UNDP, UNFPA, UNICEF and WFP) was US\$ 90.8 million, which is 6.3 percent of the total disbursement made by all the donors in 2006.

The commitments and disbursements made by UN agencies are given below

#### **2.2.3.1 United Nations Development Programme (UNDP)**

UNDP committed US\$ 16.85 million through 7 grant agreements signed in 2006.

The grant agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Urban Governance Support Project	0.15
2. Strengthening Plan Implementation Capability	0.42
3. Community Reconstruction Project.	1.06
4. Invest in Peace - Phase 2	0.44
5. Sustainable Recovery of Natural Resources of Tsunami Affected Costal Areas	0.20
6. Green Belt Redevelopment Of Tourism Infrastructure	0.28
7. Transition Programme for Sri Lanka	14.3

Disbursement made by UNDP was US \$ 1.10 million in 2006.

### **2.2.3.2 United Nations Population Fund (UNFPA)**

UNFPA committed US\$ 2.33 million in 2006. These commitments were made through the following grant agreements

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Reproductive Health Services	0.58
2. IEC Support for Reproductive Health	0.08
3. Restoration of RH Services In Tsunami Affected Districts	1.67

The disbursement reported was US\$ 6.90 million. All disbursements were in the form of grant funds.

### **2.2.3.3 Food and Agriculture Organization (FAO)**

FAO committed US\$ 0.78 million, through 3 grant agreements signed during the year 2006

The grant agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Special Programme for Food Security.	0.20
2. Immediate Assistance for HPAI emergency Preparedness	0.40
3. National Agricultural Biotechnology Research & Development Prog.	0.18

The total disbursement reported by FAO was US\$ 14.85 million

### **2.2.3.4 United Nation Children's Fund (UNICEF)**

No funds were committed by UNICEF in 2006.

The total disbursement reported by UNICEF was US \$ 56.1 million

### **2.2.3.5 World Food Programme (WFP)**

No funds were committed by WFP in 2006.

Total disbursement reported on the account of ongoing project was US \$ 8.16 million.

#### **2.2.4 International Fund for Agricultural Development (IFAD)**

No commitments were made by IFAD in 2006.

Total disbursement by IFAD accounted for US\$ 3.67 million. All disbursements were in loan funds.

#### **2.2.5 Nordic Development Fund (NDF)**

No commitments were made by NDF in 2006.

The disbursement reported by NDF was US\$ 6.1 million or 0.4 percent of the total disbursement made by all donors in the year 2006.

#### **2.2.6 European Investment Bank (EIB)**

EIB committed US\$ 150.8 million, through 3 loan agreements signed in 2006.

The loan agreements are:

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Post Tsunami Line of Credit -Contract A	60.63
2. Post Tsunami Line of Credit -Contract B	24.25
3. DFCC loan-II	65.93

The disbursement which was in loan funds was reported US\$ 33 million or 2.4 percent of the total disbursement made by all the donors in 2006.

### **2.3 Export Credit**

The total commitment under Export Credit in 2006 amounted to US\$ 147.89 mn which was 9.5 percent of the total commitment made by all the donors in the year. Five loan commitments were made under Export Credit category. They are;

<b>Project</b>	<b>Amount (US\$ mn)</b>
1. Integrated Water Supply Scheme Ampara 2- Australia	4.88
2. Enhancement and Strengthening of the Road Infrastructure by Construction of Five Bridges-Austria	13.86

3. Disaster Management & Emergency Response System-Netherlands	25.48
4. Pakistan Line of Credit	50.00
5. Towns South of Kandy Water Supply- Denmark	53.67

Total export credit utilization in 2006 was US\$ 93 million which was 6.7 percent of the total disbursement made by all the donors in 2006.

## 2.4 Commercial Banks

The total commitment by Commercial Banks was US\$ 250 million. These funds were committed and disbursed through 5 loan agreements signed in 2006.

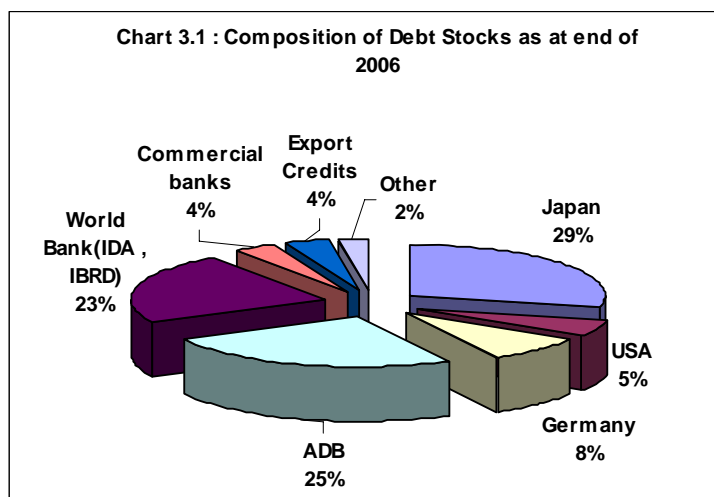
The loan agreements are;

	<b>Creditor</b>	<b>Amount (US\$ mn)</b>
1	Syndicated Loan arranged by Bank of Ceylon	75.0
2	Syndicated Loan arranged by Bank of Ceylon	25.0
3	Syndicated Loan – Citycorp Singapore	100.0
4	HSBC Syndicated Loan	35.0
5	HSBC Syndicated Loan	15.0

### 3 External Debt

#### 3.1 Total Debt Stock and Debt Service Payments

The total disbursed outstanding external debt at the end of 2006 was US\$ 10,634 million, which is a 12 percent increase compared to that of 2005. Of the total debt stock, the highest portion of US\$ 2,840 million or 26.7 percent was owed to Japan, while the second and the third largest portions being US\$ 2,502 million (or 24 per cent) and US\$ 2,255 million (21 per cent) owed to ADB and the World Bank respectively. The total debt service payment in 2006, including amortization and interest payments was US\$ 600 million. A graphical representation of the composition of the debt stocks as of end 2006 by different donor category is illustrated in the Chart 3.1



The external debt stock and debt service payments for the period 2002 to 2006 are given in Table 3.1 below.

Table 3.1 External Debt Service 2002 – 2006 (US\$ mn)

Type	2002	2003	2004	2005	Average 2001-2005	2006
Debt Outstanding as at end of the year	7,345	8,727	9,491	9484	8761.5	10634
Principal repayment	234	262	288	173	239.3	423
Interest payment	118	131	145	76	117.5	177
Debt Service Payment	352	393	433	249	356.8	600

When compared with the annual average for the period from 2002-2005, the following significant factors can be observed on the total debt stock and debt service payments in 2006.

- The total debt outstanding was increased by US\$ 1872.5 million or a 21.4 percent
- The principal payment was increased by US\$ 183.7 million or 76.8 percent
- The interest payment was decreased by US\$ 59.5 million or 50.6 percent
- Total debt service payment was decreased by US\$ 243.2 million or 68.2 percent

The debt service payments to major donors are given in table 3.2 below

Table 3.2 Debt Service Payments to Major Donors/Creditor 2002-2006(US\$ mn)

Table 3.2: Debt Service Payments to Major Donors/Creditors 2002 -2006 (US\$ Mn)

Donor/Creditor	2002	2003	2004	2005	2006
<b>Bilateral</b>	<b>236.9</b>	<b>261.7</b>	<b>293.4</b>	<b>52.4</b>	<b>342.9</b>
Japan	147.9	169.5	192.0	16.7	215.8
USA	43.2	43.7	43.4	8.9	48.7
Germany	18.8	22.1	22.8	15.8	43.2
France	6.0	7.6	7.9	0.0	9.0
Netherlands	0.0	0.0	4.9	0.6	5.8
Canada	2.7	3.0	3.3	0.1	4.2
Kuwait	3.1	3.2	3.1	3.3	4.7
Korea	4.1	4.7	4.9	0.1	7.4
India	5.3	3.8	4.9	3.8	0.0
China	2.6	2.7	3.9	2.9	2.9
Others	3.2	1.4	2.3	0.2	1.2
<b>Multilateral</b>	<b>86.9</b>	<b>103.6</b>	<b>109.7</b>	<b>126.4</b>	<b>147.3</b>
ADB	38.1	48.6	52.2	64.9	76.1
World Bank (IDA , IBRD)	46.2	51.7	53.7	55.7	58.3
IFAD	2.2	2.6	2.7	2.6	8.2
Others	0.4	0.7	1.1	3.2	4.7
<b>Commercial Banks</b>	<b>9.3</b>	<b>9.0</b>	<b>10.0</b>	<b>40.3</b>	<b>76.0</b>
<b>Export Credits</b>	<b>19.0</b>	<b>18.9</b>	<b>19.9</b>	<b>29.4</b>	<b>33.5</b>
Grand total	<b>352.1</b>	<b>393.2</b>	<b>433.0</b>	<b>248.5</b>	<b>599.7</b>

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Donor/Creditor	2002	2003	2004	2005	2006
<b>Bilateral</b>	<b>236.9</b>	<b>261.7</b>	<b>293.4</b>	<b>52.4</b>	<b>342.9</b>
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USA	43.2	43.7	43.4	8.9	48.7
Germany	18.8	22.1	22.8	15.8	43.2
France	6.0	7.6	7.9	0.0	9.0
Netherlands	0.0	0.0	4.9	0.6	5.8
Canada	2.7	3.0	3.3	0.1	4.2
Kuwait	3.1	3.2	3.1	3.3	4.7
Korea	4.1	4.7	4.9	0.1	7.4
India	5.3	3.8	4.9	3.8	0.0
China	2.6	2.7	3.9	2.9	2.9
Others	3.2	1.4	2.3	0.2	1.2
<b>Multilateral</b>	<b>86.9</b>	<b>103.6</b>	<b>109.7</b>	<b>126.4</b>	<b>147.3</b>
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**Table 3.2: Debt Service Payments to Major Donors/Creditors 2002 -2006 (US\$ Mn)**

Donor/Creditor	2002	2003	2004	2005	2006
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Japan	147.9	169.5	192.0	16.7	215.8
USA	43.2	43.7	43.4	8.9	48.7
Germany	18.8	22.1	22.8	15.8	43.2
France	6.0	7.6	7.9	0.0	9.0
Netherlands	0.0	0.0	4.9	0.6	5.8
Canada	2.7	3.0	3.3	0.1	4.2
Kuwait	3.1	3.2	3.1	3.3	4.7
Korea	4.1	4.7	4.9	0.1	7.4
India	5.3	3.8	4.9	3.8	0.0
China	2.6	2.7	3.9	2.9	2.9
Others	3.2	1.4	2.3	0.2	1.2
<b>Multilateral</b>	<b>86.9</b>	<b>103.6</b>	<b>109.7</b>	<b>126.4</b>	<b>147.3</b>
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Others	0.4	0.7	1.1	3.2	4.7
<b>Commercial Banks</b>	<b>9.3</b>	<b>9.0</b>	<b>10.0</b>	<b>40.3</b>	<b>76.0</b>
<b>Export Credits</b>	<b>19.0</b>	<b>18.9</b>	<b>19.9</b>	<b>29.4</b>	<b>33.5</b>
Grand total	<b>352.1</b>	<b>393.2</b>	<b>433.0</b>	<b>248.5</b>	<b>599.7</b>

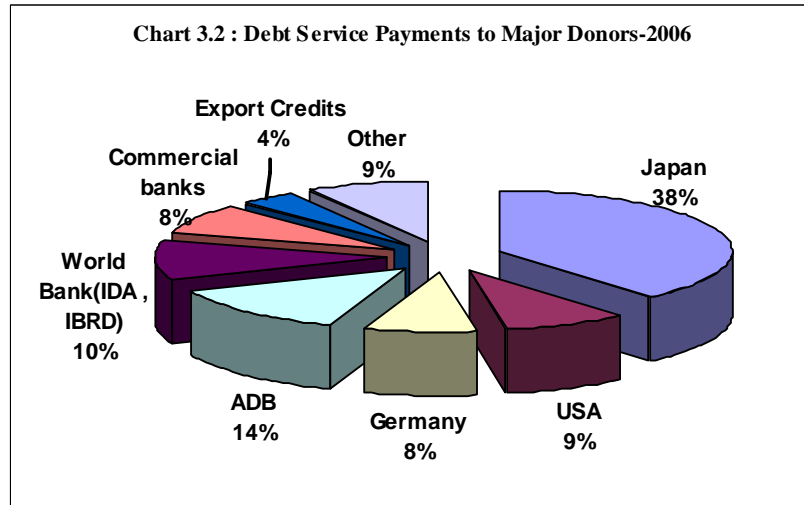
Table

**3.2: Debt Service Payments to Major Donors/Creditors 2002 -2006 (US\$ Mn)**

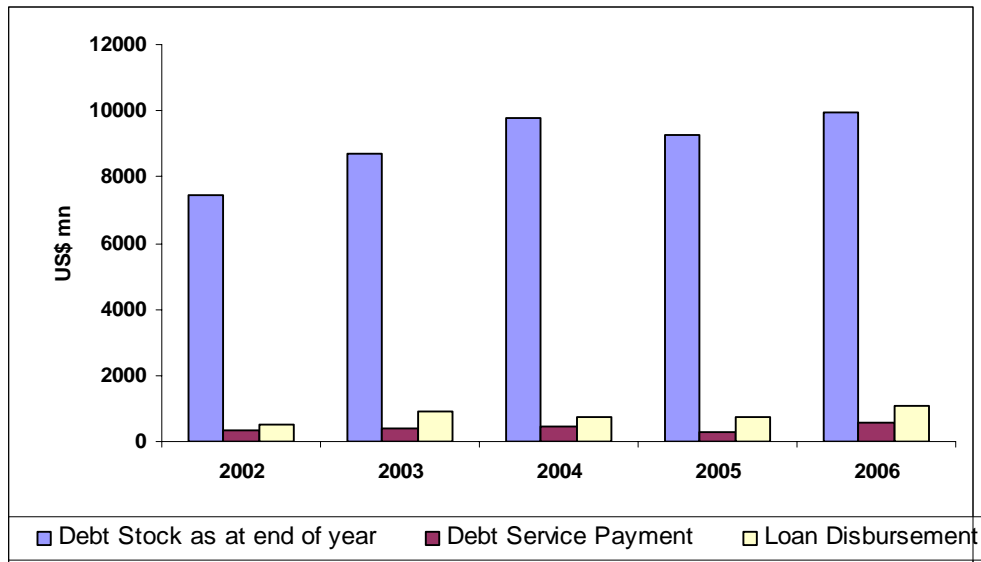
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France	6.0	7.6	7.9	0.0	9.0
Netherlands	0.0	0.0	4.9	0.6	5.8
Canada	2.7	3.0	3.3	0.1	4.2
Kuwait	3.1	3.2	3.1	3.3	4.7
Korea	4.1	4.7	4.9	0.1	7.4
India	5.3	3.8	4.9	3.8	0.0
China	2.6	2.7	3.9	2.9	2.9
Others	3.2	1.4	2.3	0.2	1.2
<b>Multilateral</b>	<b>86.9</b>	<b>103.6</b>	<b>109.7</b>	<b>126.4</b>	<b>147.3</b>
ADB	38.1	48.6	52.2	64.9	76.1
World Bank (IDA , IBRD)	46.2	51.7	53.7	55.7	58.3
IFAD	2.2	2.6	2.7	2.6	8.2
Others	0.4	0.7	1.1	3.2	4.7
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<b>Export Credits</b>	<b>19.0</b>	<b>18.9</b>	<b>19.9</b>	<b>29.4</b>	<b>33.5</b>
Grand total	<b>352.1</b>	<b>393.2</b>	<b>433.0</b>	<b>248.5</b>	<b>599.7</b>

A graphical presentation of debt service payments to major donors in 2006 is shown in Chart 3.2 below

The relationship between the cumulative debt stock at the beginning of the year, annual disbursement, and annual debt service payment for the period of 2002-2006 is illustrated in the Chart 3.3 below



**Chart 3.3: Cumulative Debt Stock, Loan Disbursement and Debt Service Payment 2002-2006**



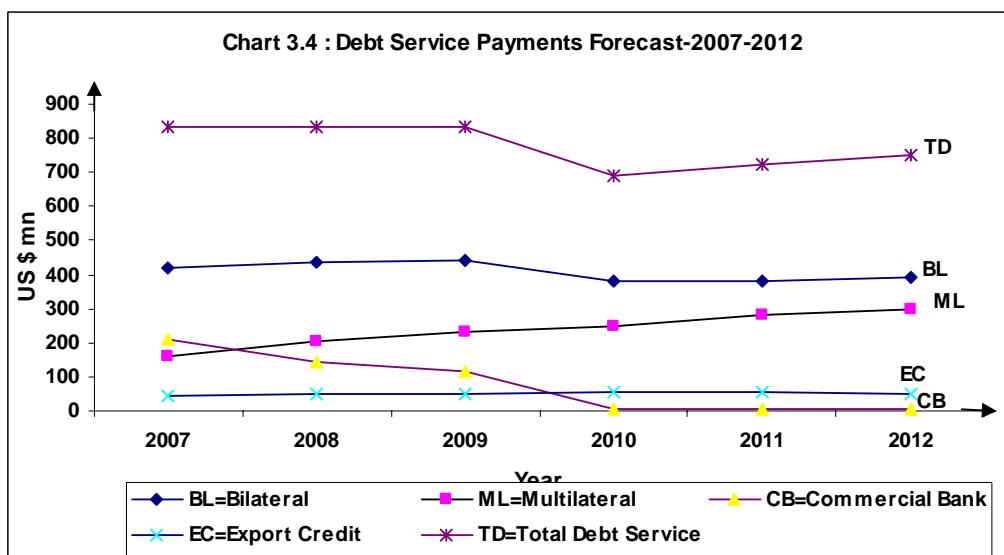
### 3.2 Debt Service Forecast Based on Current Debt Stock

A debt service payment forecast based on the current debt stock is given in Table 3.3. The debt service payment in 2008 is high due to maturity of a commercial loan.

**Table 3.3: Debt Service Payment Forecast on Current Debt Stock 2007-2012 (US\$ mn)**

Donor/Creditor	2007	2008	2009	2010	2011	2012
<b>Bilateral</b>	<b>418.9</b>	<b>434.4</b>	<b>441.2</b>	<b>382.6</b>	<b>382.7</b>	<b>392.7</b>
Japan	262.1	265.6	265.4	216.1	220.9	224.1
China	4	10.3	16	37.8	38.9	53.2
Canada	4.8	4.8	4.8	3.7	3.7	3.7
France	10.7	11.2	11.4	9.1	8.6	7.9
Germany	48.1	48.6	47.9	37	33.6	29.2
India	9.2	12.7	14.1	13.7	13.5	13.2
Korea	10.8	12.8	12.8	10.9	10.4	9.9
Kuwait	4.8	5	5.3	5.8	6.2	6.1
Netherlands	7	6.1	4.1	1.6	0.8	
USA	55	54.1	53.1	40.5	39.8	39.2
Others	2.4	3.2	6.3	6.4	6.3	6.2
<b>Multilateral</b>	<b>162.4</b>	<b>202</b>	<b>229.6</b>	<b>247.1</b>	<b>281.5</b>	<b>298.2</b>
ADB	88.9	116.9	137.3	151	170.6	179.1
World Bank(IDA)	65.3	71.2	73.1	76.5	83.9	86.7
IFAD	2.4	3.1	3.6	3.6	3.6	3.6
Others	5.8	10.8	15.6	16	23.4	28.8
<b>Commercial Banks</b>	<b>210.2</b>	<b>146</b>	<b>113.3</b>	<b>6.6</b>	<b>6.4</b>	<b>5.8</b>
<b>Export Credits</b>	<b>43.4</b>	<b>48.6</b>	<b>51</b>	<b>54.3</b>	<b>54.2</b>	<b>52.2</b>
<b>Grand total</b>	<b>834.9</b>	<b>831</b>	<b>835.1</b>	<b>690.6</b>	<b>724.8</b>	<b>748.9</b>

The pattern of the debt service forecast for each of the debt categories is given in the Chart 3.4 below.



### 3.3 Net Flow & Net Transfer on Foreign Debt

The movement of foreign loan disbursement (inflow) and debt service payments (out flow) for the period from 2002 to 2006 is given in Table 3.4 .

**Table 3.4 Net Flow & Net Transfer by Major Creditor Category 2002-2006. (US\$ mn)**

<b>Creditor Category</b>	<b>Net Receipt</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Multilateral	Net Flow <sup>1</sup>	189.1	360.6	214.9	264.6	234.4
	Net Transfer <sup>2</sup>	161.2	328.1	178.1	221.7	180.8
Bilateral	Net Flow	44.4	139.6	156.3	231.7	149.5
	Net Transfer	(39.2)	47.6	57.2	213.8	58.1
Commercial	Net Flow	(6.2)	93.3	(7.0)	199.5	198.2
	Net Transfer	(9.3)	91.1	(10.0)	191.9	174.0
Export Credit	Net Flow	36.7	59.6	66.9	21.3	66.9
	Net Transfer	33.2	55.0	60.6	14.1	59.5
Total	Net Flow	264.1	653.1	431.1	717.1	649.0
	Net Transfer	145.9	521.8	285.9	641.5	472.4

1. Net Flow = Disbursement- Principal Repayment

2. Net Transfer = Net flow - Interest Payment

- All aid categories show positive net transfers.
- The net transfer of total aid decreased by US\$ 169.1 mn in 2006 in comparison to 2005.