GLOBAL PARTNERSHIP TOWARDS DEVELOPMENT

External Resources Department, Ministry of Finance and Planning

2012

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OVERVIEW

Having recognized the needs of a well-developed economic infrastructure network covering the entire country to facilitate rapid economic development in terms of the "Mahinda Chintana - Vision for the future" Development Policy Framework, the government has assigned a high priority to future infrastructure. This involves large investments across economic sub-sectors including roads, transport, ports, power and energy, aviation, water, sanitation and irrigation. In addition, after end of the conflict in 2009, the Government has given high priority to the implementation of a comprehensive development strategy capturing the demining, resettlement, livelihood development activities, restoration of civil administration and infrastructure in the conflict affected area in line with the development of the rest of the country and promoted a well integrated national development. The strategic plans are developed not only for the achievement of higher economic growth but also for the achievement of equitable growth.

In this context, action has been taken to maintain annual public investment at the level of 6-7 percent of GDP during the next five year period while encouraging private sector investment in the area of ports, transport, power & energy, telecommunications, tourism and agriculture and marketing. Since domestic savings are inadequate to fill the investment gap and mitigate the balance of payment pressures from public investment, financing arrangements have been made to obtain foreign resources from development partners and lending agencies. However, foreign financing has mainly been channelled to large scale strategic infrastructure development projects which are expected to generate significant economic returns in the medium and long term and promote direct investments. The Government has gradually moved towards mobilizing long term foreign financing by giving attention to cost of borrowing, maturity structure and efficiency in resource utilization. In doing so, the government has also directed such funding for financing economic infrastructure development that will gain foreign exchange earning capacity through increased exports, tourism as well through foreign exchange savings from imports replacement activities.

As the country has reached a middle income economy status, the availability of concessional external assistance generally available to less developed economies is reaching its limits. In this back ground, initiatives have been taken to broaden the options for alternative financing sources to fill the gap in public investment.

Considering a diverse range of terms and conditions, government has been able to maintain a proper blend of concessional and non-concessional financing with available concessional financing from multilateral and bilateral sources as well as financial markets to keep the cost of borrowing at an affordable level. Development partners and lending agencies are also encouraged to adopt programmes based financing rather than focusing on individual projects in order to improve quality of public spending.

New financing modalities such as Multi-tranche Financing Facilities and Development Programme Loans have been explored by the Government for this purpose. In addition, the Government has also mobilized foreign financing from the international capital market through the issuance of foreign currency sovereign bonds to finance import costs associated with development projects to reduce the balance of payment burden from implementing such projects.

The present borrowing strategy of the government depends on two basic principles; (a) borrowing at the lowest possible cost and (b) ensuring adequate provision for servicing the existing debt. Accordingly, the government was successful in reducing foreign debt to GDP from 38.8 percent in 2005 to 35.6 percent in 2011 and also external debt service to export of goods, services and remittances from 8.5 percent in 2009 to 5.3 percent in 2011 indicating the country's capability to manage debt service payment.

Despite the risks stemming from global economic changes such as increased commodity and fuel prices, financial crisis in euro zone, rising tension in the Middle East countries, resulting in long-term currency fluctuations and the internal challenges relating to portfolio management, Sri Lanka has maintained its default free status due to the prudent monetary and fiscal management practices adopted by the Government.

With the reduction of external debt in relation to the GDP Sri Lanka is now emerging as a lending country. Government has provided grant and technical assistance to Asian and African countries. Initiatives have been taken to export our surplus rice production to less developed countries that required assistance through the World Food Programme (WFP). The Government also had preliminary discussions with friendly countries to strengthen our foreign economic ties with an income level on par with ours or economic development lower than ours by exchanging technical expertise with them. The experiences that the country has gained and the advancement that the country has made in the areas of alleviating poverty, strengthening the rural economy, advancement in education, health, irrigation, construction activities, and banking and accounting services could be used for such assistance. Accordingly, it is planning to provide such services through technical assistance and small project financing using the expertise available in several Ministries and agencies.

Further discussion was held with the World Health Organization (WHO) to export highly nutritious and hygienic products manufactured from corn and soya bean in Sri Lanka. This will help improving health standards of pregnant mothers and people who are suffering from famine and malnutrition in the world.

In addition to the use of available foreign financing, Government has taken steps to broaden the base of local financing available for implementation of strategic development projects. Investment Fund Accounts established in the commercial banks are now providing better access to development financing for State Owned Business Enterprises, Public Corporations and the private sector, allowing government to divert more resources to other priority development projects without being a burden on the national budget.

Governing Framework in Relation to Raising of Foreign Financing for Development Projects

Sri Lanka has entered to a rapid development pathway as a middle income economy. The Government has commenced a number of large development projects during last 5 years to build a modern economic infrastructure network, covering the entire island, which is suitable for an upper middle income country. As a result, a large investment has taken place across all economic sub-sectors including transport, ports, aviation, energy, water, sanitation, agriculture and irrigation during this period. In addition to the private investments, a substantial amount of financial resources have been invested by the government to ensure higher and equitable quality growth in each sector.

Despite the decline in the ratio of foreign financing to GDP, Official Development Assistance (ODA) continues to play a major role in Sri Lanka's development programme as the prevailing per capita income levels and the domestic investment base are grossly inadequate to generate the resources necessary for self sustained economic growth. Consequently, the dependence on ODA would continue till such time as Sri Lanka is in a position to bridge the savings-investment gap. Meantime, raising of foreign financing in required amounts to complement the domestic financing for development projects while maintaining the overall fiscal management targets is a great challenge, particularly under the uncertain global economic situation.

At present, a considerable portion of government capital investment on infrastructure development projects comes through foreign financing. The large scale investment proposals which are difficult to implement with domestic finance are generally selected for implementation with foreign financing, depending on their economic and financial viability. As the Development Policy Framework of the Government envisages a modern economic infrastructure network covering the entire country, the Government needs to secure a substantial amount of foreign financing to achieve the economic targets set out in its policy framework within the stipulated time frame.

As a result of increased number of development proposals initiated from different competing sectors assigning high priority and seeking foreign financing for implementation, the demand for foreign financing for development activities has increased substantially. Also, the demand for improved economic and social infrastructure and connected services in the country has increased substantially during the past two decades, creating a need for foreign financing in greater amounts. Meantime, with the improved investment climate and prevailing peaceful environment, new development partners have shown their interest to engage in the economic development investment process in Sri Lanka. Accordingly, the number of development proposals submitted to the Treasury by line Ministries has increased during the recent years.

Although the demand for foreign financing has been increased sharply during past years, it is difficult to increase the foreign borrowing levels in the same rates within short term due to a number of reasons, including the existing legal and institutional limitations relating to borrowing of foreign finance, the absorption capacity of the budget as well as government commitment towards maintaining the debt sustainability over long term. In this context, some of foreign financing envisages for direct investments are linked to finance PPP share of the government as successfully done for the development of Colombo Port.

The Legal and Institutional Framework Relating to Raising of Foreign Finance

Borrowing from foreign sources is an integral part of the development financing of most countries in the world including Sri Lanka. However, the amount of foreign borrowings is carefully determined by the government taking in to consideration the long-term perspective of socio economic benefits of borrowing and the debt servicing cost. Also, the amount of foreign financing that government can borrow in a particular financial year is governed by a well defined legal and institutional framework and the exposure limit of the country.

Legislative Framework

Legislative Framework refers to the laws, executive orders, and other legal instruments that set the ground rules for government activities related to foreign financing. The legal arrangements define authorities, responsibilities, and roles of organizations in this regard and describes policies, practices, processes and the assignment of authorities and responsibilities to institutions, and the creation of institutions or mechanisms for coordination or collaborative action.

The existing legal framework comprise of a number of Parliamentary Acts including, the Foreign Loan Act No 29 of 1957, Appropriation Act inter alia, Monetary Law Act and the Fiscal Management (Responsibility) Act No. 3 of 2003. The Appropriation Act inter alia sets the overall exposure limit of Government gross borrowings and although there is a high demand for foreign financing from various economic sectors, the specified borrowing ceilings cannot be exceeded under normal circumstances.

Foreign Loan Act

The Foreign Loan Act No 29 of 1957 provides a basic framework for Government to raise foreign financing for development activities. According to the provisions, the President or any person specially authorized by him can enter into an agreement relating to a foreign loan to the government of Sri Lanka or guarantee by the government of Sri Lanka relating to foreign loans or any contract, bond, promissory note or other documents required by such agreement or guarantee with any foreign government or external financing agency. The similar provisions are available in the Loans (Special Provisions) Act No. 40 of 1982 to raise loans for the service of the government during any financial year for which no Appropriation Act has been passed by the Parliament.

The cost of borrowing, past experience and technical expertise available with the respective lenders are some of the aspects taken into consideration by the government when deciding a source of foreign financing.

Requirements under the Appropriation Act

The borrowing limit is annually approved by the Parliament as the supreme body having control over public finance based on the provisions given in the Appropriation Act of the respective financial year. The borrowing ceiling depends on a number of factors including the forecasted value of Gross Domestic Products, expected budget deficit/surplus, the demand and composition of public investment and commitments relating to debt servicing. Accordingly, the respective burrowing institutions are legally binding to work within the approved ceiling limits.

The gross borrowing limit of the government of Sri Lanka for 2012 is Rs. 468.9 billion, an increase of Rs. 8.9 billion against the 2011 limit. Out of the gross borrowing requirement, Rs. 270.3 billion is expected to be raised from foreign sources. The estimated foreign financing for development projects in 2012 is Rs. 287.8 billion.

Fiscal Management (Responsibility) Act No. 03 of 2003

The foreign financing borrowing limits and the medium to long-term debt management strategy are also governed by the Fiscal Management (Responsibility) Act No.03 of 2003. The Act has introduced a target based fiscal management system by specifying the debt related targets. Accordingly, the total liabilities of the government in 2013, including external debt at the current exchange rates should not exceed 60 percent of the GDP.

Although gradual increase of GDP will allow Sri Lanka to accommodate more projects for implementation with foreign finance, a sharp increase of the amount of foreign financing raised by the government for development projects cannot be expected in the short term. This highlights the necessity of selecting best development project proposals from the competing proposals for implementation with foreign assistance in future.

Institutional Framework

The institutional framework is designed to ensure effective mobilization of foreign resources and sustainable management of debt in the country. This institutional framework is comprised of organizations, institutions in the government with a recognized role to play in budget financing and debt management and the mechanisms for coordination among organizations and institutions.

Borrowing strategy

In order to ensure debt sustainability and minimize the debt burden, Sri Lanka adopts a comprehensive 'Borrowing Strategy' which is being updated regularly with appropriate modifications based on the expected changes to key variables and assumptions. The present borrowing strategy of the government has two basic principles; (a) borrowing at the lowest possible cost and (b) ensuring adequate provision to servicing the existing debt on time. The Government obtains loans with a long repayment period; over 15 years in general with minimum of 3-5 year grace period for commercially viable projects while paying special attention to the sectors which are directly related to improving economic infrastructure and the productive capacity in the economy.

The existing borrowing strategy helped Sri Lanka to fulfil its entire debt service obligation on time despite the risks stemmed from global economy.

The regular reviews and updates to the borrowing strategy carried out by the relevant agencies including the Ministry of Finance and Planning, Department of External Resources, Department of Fiscal Policy, Department of National Budget and the Central Bank of Sri Lanka helps government to raise the necessary foreign financing while maintaining an appropriate debt servicing position, preserving the default free status of the country under periodic domestic and international economic changes and shocks.

As a result of fulfilling debt obligations on time, Sri Lanka is benefitting from new waivers on loan charges introduced time to time by development partners. Accordingly, Sri Lanka is now receiving benefits from wavers of;

1. 0.10 percent of the commitment charge on undisbursed loan balances of project loans negotiated with the Asian Development Bank (ADB) after 1st January 2007,
2. 0.20 percent waiver of the lending spread on sovereign loans outstanding for all interest periods commencing from 1st July 2007 upto 30th June 2008 and
3. 01 percent waiver of the entire front end fee on all new sovereign loans approved by the ADB from 1st July 2007 upto 30th June 2008.

Searching for New Foreign Financing Instruments

With the gradual increase of income level of the country and subsequent reduction of foreign financing available on concessional terms, government has focused on mixed credit which includes credit at both concessional and commercial rates.

Approval Process of the Unsolicited Project Proposals

As new development partners have shown their interest to engage in the economic development process in Sri Lanka, the number of unsolicited proposals submitted to the respective line Ministries by these funding agencies have increased significantly. Most of these proposals are combined with export credit facilities with diverse financial terms including comparatively high interest rates and other fees such as management or administrative fees, insurance, structural fees, commitment and arrangement fees etc. The repayment terms also differ from one proposal to another. Therefore, economic feasibility of the proposal, legal provisions in relation to borrowing of external financing and repayment capacity of the loan have to be analysed carefully prior to making any commitment to the respective lending agencies with regard to the unsolicited proposals.

The Government has already streamlined the project approval process to select commercially viable development projects to be financed on foreign non concessional and commercial terms.

A comprehensive analysis of economic costs and benefits of each project proposal, including social and environmental cost and benefits should be carried out by the proposing line Ministry to determine the financial and economic feasibility of these projects prior to submit them to the Standing Cabinet Appointed Review Committee (SCARC) and the Department of National Planning, the Department of External Resources and the Central Bank of Sri Lanka. The SCARC is expected to review the information provided through the project proposal to select best proposals for foreign financing. Only the nationally important projects which are of strategic nature and expected to generate substantial amount of economic value addition are considered by the SCARC for further proceedings.

Gradual Reduction of Concessional Financing

A majority of the loans or 77 percent of the total loans obtained by Sri Lanka during the last 6 years was borrowed at concessional terms. However, in parallel to elevation of Sri Lanka to the status of a middle income country coupled with steady increase of per capita income, the country has gradually become ineligible for obtaining the concessional external assistance which are

Table 1 Important Laws Relating to Foreign Financing and Debt Management

	Act/ Law	Governing Activity/ Conditions
1	Foreign Loan Act No 29 of 1957 and amended in 1963, 1980, 1984	1. Agreements relating to foreign Loan and a Guarantee by the Government relating to a foreign loan to a public corporation or public enterprise authorized to sign by the HE the President or any Person Specially authorized by him. 2. The Act gives power to charge all sums payable by the Government under the agreements relating to a foreign loan, guarantees relating to a foreign loan and any contract/ bond or promissory note executed pursuant to such agreement or guarantee on the Consolidated Fund. 3. The Act gives power to the Minister in charge of the subject of Finance to make provisions to give effect to an agreement or to a guarantee relating to a foreign loan.
2	Fiscal Management (Responsibility) Act No 03 of 2003	Objectives underlying the Act: 1. Reduction of government debt to prudent levels by ensuring i. Budget Deficit/GDP ratio at the end of the year 2006 shall not exceed 5 percent ii. Maintain such levels thereafter 2. Prudent Management of Fiscal Risks 3. Adoption of policies relating to spending in the way that government debt should not increase to excessive levels. 4. Adoption of taxing and spending policies as to consistent with the stability and predictability in the level of tax rates. 5. Aggregate percentage of Guarantees issued in current year as percentage of GDP along with two preceding years, figures should not exceed 4.5 percent. 6. Ensure that at the end of financial year, a) 1st January 2006, the total liabilities (including external debt at current exchange rate) do not exceed 85 % of the GDP b) 1st January 2013, the total liabilities (including external debt at current exchange rate) do not exceed 60 % of the GDP
3	Annual Appropriation Act	This act determines the aggregate borrowing limit of the government for the particular year concerned. This act is approved by the Parliament for the relevant year before the annual Budget presentation. Usually the difference between Revenue and total Expenditure is approved as the Borrowing limit considering the conditions imposed by the Fiscal Management (Responsibility) Act and as projected by the Medium-Term Macro Fiscal Framework (with a view to reduce the Debt to GDP ratio to the required level as directed in the said Act). The borrowing limit approved under this Act may be revised during the year subject to a supplementary legislation.
4	Monetary Law Act No. 58 of 1949	Management of Public Debt in Sri Lanka has been entrusted to the Central Bank under this Act. In terms of Section 113 of this Act, the Central Bank of Sri Lanka is entrusted withcarrying out the function of debt management on behalf of the Government of Sri Lanka. Accordingly, the Public Debt Department of the Central Bank is engaged in activities related to: 1. Raising funds for government operations by issuing various debt instruments in the domestic and international markets;

		2. servicing of public debt; 3. ensuring the smooth functioning of the government securities market; 4. managing risks in the domestic debt portfolio; 5. maintaining data bases on domestic debt and the title registry of public debt ownership In terms of Section 114 of this Act, the government should obtain the advice of the Monetary Board on monetary implications of the loans before raising funds through loans.
5.	The Local Treasury Bills Ordinance of 1923 and amended in 1953, 1992, 1995, 2004	To Act empowers the Public Debt Department of the CBSL to act as an agent of the government in issuance of Treasury Bills.
6.	The Registered Stock and Securities Ordinance (RSSO) of 1937 and amended in 1949, 1983, 1985, 1995, 2004	To Act empowers the Public Debt Department of the CBSL to act as an agent of the government in issuance of Treasury Bonds and Rupee Loans.

Table 2 Institutions Responsible for Government Debt Management

	Institution	Way of Contribution
1.	Parliament	Setting / Approving annual borrowing limit as a part of the Annual Appropriation Act of the concerned year.
2.	Central Bank of Sri Lanka	
	1. Public Debt Department	1. Mobilization of funds from i. Domestic sources ii. External sources (commercial) 2. Servicing foreign and domestic debt obligations on Time. 3. Auctioning/ Issuing government securities and developing/ promoting a well functioning debt securities market 4. Maintaining and updating the country's public debt register.
	2. Economic Research Department	Analysis of Debt Statistics and conduct of Debt Sustainability Analysis
3.	General Treasury	
	1. Department of External Resources	1. Mobilization of funds from Concessionary and Non-concessionary sources (Development Partners). 2. Negotiation/ coordination with development partners 3. Maintenance of external debt data base (CDRMS..) 4. Assist CBSL in repayment of foreign loans. 5. Assist annual budget preparation exercise in estimating annual and medium term requirement of foreign borrowings
	2. Department of Treasury Operations	1. Treasury Cash Management 2. Provision of Funds for Debt Servicing 3. Issue of foreign loan guarantees
	3. Department of Fiscal Policy	Advising the Treasury and CBSL on: 1. Fixing the total borrowing limit 2. Composition of Loan portfolios 3. External Commercial Borrowings
	4. Department of State Accounts	Accounting all government fiscal transactions

Source: Department of External Resources

generally available for less developed economies. Yet, the Government will continue to tap the full amount of external funding available under concessional financing terms. These funds will be provided mainly to the economic sectors that do not generate sufficient monetary returns to repay the loans or projects which need fairly longer gestation period to generate returns.

The reduction of concessional financing compels Sri Lanka to explore the new foreign financing options which are generally available in the form of mixed credit and Export credit. These credits are more suitable for financing the economic and social infrastructure development projects which will produce high economic returns in the medium term to support the envisaged economic growth. Meantime, Government promotes long term financing with maturity exceeding 15 years and reasonable grace period.

Increasing Demand for Foreign Financing Related Domestic Financing

With the increased number of strategic projects being implemented with foreign financing, the need for foreign aid related domestic financing has also increased significantly during recent past. These domestic financing is necessary to meet the administrative related expenditure, tax and duties etc. At present, the government provides about 0 – 30 percent of project cost from domestic financing depending on the nature of the project. However, domestic financing portion of some projects have gone up to much higher levels owing to different reasons including procurement and implementation delays, ad-hoc changes to project scopes, design changes and escalation of costs. This has created a huge pressure on the National Budget which is prepared as a 3 year medium term budgetary framework.

All these highlights the necessity of sequencing the project proposals which are expected to be implemented with foreign financing based on their priorities and the availability of external resources within the medium term budgetary framework. Performance and the efficient mobilization of development assistance, including the quality of projects at entry, are becoming as major determinants of foreign financing, particularly in the increasingly competitive climate for the shrinking concessional financing levels. Accordingly, economic sectors presenting well formulated projects with unambiguous work plans and implementation schedules are more likely to displace others with weak portfolios. Furthermore ownership of projects, sustainability of investment and adequate operation and maintenance (O&M) provision are being increasingly emphasized.

Although government has invested a substantial amount of foreign financing for strategic development projects during last 6 years, the external debt to GDP ratio has declined from 36.8 percent in 2006 to 31.9 percent in 2011 as country's GDP has grown much faster than the accumulation rate of foreign debt.

The planned strategy to maintain 6-7 percent of public investment ratio over the next 6 year period is well underway with increased support from development partners. A considerable amount of this investment will be financed through a durable blend of external financing with concessional and other type of financing while ensuring improvement of debt sustainability. The government will explore the available options to enhance the foreign financing resource available to support the ongoing development projects as well as priority projects identified for implementation in near future.

Government encourages strategic public enterprises and Corporations to improve their financial sustainability which will enable them to borrow directly from international and domestic lending agencies for their development activities.

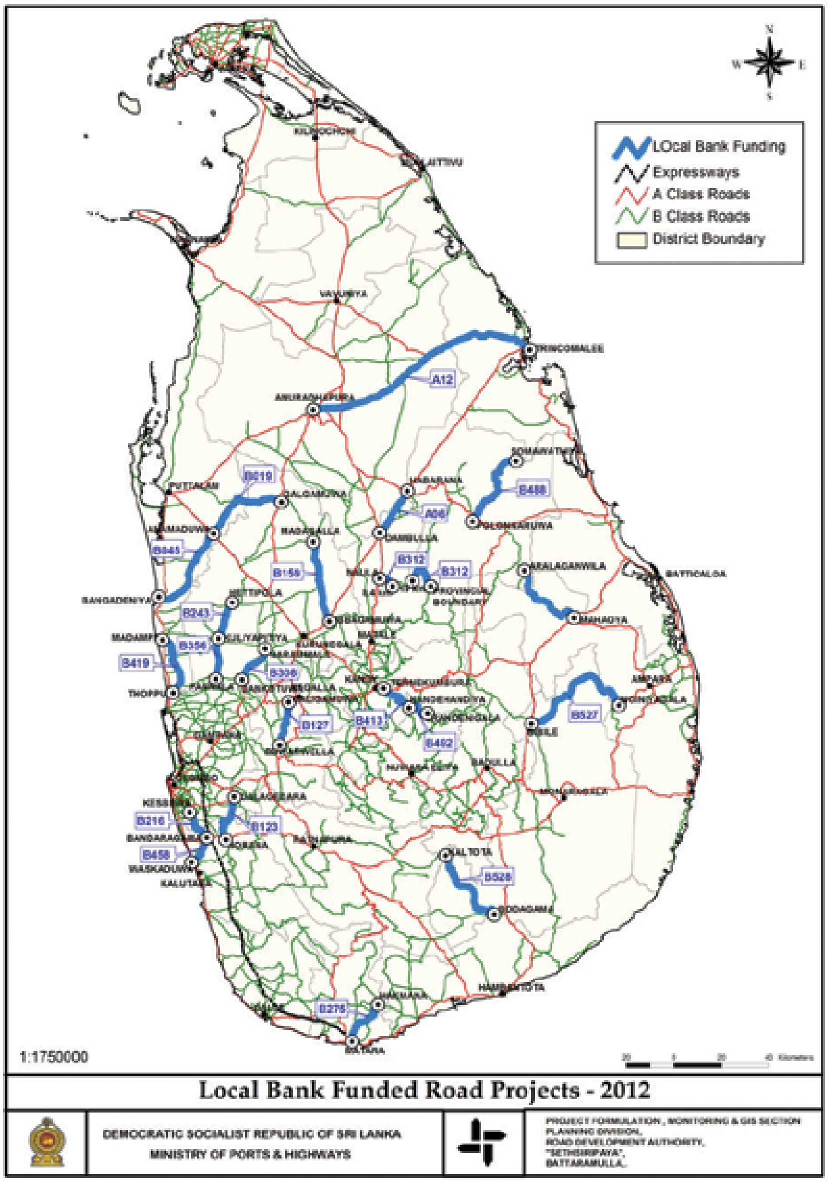
Introducing New Modalities for Financing Priority Development Projects

Recognizing the need for exploring new funding sources to finance the long-term strategic development projects, registration of an Investment Fund Account (IFA) was proposed through the Budget Proposals in 2011. Accordingly, all banking and financial institutions were required to register separate IFA with the Central Bank of Sri Lanka to transfer portion of their tax savings. The banks are required to adopt low interest rates and longer term maturity for lending the funds accumulated in the IFA with the objective of using the tax savings more productively for the economic development. According to the guidelines issued by the Central Bank, the licensed banks should transfer 8 percent of the profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profits before tax calculated for payment of income tax purposes on dates specified in the VAT Act and Inland Revenue Act.

Investment Fund accounts established in the commercial banks are now providing better access to development financing for State Owned Business Enterprises, Public Corporations and the private sector, allowing government to divert more resources for other priority development projects, without burdening on the national budget. Government encourages local banking and financial institutions to contribute more to the national development programme of the government in a dynamic way.

Roads and Transport sector has been identified as one of the key sectors to be benefitted from this initiative. Rehabilitation of 692 km of national highways that have been identified for urgent rehabilitation due to their unsatisfactory condition is now been undertaken by domestic contractors. This would help enhance the capacity of the domestic contractors while improving their ability to compete in the international bidding process under local and foreign financed development projects.

Priority Roads which are being Rehabilitated using Financial Assistance from Local Banks



The roads were initially selected by the Road Development Authority (RDA) and the Ministry of Ports and Highways in coordination with the National Planning Department. The proposals for rehabilitation of the identified roads submitted by the competent contractors have then evaluated by the Technical Evaluation Committees and Cabinet Appointed Procurement Committee to assess the technical feasibility and financial viability of the proposed projects and make recommendations to the RDA. The terms and conditions of the connected loans are finalized after negotiating with the rspective banks by the External Resources Department of the Ministry of Finance and Planning in consultation with the relevant departments in the Treasury. The banks will be provided with Treasury guarantees after obtaining the necessary approvals from the Cabinet of Ministers.

Accordingly, eight road rehabilitation projects are now under implementation with the financial assistance from the Commercial Bank, Bank of Ceylon and People's Bank. The total length of roads to be rehabilitated under these projects is 287.7 km and the cost of rehabilitation has been estimated at Rs. 24.9 billion for which Treasury Guarantees have already been issued.

Further, preliminary arrangements have been made to rehabilitate ten other road sections with total length of 338.32 km under the financial assistance from Bank of Ceylon, National Savings Bank and Hatton National Bank at a cost of Rs. 26.12 billions. Details of these road projects are summarized in the table below.

Each and every road section selected under the above program has significant contribution to the economic activities of the particular area as well as to the growth of the national economy. The Waskaduwa-Bandaragama road which connects two national highways also provides access to the administrative capital, Sri JayawardhanapuraKotte, and also builds a linkage to the new outer circular road thus providing access to the expressway network of the country.

At present, the Puttlam- Anuradhapura road is being rehabilitated under the National Highway Sector Project with the financial support of ADB and government. Therefore, government has assigned high priority for rehabilitation of the Anuradhapura- Trincomalee road in order to ensure the connectivity while improving the mobility between Puttlam and Trincomalee. Therefore, the highway between Anuradhapura and Trincomalee has identified for rehabilitation with local financing. Meantime, government has taken necessary steps to ensure connectivity between Chillaw and Anuradhapura. Efficient connectivity between Chillaw and Anuradhapura could be re-established by upgrading the condition of the road section from Bangadeniya to Galgamuwa via Anamaduwa which is at present in a very bad form resulting poor connectivity between the two cities. Rehabilitation of this road section will also help to revitalize the economic, social and cultural development of the relevant provinces.

The Thoppuwa- Dankotuwa- Natthandiya- Madampe road which connects the respective towns also provides an alternate route from Negombo to Chilaw. Currently traffic from Bibila to Ampara is on A5 up to Mahaoya and then on A27 road up to Ampara. The total length of this route is 113 km. However this can be reduced by 35 km to 77km if the proposed road, i.e. Bibila-Pitakumbura- Namaloya- Inginiyagala is rehabilitated. This will help generating more economic and social activities in the Eastern Province and also provides easy access for the people in the region to other parts of the country.

Galagedara- Horana road is of significant importance as it already handles relatively high traffic volume and also serves as a connecting road between two major highways functioning as a bypass route for vehicles travelling in and out of Colombo. Rehabilitation of this road will bring in several social and economic benefits to the area in addition to the reduction of travel time and vehicle operating cost.

Improvement of the Polonnaruwa – Thambala – Sungawila –Somawathiya road is of national interest since this the one and only access road to the Somawathiya Dagaba. This road gets inundated during the monsoon rainy season causing hazard and many difficulties to the devotees on pilgrimages. Therefore, this road has been proposed for rehabilitation under the above program. The Katuwana-Alupothdeniya-Panamura road that connects three national highways also provides access to four cities in Matara, Hambantota and Rathnapura districts. The road runs through the agricultural land and the moderately populated villages and serves as the access road for the villagers to their basic needs and facilities. The villagers, whose main income source is farming, use this road to transport their agricultural products to urban markets. The rehabilitation and upgrading of this road will help to improve the standard of living and quality of life of the rural and underserved communities in the region.

The upgrading of the Narammala- Giriulla road will help efficient traffic flow between Kurunegala and Negombo towns and also provides access to the towns such as Kuliyapitiya, Allawwa, Mirigama, Chilaw and Gampaha. Since the rehabilitation and improvement of these roads are vital for achieving high rate of economic development, the government will continue the development of road and transport related infrastructure using alternative financing instruments. It is also a prime requisite to enhance connectivity, enable investment in remote areas and facilitate the transportation of produce.

These projects aim to improve and restore accessibility to important destinations with essential social services and facilities for rural people by establishing mobility between production centers and the service centers. In addition, it will improve nationwide connectivity including better linkages to the upcoming expressway network. Reduction of travel time, vehicle operating cost and improvement of living standard and quality of life will contribute to uplift national economy by facilitating economic growth while eliminating disparities in Sri Lanka.

Table 3 Details of the Road Projects Funded by the Local Banks

	Road section	Contractor	Bank	TEC.RS. Mn	Road Length / Km
1.	Dambulla–Habarana	ICC	CB	1,535	21.5
2.	Katuwana – Alupothdeniya	VV Karunaratne	PB	2,328	23.0
3.	Polonnaruwa – Somawathi	Consulting Eng. & Contractor	BOC	2,750	33.0
4.	Galigamuwa – Ruwanwella – Karawanalla	Nawaloka Const Com.	BOC	2,472	29.0
5.	Ibbagamuwa–Kubukgate	Access	PB	3,757	34.2
6.	Anuradhapura – Trincomalee	MAGA	PB	7,995	97.0
7.	Narammala – Giriulla	CML- MTD	PB	1,400	16.0
8.	Tennekumbura – Kandehandiya -20.4 Km Kandehandiya – Randenigala -13.6 Km	Sierra	BOC	2,647	34.0
9.	Anamaduwa – Uswewa – Galgamuwa	Edward & Christie	NSB	2,562	39.0
10.	Kesbewa-Kidelpitiya-Bandaragama Road Waskaduwa- Bandaragama Road	M/S K D Ebert & Sons Holdings	BOC	2,104	23.9
11.	Pannala-Kuliyapitiya Road -11.28 Km and of Kuliyapitiya- Hettipola Road 15.69 km	NEM Construction Pvt Ltd	BOC	1,995	27.0
12.	Bibila-Pitakumbura-Namaloya-Inginiyagala Road1	Thudawe Brothers Limited	BOC	4,605	60.3
13.	Bangadeniya-Andigama-Anamaduwa Road	M/S Access Engineers	BOC	2,571	38.0
14.	Matara-Hakmana	Maga Engineering	CB DFCC	1400 592	24.1
15.	Mahaoya-Aralaganwila	Sierra	BOC	2363	24.0
16.	Thoppuwa Dankotuwa Nattandiya Madampe Road	M/s CML MTD	HNB	2060	26.7
17.	Bodagamuwa-Hambegamuwa-Kaltota Road	M/s Maga Engineering	BOC	4390	48.2
18.	Naula-Alahara-Laggala-Pallegama-Hettipola	M/s Star Construction and Engineering	HNB	2053	27.4
19.	Galagedera-Horana	KDA Weerasinghe	CB	1393	8.0
	Total			**52,972**	**849.4**

Source: Department of External Resources

Addressing the Challenges in Relation to the Raising of Foreign Financing

Mobilizing of the necessary foreign financing to achieve development targets of "Mahinda Chinthana- Vision for Future" policy framework while maintaining the debt sustainability of the country, is a major objective of the government. For this purpose, the foreign borrowings and debt services related indicators and their expected variations due to the potential changes of other macro economic variables are continuously being monitored by the government, particularly by the Central Bank of Sri Lanka, the Ministry of Finance and Planning, the Department of External Resources, the Department of Fiscal Policy and other relevant Departments in the Treasury as an integral part of the borrowing strategy.

Along with the expansion of foreign financing sources, a diverse range of terms have been considered by the government. Meantime, the uncertain global economic conditions such as Euro zone crises have posed new challenges in relation to the debt service payments. External challenges created by long-term currency fluctuation and internal challenges relating to portfolio management need to be given adequate attention to achieve long term debt sustainability while ensuring better portfolio management and timely disbursement of foreign finance.

Towards Better Portfolio Management and Timely Disbursement of Foreign Finance

Since a significant portion of public investment comes through foreign financing, timely disbursement of the loan and grant funds is critical both from the macro-economic and the project management perspectives. Fulfilling of project readiness criteria prior to entering into loan agreements is essential for timely disbursement of foreign financing. This will help reducing the payment of commitment charges on undisbursed loan balances before actual implementation commences. The need for comprehensive and professional planning, consideration of the potential risks, comprehensive assessment of technical feasibility of the proposed interventions, formulation of realistic designs, procurement and contract administration plans and cost estimates has been identified as some of the pre-requisites in relation to disbursement of loan/grant funds on time.

Need for Adopting Country Systems

The requirement for adhering to different sets of procurement guidelines issued by development partners, particularly by the multilateral financing agencies while well formulated national procurement guidelines are available often causes delays in the procurement process and project implementation. Project managers find it difficult in most procurement cases as they have to follow two systems simultaneously; the national procurement guidelines and the guidelines of the lending agency. This often leads to unnecessary interference by lending institutions in the procurement process and undermines the existing country systems that have evolved over a long period of time. Since Sri Lanka has developed a reasonably good procurement system over time, development partners needs to find ways and means to adopt the country system as much as possible for foreign financed projects.

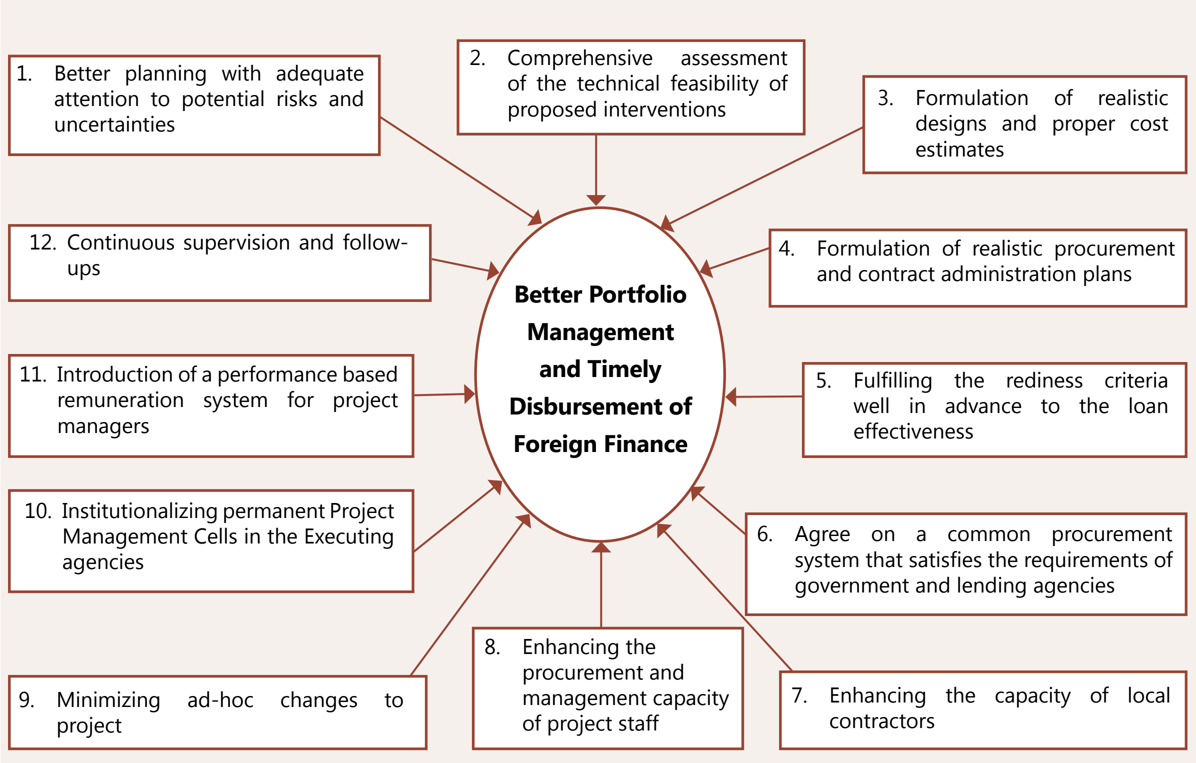
Government has already requested from the major development partners including the World Bank and ADB to review the National Procurement Guidelines with the objective of identifying a common set of guidelines to be used by the government agencies and development partners through filling the gaps in the existing guidelines.

The Government encourages development partners and lending agencies to engage local experts and adopt local systems in the project formulation and implementation. Government is regularly updating the knowledge and skills of procurement entities by providing necessary information and training in coordination with development partners to improve efficiency of the procurement process and foreign financing disbursements.

Building Local Capacity

The development strategy of the government clearly recognizes the need for enhancing local capacities in all aspects of project management and implementation. Government has given special emphasis to building the local construction industry and upgrading the capacity of local consultancy firms by providing more chances to engage in the project implementation by including the

Changes Necessary for Better Portfolio Management and Timely Disbursement of Foreign Finance



necessary guidelines and conditions into procurement plans and contract documents. Domestic preference has been included in the procurement plans of foreign financed projects wherever possible. Steps have also been taken to enhance the capacity of local contractors who are engaged in road construction and rehabilitation work with the support of development partners such as ADB. Accordingly, some Sri Lankan contractors have now become international road constructors, bringing foreign exchange to the country as well as contributing to expand the economic growth.

Meantime, the local contractors are encouraged to participate jointly in the bidding process for international contracts with international contracting firms by entering into joint ventures.

Need for Better Managers

Poor performance of Project Directors and design and supervision consultants have also led to slow disbursement of most foreign financed projects and poor quality of construction works. Usually almost all implementing agencies keep separate Project Management Units (PMU) with a large number of supportive staff recruited on contract basis. Government has implemented this system in the past in order to obtain expertise of highly qualified professionals to manage the strategic projects while assuming that implementing agencies will gradually buildup their capacities to replace these PMUs. However, this system has diluted the role of executing agencies while creating a new system for project management. When the project is over, the contractual staff leaves with institutional memory accumulated during the project period undermining the sustainability of and ownership of the project outcomes.

Therefore, Government encourages implementing agencies to institutionalize project management systems within their existing organizational structures without maintaining separate project management units for different projects. This will strengthen the capacity of implementing agencies which are managing foreign financing projects. It will also improve coordination among all stakeholders while ensuring ownership of the project.

Introduction of a performance based remuneration system for project managers would also help to speed-up the implementation activities, while minimizing the unreasonable delays.

Minimizing Cost Overruns

Unrealistic project designs which are prepared without proper assessing of the technical feasibility of proposed interventions often leads to frequent changes to project scopes and cost variations, putting a high burden on the national budget. As a result of cost overruns, government is compelled to borrow additional foreign financing to complete the project as envisaged. This essentially delays the project implementation and undermines the economic viability of the project and justification for the particular investment. Therefore, a comprehensive analysis on the technical feasibility of project intervention is vital for project proposals submitted for foreign financing. Government does not encourage enhancement of project scope into new areas unless there is an inevitable need. It is necessary to consider all procurement related aspects when estimates are prepared. Therefore, the government has recently introduced a set of project readiness criteria for these projects to be financed from external assistance.

Streamlining the Revision of Cost

Government has taken action to streamline the approval process in relation to the revision of total estimated costs and contract cost variations to facilitate smooth implementation of projects while ensuring effective disbursement of foreign financing. A Cabinet Appointed Standing Committee has been appointed to assess and approve the requests for cost variations received from various implementing agencies. Accordingly, the cost variations exceeding the authority ceilings of respective Line Ministries by more than 10 percent need to be submitted to the above committee for approval.

Better Coordination to Minimize Wastage and Duplication of Work

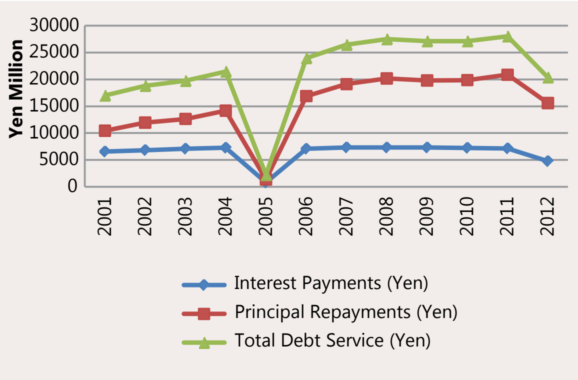
Meantime, Government has given clear instructions to relevant agencies to work in a more coordinated and integrated manner while applying modern engineering measures for better results and to reduce disturbance to general public. Particularly, a better coordination among the Road Development Authority, the National Water Supply and Drainage Board and the Ceylon Electricity Board is necessary to ensure sustainability of the mega infrastructure development projects in the areas of roads and transport, water supply and sanitation and power and energy.

Impact of Foreign Currency Variation and Fluctuation of LIBOR & EURIBOR Rates

Yen Denominated Loans

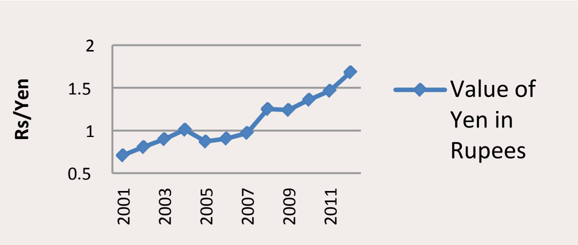
As at end of September 2012, about 23 percent of the total debt stock consisted of Yen denominated loans which have been borrowed manly from the Government of Japan. The total debt service of Yen denominated loans have increased from Yen 16,996 million in 2001 to Yen 20,377 million in 2012.

Chart 1 Debt Service Payments of Yen Loans 2001-2012



The appreciation of Japanese Yen over last 10 years compared with the local currency has had a significant negative impact on debt servicing of these Yen denominated loans.

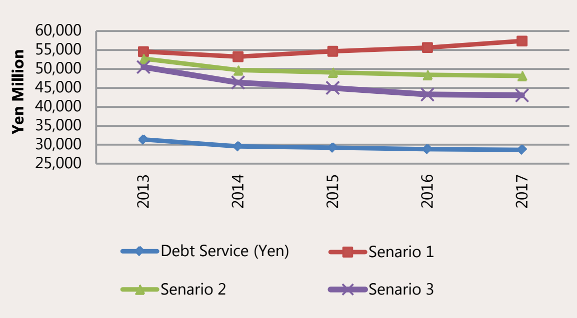
Chart 2 Value of Yen 2001-2012 (Rs/yen)



During last ten years, the value of Japanese Yen in Sri Lankan Rupees appreciated by 137 percent from 0.708 in 2001 to 1.683 in September 2012. Accordingly, the debt service obligations of Yen denominated loans have gone up commensurately as government needs to purchase Yen currency for the debt servicing.

The estimated value of the total debt service of Yen denominated loans in 2013 is Yen 31,368 million and this amount will fall slightly to Yen 28,682 million in 2017. The Department of External Resources has analyzed the impact of Yen currency appreciation on the forecasted debt service obligations based on three scenarios; (a) appreciation of Yen currency will continue on the present and increase the value of Yen to Rs 2.00 in 2017, (b) the value of Yen remains steadily during next 5 years at the present rate and (c) the value of Yen will decrease to Rs. 1.50 by 2017.

Chart 3 Debt Service Payment Forecast for Yen Loans 2013-2017



The total debt service of obligations of Yen denominated loans by 2017 is estimated at Yen 28,682 million. If Yen currency remains at the present exchange rate of Rs 1.68 per Yen over the next 5 years, about Rs. 48 billion is required to meet the debt service obligations of Yen denominated loans. However, if the estimated amount of debt service continues to appreciate over the present and hits the value of Rs 2.00 per Yen in 2017, the debt service obligations will increase to Rs 57 billion by adding another Rs. 9.2 billion. Under the most favorable scenario of a depreciating Yen against the Sri Lankan Rupee; depreciation of the value of Yen to Rs. 1.50 per Yen by 2017, will reduce the expected value of debt service obligations of Yen loans by Rs. 5.2 billion.

LIBOR and EURIBOR based loans

The composition and the form of foreign financing have substantially changed over the last few years with the graduation of Sri Lanka to a middle income economy. Limitation on concessional loans which are generally available for the less developed economies has caused Sri Lanka to borrow more on commercial terms such as LIBOR based and EURIBOR based loans.

LIBOR (London Inter-Bank Offered Rate) is an index that measures the cost of funds to large global banks operating in London financial markets or with London-based counterparties. LIBOR is calculated and published by Thomson Reuters on behalf of the British Bankers' Association (BBA). The calculation of LIBOR rate is associated with variables such as time, maturity and currency rates.

Each day, the BBA surveys a panel of 18 major global banks for the USD LIBOR. There are separate LIBOR rates reported for 15 different maturities for each of following 10 currencies:

- Australian dollar **(AUD)**
- Canadian dollar **(CAD)**
- Swiss franc **(CHF)**
- Danish krone **(DKK)**
- Euro **(EUR)**
- British pound sterling **(GBP)**
- Japanese yen **(JPY)**
- New Zealand dollar **(NZD)**
- Swedish krona **(SEK)**
- U.S. dollar **(USD)**

EURIBOR (Euro Interbank Offered Rate) is an interbank rate, at which banks lend money to other banks. Its level is calculated daily by the European Banking Federation as a weighted average interest rates of a panel of 57 banks, the most representative of the Euro.

The level of Euribor depends mainly on the monetary policy undertaken by the European Central Bank (ECB). If the ECB decides to lower the level of official interest rates (reducing the rate of operations "repo" with European banks), banks can obtain liquidity from the ECB at a lower rate, and therefore can apply to loans granted to their customers lower rates than before.

The LIBOR rate was sharply increased and remained high in 2007 due to the liquidity crises of western and European banking sector raising concerns on debt service payments relating to the LIBOR based loans in many countries in the world including Sri Lanka. However, easing the burden on the national budget over debt service obligations, the LIBOR rate gradually came down in 2008 and 2009 as the European economic stimulus package started to free up money. The analysis of LIBOR rates during last decade shows that the LIBOR rate remained low in 2002 and then rise to a higher level during the banking liquidity crises. Since 2009, the rate remains more or less steady and below 01 percent recording the lowest rate in the past decade.

Sri Lanka has borrowed 340 foreign loans since 1st January 2000 of which 76 are LIBOR based Loans.

EXTERNAL FINANCING

The total value of these loans is USD 6,672 million and represents 28 percent of the total value of the loans obtained during this period. The annual borrowing of LIBOR based loans has increased from USD 45 million in 2001 to USD 1075 million in 2011 which is 35 percent of the total foreign financing commitments for the year.

Chart 4 Fluctuation of 6 Month LIBOR Rate over Last 10 years

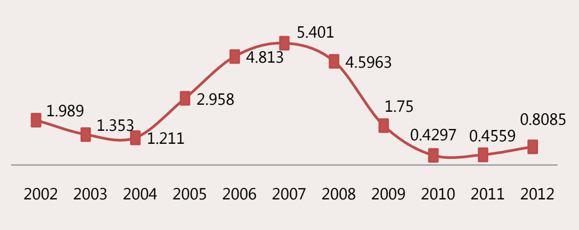


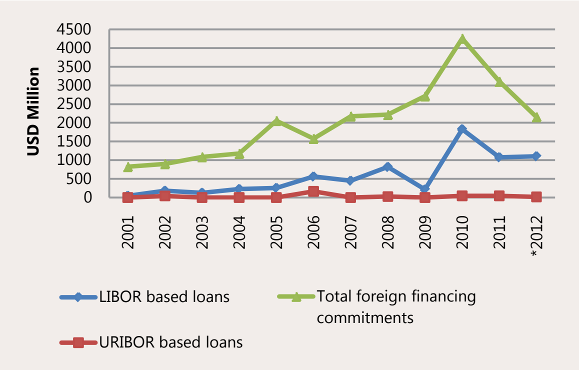
Table 4 No of LIBOR Based Loans Obtained Since 2000

Type	LIBOR			EURIBOR
	USD	JPY	EUR	EUR
3-month LIBOR	6	0	0	1
6-month LIBOR	59	6	1	10
12-month LIBOR	4	0	0	0
Total	69	6	1	11

Source: Department of External Resources

The EURIBOR rate also moved in a similar pattern to the LIBOR rate during the last decade. Sri Lanka has borrowed 11 EURIBOR based loans during last 10 year period and the total value of these loans haveamounted to USD 333 million representing 1.4 percent of the value of the total loans borrowed during the same period.

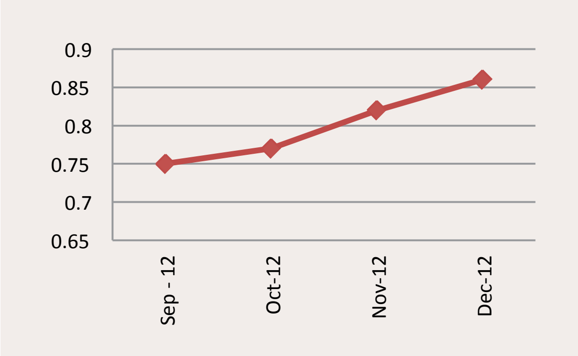
Chart 5 LIBOR and EURIBOR Based Loans in Total Foreign Financing 2001 to 2012



** January to September*

Although Sri Lanka has been adversely affected by the increase of LIBOR and EURIBOR rates from 2004 to 2007, this adverse effect was compensated by the reduced rates after 2007. As LIBOR rates have come down from more than 5 percent in 2007 to below one percent, the country has been able to save a significant amount of financial resources allocated for the debt servicing of LIBOR and EURIBOR loans borrowed during the period where rates were high.

Chart 6 LIBOR Rate: Forecast



The annual borrowings of LIBOR and EURIBOR based loans have significantly increased after 2009 with the gradual reduction of rates.

However, government is carefully assessing the fluctuation of LIBOR rate in order to minimize the burden on debt payment and connected services. According to the forecast the LIBOR rate is expected to increase slightly to 0.86 percent at the end of 2012.

Mobilizing Foreign Financing

Since 2005 a large number of economic infrastructure development projects particularly roads, expressways, bridges, power, ports, airports, water supply, irrigation, railway have been implemented by the government using foreign financing to facilitate rapid economic development in the country. Aligned with the above development initiatives, the annual foreign financing commitments from development partners and lending agencies have gradually increased at an annual average rate of 24 percent from 2006 to 2010. As most of the large scale infrastructure development projects were initiated during 2010, the foreign financing commitments have slightly decreased to USD 2,076 million in 2011 compared with the corresponding value of USD 3,289 million in 2010 which have increased to USD 3,311 million in 2012.

Chart 7 Total Commitments 2006- 2012. (USD Mn)

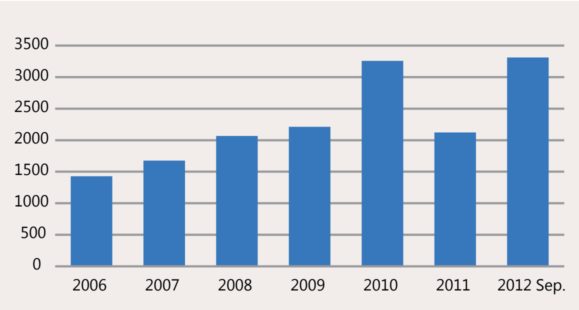


Chart 8 Foreign Financing Commitments by Major Development Partners in 2012 (USD Mn)

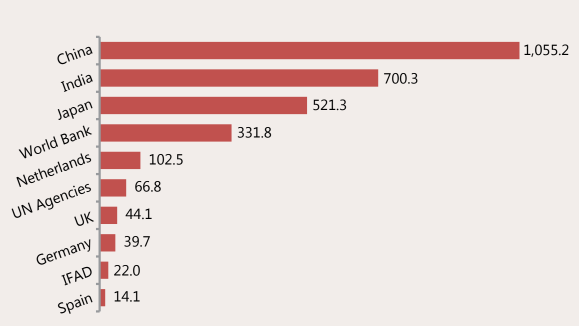


Table 5 Foreign Financing Commitments by Development Partners as at 31st October 2012 (USD Mn)

Donor	Loan	Grant	Total
Bilateral	**2,262.00**	**275.3**	**2537.3**
*China	1,055.00	0.16	1,055.16
India	443.06	257.28	700.34
*Japan	508.74	12.59	521.33
Netherlands	102.5	-	102.5
Saudi Arabia	60	-	60
United Kingdom	44.14	-	44.14
Germany	34.42	5.27	39.69
Spain	14.14	-	14.14
Multilateral	**698.85**	**75.26**	**774.11**
World Bank	324.82	7	331.82
ADB	312	1.5	313.5
UN Agencies	-	66.76	66.76
OFID	40	-	40
IFAD	22.03	-	22.03
Total	**2,960.85**	**350.56**	**3,311.41**

** Including loans obtained by Public Enterprises under Government Guarantees*
Source: Department of External Resources

Table 6 New Commitments as at 31st October 2012 (USD Mn)

Donor	Project Name	Grant	Loan	Total
China	Provision of Sports Goods for Youth in Jaffna, Kilinochchi and Mullaittivu	0.12		0.12
	Moragahakanda Development Project		214.20	214.20
	Finance for Material Required for Lighting Sri Lanka Eastern Province Project		32.80	32.80
	*Hambantota Port Development Stage II		808.00	808.00
FAO	Integrated Management of Weligama Coconut Leaf Wilt Disease	0.31		0.31
	Irrigation & Agricultural Livelihood Development in Kilinoch-chi and Mullaittivu	4.38		4.38
Germany	Vocational Training Institute in the North of Sri Lanka	5.28		5.28
	Construction of the Mahamodara Maternity Hospital, Galle		34.42	34.42
IFAD	Iranamadu Irrigation Development Project		22.03	22.03
India	Grant for 49,000 Housing Units in Northern, Eastern, Central and Uva Provinces	257.28		257.28
	Greater Dambulla Water Supply Project 1	60.69	60.69	
	Restoration of Northern Railway Services		382.37	382.37

Japan	Rehabilitation of Kilinochchi Water Supply Scheme	8.32		8.32
	Improvement of Japanese Language Learning Equipment at the University of Kelaniya and Sabaragamuwa University	0.59		0.59
	Provision of Industrial Products	3.69		3.69
	Habarana-Veyangoda Transmission Line Project		115.33	115.33
	Improvement of Basic Social Services Targeting Emerging Regions		47.41	47.41
	*Bandaranaike International Airport Development Project Phase II		346.00	346.00
Saudi Arabia	Road Network Development Project		60.00	60.00
Netherlands	Development of Nuwara-Eliya District General Hospital		46.99	46.99
	Development of Hambantota District General Hospital		55.51	55.51
Spain	Veyangoda Railway Crossing Fly-over Project		14.15	14.15
UK	Construction of 210 Permanent Rural Steel Bridges		44.14	44.14
UNDP	Strengthening Plan Implementation Capability Phase II	0.01		0.01
	Capacity Building through South-South Cooperation	0.04		0.04
	Local Governance Project	3.22		3.22
	Sri Lanka Community Forestry Programme	4.79		4.79
UNHCR	Assistance for Return and Reintegration of IDPs in Sri Lanka	0.05		0.05
UNICEF	UNICEF Country Programme 2008-2012	26.00		26.00
OFID	Road Network Development Project		40.00	40.00
ADB	Northern Road Connectivity Project		98.00	98.00
	Clean Energy and Network Efficiency Project	1.50	130.00	131.50
	Grater Colombo Water Supply and Waste Water Management Improvement Project		84.00	84.00
World Bank	Strengthening Institute of Charted Accountants in Sri Lanka (ICASL)	0.50		0.50
	Metro Colombo Urban Development Project		213.00	213.00
	Global Food Crisis Response Programme	6.50		6.50
	Additional Financing for e-Sri Lanka Development Project		11.01	11.01
	Transforming the School Education System as the Foundation for a Knowledge Hub Project		100.82	100.82
WFP	Protected Relief & Recovery Operation Sri Lanka	27.96		27.96
	Total	**350.56**	**2,960.85**	**3,311.41**

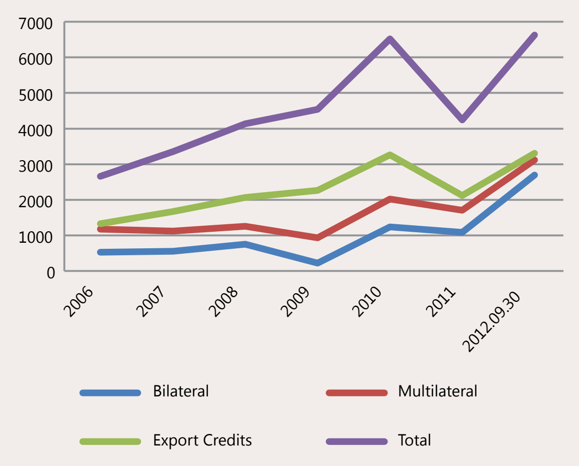
* *Loan obtained by Airport and Aviation Services (Sri Lanka) Limited under Government guarantee*
** *Loan obtained by Sri Lanka Ports Authority under Government guarantee*

Source: Department of External Resources

Trend of Foreign Financing Commitments

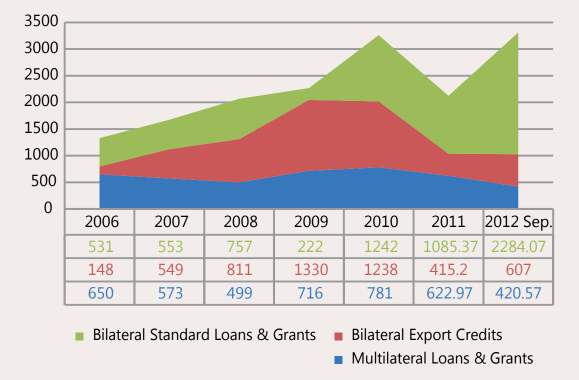
After Sri Lanka been classified as a country with middle income economy, the composition and the type of available foreign financing have changed significantly and the availability of concessional foreign financing has gradually declined over the last few years. Accordingly, the share of concessionary financing in the total commitments has fallen by 10 percent in 2011 compared with the corresponding amount of USD 2,063.5 million in 2010. Simultaneously, non-concessional and commercial financing has increased by 25 percent from USD 855.8 million to USD 1,071.7 million during the same period.

Chart 9 Foreign Financing Commitments 2006 -2012 (USD Mn)



Most of the commitments made by the bilateral development partners and lending agencies in the Western and European region, and Eastern region, extended non-concessional foreign financing in the form of export credit, buyer's credit, and preferential buyer's credit facilities for major infrastructure development projects initiated by the Government.

Chart 10 Composition of Foreign Financing Commitments by Lender Category (USD Mn)



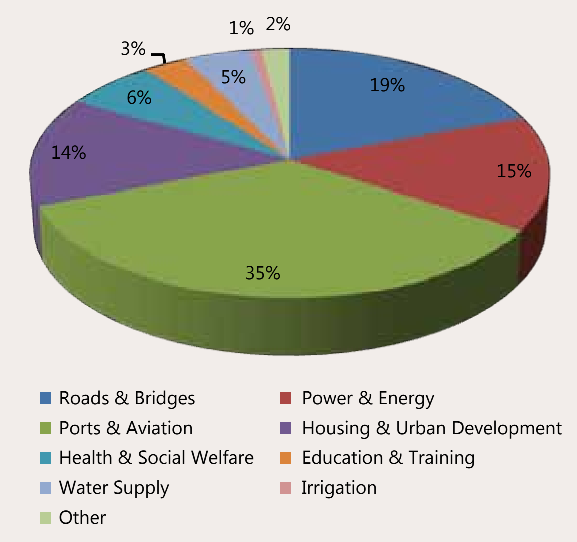
2006	2007	2008	2009	2010	2011	2012 Sep.
531	553	757	222	1242	1085.37	2284.07
148	549	811	1330	1238	415.2	607
650	573	499	716	781	622.97	420.57

Having considered the amounts of external debt, optimal debt profile, external funding needs, debt utilization, and future debt service capacity and risks, the government has taken steps to raise foreign commercial borrowings for implementation of commercially viable strategic development projects in the ports, power, and highway sectors during the last few years as most of these projects will generate substantial economic benefits to country in near future.

Sector-wise Distribution

Out of the total amount of foreign financing commitments as at end of September 2012, a larger share or 75 percent was committed for development of economic infrastructure including, ports & airports, roads & bridges, and power & energy . The remaining 25 percent of the total commitment has been allocated for development of social infrastructure including housing & urban development, health & social welfare, water supply and education & training.

Chart 11 Commitments by Sectors



Foreign Financing Disbursements

The total amount of foreign financing disbursements as at end of September 2012 was USD 1,386 million of which USD 1,318 million or 95 percent was disbursed from project loans and remaining USD 68 million was disbursed from foreign grants.

Table 7 Disbursements by Key Sectors 2005-2012 (USD Mn)

	Education Sector			Health Sector			Ports Sector			Power and Energy Sector		
Creditor	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total	Loan	Grant	Total
Bilateral	**39.37**	**15.46**	**54.83**	**102.15**	**77.91**	**177.25**	**505.40**	**19.51**	**444.00**	**1,786.55**	**10.83**	**1,797.38**
China							355.96		355.96	1,131.45		1,131.45
Japan		3.59	3.59	10.80	30.61	41.41	8.21		8.21	459.33	10.40	469.73
Iran										32.18		32.18
Swedan	6.39	3.05	9.44							54.75		54.75
Austria	15.17		15.17	14.59		14.59				15.30		15.30
Germany		0.78	0.78		1.71	1.71				43.72		43.72
France				12.74		12.74				47.32		47.32
Saudi				17.01		17.01						
Kuwait	6.79		6.79							2.50	0.43	2.93
Korea		2.74	2.74		2.81							
Netherland	11.02	4.74	15.76	39.56	14.15	53.71						
India		0.56	0.56		1.61	1.61		19.51	19.51			
Malaysia							4.00		4.00			
Denmark							56.32		56.32			
UK				7.45		7.45	80.91					
USA					27.02	27.02						
Multilateral	**211.26**	**69.94**	**281.20**	**23.98**	**185.45**	**209.43**	**278.29**	**0.00**	**278.29**	**126.05**	**4.37**	**130.32**
ADB	131.37	5.57	136.94		2.40	2.40	278.29		278.29	126.05	0.71	126.76
World Bank	76.92	64.13	141.05	23.98	72.39	96.37			0.00		3.56	3.56
NDF	2.97		2.97									
FAO					10.71	10.71						
UNDP		0.24	0.24								0.10	
UNFPA					8.59	8.59						
UNICEF					85.90	85.90						
WFP					5.46	5.46						
Grand Total	**250.63**	**85.40**	**336.03**	**126.13**	**263.36**	**386.68**	**783.69**	**19.51**	**722.29**	**1,912.60**	**15.20**	**1,927.70**

Source: Department of External Resources

Out of the total disbursements as at the end of September 2012, about 59 percent was disbursed through the development projects funded by Japan, China, and India. The total amount disbursed from Japanese funded projects was USD 323 million. These funds were utilized for Greater Colombo Urban Transport Development project Phase I and II, Southern Transport Development project, and the Upper Kotmale Hydropower project. The second highest disbursement during the same period equivalent to USD 298 million was recorded from Chinese funded projects. These funds were utilized to implement 21 projects including the Colombo-Katunayake Expressway project, Moragahakanada Development project and the Hambantota Port Development project. The projects financed by the ADB and Indian Government recorded disbursements of USD 195 and 189 million respectively.

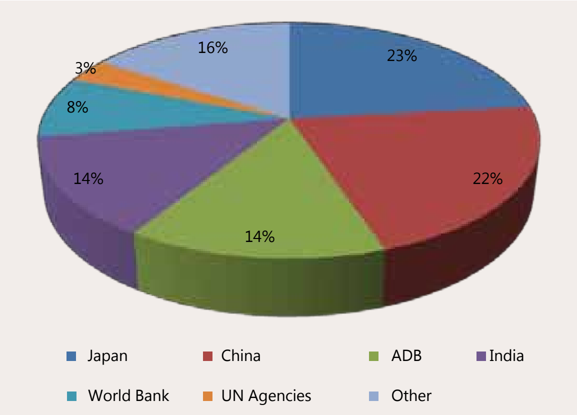
The foreign financing disbursements under the projects and programmes financed by non-concessional loans up to the end of September 2012 have increased by 26 percent to USD 528 million compared with the USD 419 million disbursed during the corresponding period in 2011. Speedy implementation of a number of large scale projects as well as improved coordination among stakeholders, implementing agencies and development partners have been the main contributing factors to this increased disbursements. However, the disbursements from concessional loans have remained at the same level compared with the corresponding value in 2011.

Table 8 Disbursements as at end of Sep. 2012 (USD Mn)

Development Partner	Loans	Grants	Total
Bilateral Total	**965.4**	**27.8**	**993.2**
Project Loan	**538.2**		**538.2**
Export Credit	**427.2**		**427.2**
Japan	313.6	9.8	323.4
China	298		298
India	188.7		188.7
Iran	38.4		38.4
Sweden	27.6		27.6
Korea	27.6		27.6
United States	-	18	18
Australia	17.1		17.1
France	17		17
Netherlands	11.8		11.8
Austria	9.6		9.6
Denmark	6.3		6.3
Malaysia	4		4
Belgium	2.9		2.9
Kuwait	1.2		1.2
Germany	1		1
United Kingdom	0.5		0.5
Saudi Fund	0.1		0.1
Multilateral Total	**352.8**	**40.2**	**393**
Project Loan	**352.8**		**352.8**
Grant		**40.2**	**40.2**
ADB	190.8	4	194.8
World Bank	114.8	1.5	116.3
European Investment Bank	32		32
UNICEF		19	19
IFAD	10.7		10.7
WFP		9.9	9.9
OPEC	4.5		4.5
UNDP		2.9	2.9
FAO		1.7	1.7
UNFPA		0.9	0.9
UNHCR		0.3	0.3
Total Project Loans	**891**		**891**
Total Export Credit	**427.2**		**427.2**
Total Grants		**68**	**68**
Grand Total	**1318.2**	**68**	**1386.2**

Source: Department of External Resources

Chart 12 Composition of Disbursement in 2012 by Major Development Partners



Committed Undisbursed Balance

Table 9 Committed Undisbursed Balance as at 30th September 2012

Development Partner	Amount
China	1740.1
Japan	1630.7
ADB	1103.4
India	983.9
World Bank	734.9
Iran	468.8
Russia	300.0
Netherlands	120.3
Korea	104.4
UN Agencies	141.3
Other	676.8
Total	8004.6

Source: Department of External Resources

The amount of total committed undisbursed balance available for development projects and programmes as at the end of September 2012 stood at USD 8,005 million. It represents 22 percent of committed funds from

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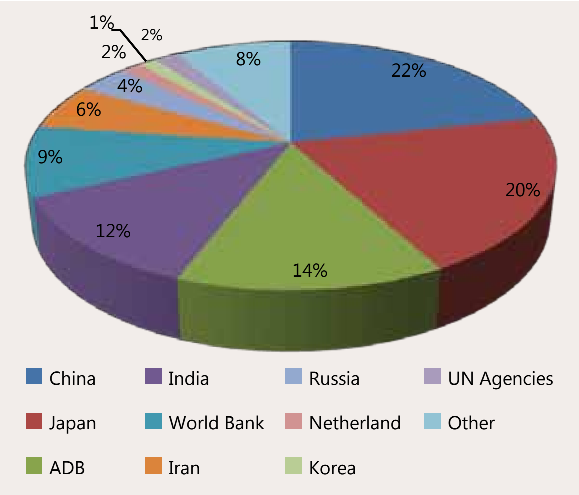
China, 20 percent from Japan, 14 percent from Asian Development Bank, 12 percent from India, 9 percent from the World Bank and the remaining 23 percent from the other development partners and lending agencies.

Chart 13 Committed Undisbursed Balance by Development Partners



Utilization Rate of the Foreign Financing

Table 10 Utilization Rate by Development Partners

Development Partner	Utilization Rates
China	15.27
Japan	14.86
ADB	14.28
World Bank	22.00
India	15.54
Iran	7.58
Other Bilateral	16.44
Other Maltilateral	20.10
Average	15.28

Source: Department of External Resources

The utilization rate or disbursement ratio of foreign financing describes the efficiency of utilization of foreign financing committed by development partners and lending agencies. The utilization rate indicates the ratio of total disbursements to total committed undisbursed balance taking into account the average life of the project. According to the stipulated standards, if the average implementation period of the projects is 4-5 years, the satisfactory level of the overall utilization ratio should be between 20-25 percent. The utilization rate of the foreign financing projects has increased during the last five years mainly due to improved project management systems including procurement systems, better cash flow management, along with the use of commercial borrowings to address the funding gaps in economic infrastructure development projects financed through development partners.

External Debt Portfolio

The total external debt obtained for development projects as at end of September 2012 was USD 20,388 million which has grown at an annual rate of 11 percent over the last 10 years. About 77 percent of foreign debt represent from concessional loans and the remaining 23 percent from non-concessional loans including commercial loans.

The total external debt as at end of September 2012 stood at USD 20.4 billion which was 31.9 percent of the GDP. As per the following chart, the external debt to GDP ratio has significantly declined by 3.2 percent in 2011 compared with 38.8 percent in 2005.

Chart 14 External Debt to GDP Ratio

External Debt Compositions

The total amount of foreign loans obtained through concessional and non- concessional sources for specific projects and programmes as at the end of September 2012 amounted to USD 13.8 billion and USD 6.6 billion respectively. The share of concessional loans in the total foreign debt stock decreased by 3 percent from USD 12,124 million while non-concessional loans amount in the total debt portfolio remain at USD 6,621 million as at the end of September 2012 compared to the corresponding period in 2011.

Chart 15 Outstanding Debt as at end of September 2012

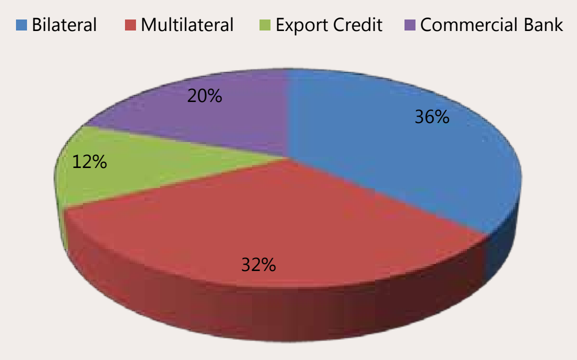
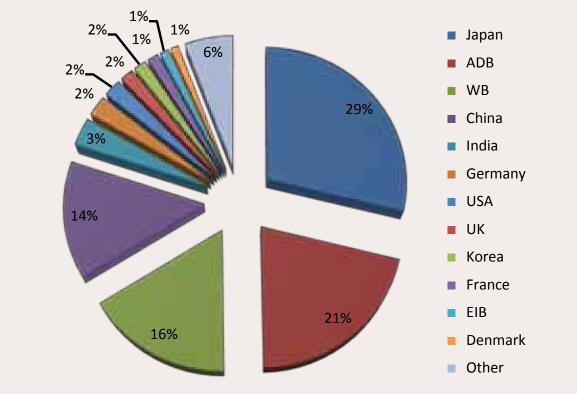


Chart 16 Accumulated Debt Stock by Major Lenders

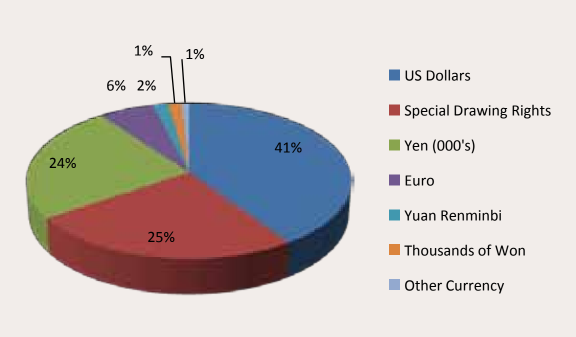


The total external debt obligation as at end of September 2012 consists of USD 7,359 million or 36 percent from bilateral development partners and USD 6,466 million or 32 percent from multilateral development partners, USD 4,031 million or 20 percent from Commercial Bank and remaining USD 2,535 million or 12 percent from export credits.

In terms of the total outstanding debt as at the end of September 2012, Japan, China and India accounted for 29, 14 and 3 percent respectively while Asian Development Bank (ADB) and International Development Association (IDA) accounted for 21 and 16 percent respectively.

Currency Composition

Chart 17 Currency Composition of Debt Stock



The currency composition of the foreign debt as at the end of September 2012 shows that 96 percent of the total external debt was in four major currencies namely USD (41 Percent), Special Drawing Rights (SDR) (25 percent), Japanese Yen (24 Percent) and Euro (6 percent). The volume of USD denominated debt increased during the year by 6 percent compared to the corresponding period in 2011 due to funds raised from ADB, China, India and Western development partners for implementation of major projects such as Northern Road Connectivity Project, Clean Energy Access Improvement Project, Colombo-Katunayake Expressway Project, Northern Road Rehabilitation Project, and Northern Railway Project.

Duration of Loan Period

Even though there were no significant changes observed in respect of the grace period, repayment period, and the grant element of the external debt stock in 2012, the average time of maturity of foreign currency debt had marginally decreased to 15.8 years as at end September 2012 from 16.2 years as at the end 2011.

Average Interest Rate of Debt

The average interest rate of foreign currency denominated debt (excluding Sri Lanka Development Bonds) slightly increased to 3 percent as at the end of September 2012 in comparison with 2.2 percent at the end of 2011. An increase in loan flotation charges of major development projects funded by bilateral development partners and also the depreciation of the Sri Lankan Rupee against all major foreign currencies contributed to the slight increase in the average interest rate on foreign loans.

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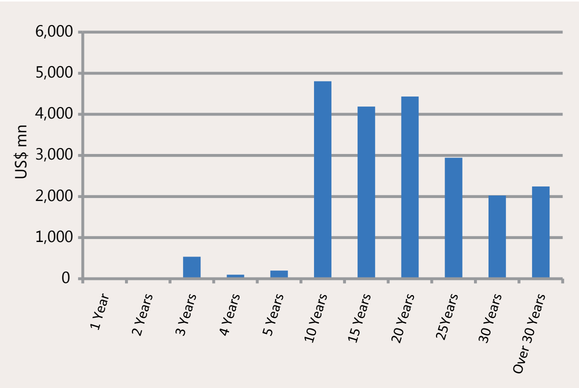
Maturity Structure of the Current Debt Stock

Chart 18 Maturity Structure of the Current Debt Stock



Out of the total debt stock of USD 20,388 million, 4 percent or USD 816 million will mature during the coming five year period from 2013 to 2017. During the subsequent periods of 2018 to 2022 and 2023 to 2027 amounts of USD 4,485 million or 22 percent and USD 4,078 million or 20 percent respectively will mature. During the subsequent five year period from 2028 to 2032 an amount of USD 4,281 million or 21 percent of the total debt capital will be settled, followed by an amount of USD 2,854 million or 14 percent which will be settled during 2033 to 2037. Furthermore, an amount of USD 1,835 million or 9 percent will mature between the years of 2038 to 2042 and the remaining amount of USD 2,039 million or 10 percent of the total debt stock will have a maturity period of over 30 years.

Exchange rate Impact on to Foreign Financing

The foreign financing of a country is directly affected due to the fluctuation of exchange rates, in terms of disbursements and debt servicing.

At the beginning of 2012 the exchange rate for USD to local currency was Rs. 113.9/USD which, since the middle of the year, depreciated to around Rs. 133/USD.

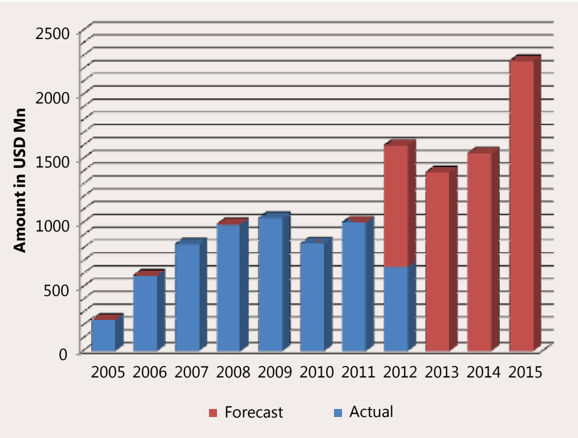
The total estimated foreign financing disbursements through development projects during 2012 were USD 2,176 million which amounts to Rs. 247,846 million. However due to the currency depreciation it would be Rs. 278,528 million at the end of the year, assuming that the annual average exchange rate during 2012 would be Rs. 128/USD. As a result, the estimated disbursement would increase in rupee terms, by 30,682 million during the year.

Furthermore, the total estimated debt service excluding sovereign bonds, during the year 2012 was USD 1,073 million or Rs. 122,215 million. This amount increased by 9.7 percent or Rs. 11,910 million due to local currency depreciation during the same period. As a result of the exchange rate fluctuation, net inflow of foreign financing during 2012 would be Rs. 18,772 million.

Debt Repayment

The estimated total debt service payment in the year 2012 including sovereign bonds amounted to USD 1,597.1 million which consisted of repayment of principal amounting to USD 1,176.5 million and payment of interest amounting to USD 420.7 million. The amount of debt service in the year 2012 is 58 percent higher compared with the corresponding amount of USD 1,008.5 million in 2011. The main reason for this increase is the maturity of USD 500 million sovereign bonds during the year 2012. The total external debt service during the period from 2006 to 2012 has increased gradually by an average rate of 20.6 percent in line with the increase of foreign financing utilization for development projects during the same period. At present, Sri Lanka maintains the external debt service to GDP ratio at a level of 32 percent. Foreign debt is about 99 percent of exports and foreign debt service as a percentage of export is 8 percent which is slightly higher than the corresponding figure for 2011.

Chart 19 Debt Service Payments 2006-2015



Assessing the Foreign Debt Sustainability

Despite the external shocks and setbacks emanating time to time such as fuel price fluctuation, increased commodity prices, financial crises in the Asian region and subsequent global recession, the conflict situation in the middle east countries and change of export concessions as well as domestic hurdles including protracted conflict, tsunami devastation and natural disasters such as frequent floods, Sri Lanka was able to fulfill all its debt service responsibilities on time without any defaults. Maintaining the default free status of the country is a prime goal of the government particularly in the context that the global economy is showing, once again, the signs of instability. Under the deteriorating economic conditions in advanced countries and the deepened debt crisis of the euro zone, Sri Lanka will continues to maintain all its debt burden indicators below the threshold levels.

The annual borrowing limits are normally decided based on a medium and long term debt plan which is subsequently approved by the parliament. The existing borrowing strategies are being reviewed and updated regularly by the relevant agencies including the Ministry of Finance and Planning and the Central Bank of Sri Lanka. This helps to maintain an appropriate debt position under periodic economic changes and shocks in the domestic and international arena. The entire debt portfolio is analyzed in terms of commitments, disbursements, total debt accumulated and debt servicing in relation to a defined time framework. The Standard Debt Burden Ratios and the derivatives derived from these analyses are used to determine the accepted burrowing limits or thresholds. Based on these indicators which are regularly updated, proactive measures are being taken to minimize the risk of the country's indebtedness and credit rating. Total Debt Stock, Total Debt Service Ratio, External Debt to GDP Ratio and the Debt to Export Ratio are continually monitored by the government which are currently remaining below threshold level due to the prudent economic and monetary policies adopted by the government. Accordingly, Sri Lanka is currently maintaining a sound position with respect to its debt sustainability.

According to the recent assessments carried out jointly by the World Bank and IMF, Sri Lanka has been categorized as a moderate debt distress country. The greater macroeconomic and financial stability, improving external payments position, and stable political situation have prompted this position. A larger portion of Sri Lanka's foreign debt stock consists of loans obtained at concessionary terms, including low interest rates and longer repayment periods with fairly long grace periods. As a result, Sri Lanka is in a good position with regard to loan repayments, even though the depreciation of the Rupee over the long run has created a negative impact on loan repayments. Also, the increased GDP and income level brought Sri Lanka to a safer position in relation to the servicing of external debt.

In general, the proceeds from concessional loans are channelled to the sectors that need somewhat longer periods to produce results- such as education, skills development and health. An appropriate mix of concessional and non-concessional financing is also being used to improve rural water supply and electricity services, development of provincial and rural roads to ensure connectivity between remote villages as well as for regional development programmes.

The non-concessional loans and mixed credit facilities have been borrowed for implementation of strategic priority projects that can generate sufficient

Table 11 Key Debt Indicators

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
External Debt to GDP Percent	38.87	36.84	35.95	30.67	32.16	33.02	31.98	32.57	29.69
External Debt to GNP Percent	39.35	37.36	36.35	31.42	32.54	33.45	32.87	33.48	30.52
External Debt Service to GDP Percent	1.02	2.10	2.59	2.44	2.48	1.70	1.75	2.69	1.87
External Debt to Exports percent	149.4	151.1	152.2	154.0	191.1	197.2	178.3	179.7	166.2
External Debt service to Exports percent	3.90	8.62	10.97	12.27	14.73	10.16	9.78	14.83	10.49
Interest payments to Exports percent	1.2	2.5	2.6	2.9	3.2	3.2	3.6	4.2	3.6

Source : Central Bank of Sri Lanka

economic returns to meet the debt service requirement of the particular loans. After assessing the technical, economical and social feasibility, economically viable development projects are selecting carefully by the government to be financed from external borrowings at non concessional and commercial terms. Government has already streamlined the project approval process for this purpose.

Most of the loans which have borrowed at non-concessional and commercial rates have been allocated for the economic infrastructure development projects such as ports, airports, highways, power generation ect which generate substantial economic value addition to service such loans in the long run.

Colombo Port Expansion Project

Colombo Port Expansion Project (CPEP) is one of the projects that has implemented using a USD 300 million loan borrowed from the Ordinary Capital Resources of the ADB. The OCR loan has a 26-year term including a grace period of 5 years, an annual interest rate of LIBOR plus 0.30 percent and a commitment charge of 0.15 percent per annum on undisbursed balance of the loan.The total estimated cost of the project is USD 480 million. Subsequent to the completion of stage I of the project, development of the three terminals are planned to commence on a public-private partnership (PPP) basis.

One of the key strengths of Colombo Port is its strategic geographic location close to the mainEast-West trade route. The benefits of the ports location can only be exploited with provision ofadequate port infrastructure at the right timelines together with implementation of portperformance improvement measures.Nevertheless, with the major issues on capacity constraints for deep water berths andcongestion problems, the port was in extremely challenging position to maintain competitive in themarket. On the primary Asia-Europe trade lane Colombo Port is currently unable toaccommodate calls from almost 60% of services that call at competing hubs ports due to itsberth constraints. Therefore, government has given high priority to this project in the national development project portfolio. The CPEP would change the economic situation in Sri Lanka as a large number investment will be expected here while employment opportunities would also be generated.Already the construction of the first terminal has been started by a private company at a cost of USD 500 million.The construction of this terminal is one of the largest Public-Private Partnership (PPP) projects which have taken off the ground recently in Sri Lanka. Under this project, annual container handling capacity will be increased by 7.2 million TEU from existing level of 4.2 million TEU and then to 11.4 TEU on completion of all the three terminals. Also the Colombo Port will be deepened to 18 meters from the current level of 15 meters. It is expected, with the completion of this project, to promote economic growth by improving Sri Lanka's competiveness in the ports sector and facilitating economic growth by enhancing national competitiveness in international trade via lower transport costs and faster delivery times. Also country can provide transshipment and other port facilities for not only South Asia but also for the East Asia, Middle East & China as well as for the African countries. Further, this can be the link between the fast growing East Asia and the Western world. Therefore, this project will generate enough return to repay the loan borrowed from ADB.

Puttalam Coal Power Project:

Objective of the Puttalam Coal Power project is to generate 900 Mw and provide it to the National grid. The project has been implemented under two phases. Phase I of the project was completed with financial assistance of USD 455 million from the Export – Import Bank of China in 2011. Out of the total USD 455 million, USD 300 million was obtained at 2% interest per annum with a 20 year repayment period. The balance USD 155 million was obtained on commercial terms. Under Phase I of the project, a 300 Mw Power Plant together with jetty for coal handling, transmission line from Norochcholai to Veyangoda and substation at Veyangoda was completed. The coal power plant installed under Phase I of the project currently generates 300 Mw and it is added to the national grid. Net energy generation by the coal power plant installed under Phase I since June 2011 is 1,807.5 Gwh. Fuel cost for the generation from Phase I up to end of September 2012 is Rs. 13,550 million. Fuel cost for the generation of the same amount of energy from next least cost thermal plants is Rs. 33,795 million. Minimum foreign exchange savings on fuel during the last 16 months of operation of the coal power plant under Phase I was Rs. 20,245 million. Accordingly annual foreign exchange savings with the implementation of Phase I of the project would be Rs. 15,176 million.

Phase II of the project commenced in the second half of 2010. Under Phase II, two power plants with a capacity of 300 Mw each will be established. In addition, a transmission line from Norochcholai to Anuradhapura, new substations at Chilaw and Anurahapura, expansion of coal handling port facilities and employees' housing will be constructed. Phase II is being implemented with financial assistance of USD 891 million obtained from the Exim bank of China. The entire cost of the Phase II has been obtained at 2% interest per annum with a 20 year repayment period. With the establishment of two power plants with a capacity of 300 Mw each, expected annual generation of electricity would be 4,096 Gwh. Fuel cost for the generation of electricity with coal power per year would be Rs 30,720 million. Fuel cost for generation of the same amount of energy from next least cost thermal plants would be Rs. 76,595. Accordingly foreign exchange savings on fuel per year under Phase II of the project would be Rs. 45,875 million.

Annual foreign exchange savings under Phase I and Phase II of the project would be Rs. 61,051 million. Total debt service including principal repayments, interest and other charges for Phase I and II of the project would be Rs. 215,553 million. Accordingly, the total debt service of Phase I and Phase II of the project could be recovered only from 3 and half years of foreign exchange savings of the project.

Northern Road Connectivity Project

Government has obtained a loan of USD 130 million from ADB to rehabilitate about 140 km of provincial roads and 108 km of national roads in the Northern Province (NP) and selected bridge links and improve about 62 km of link national highways in the North Central Province (NCP). The Project is timely and targeted - to help restore accessibility to essential social services for the rural people in the Northern Province by establishing mobility between the north and the south. In addition, it will improve nationwide connectivity and will facilitate economic growth while contributing to the reduced disparities in Sri Lanka.

With improved roads, traffic generation is estimated in the range of 20 percent due to increases in speed and reduced Vehicle Operating Cost (VOC). Further, accelerated development in the Northern Province is expected to induce additional traffic, estimated at 10 percent. Thus, the total generated and induced traffic is estimated at 30 percent in the region. The economic evaluation undertaken for each of the road sections by comparing the with- and without-project scenarios indicate that the proposed improvements of the project roads are economically viable yielding an EIRR of above 12 percent in all cases and in most cases significantly higher, indicating the high economic rate of return.

Table 12 Economic Analysis – National Roads

Road Name	EIRR (%)	NPV (RsMn)	NPV/Capital Cost Ratio
A009: Dambulla-Galkulama	21.8	4,336.7	0.98
A020: Anuradhapura-Rambewa	21.7	1,187.2	1.00
A032: Navathkuli–Kerativu jetty	20.4	1,541.2	0.84
A034: Mankulam–Mullaittivu	22.6	1,019.1	0.97
B437: Vallai–Araly	24.1	2,345.5	1.10
B268: Manipay–Kaithady	20.1	932.3	0.85

EIRR = economic internal rate of return,
NPV = net present value

Source: Department of External Resources

It is expected that improving road access in the Northern Province and the North Central Province connectivity to other provinces in the country will develop and expand agriculture, fishing and commercial activities. This will directly benefit the farmers, fishermen, small traders, and other service providers. The project will have positive social and economic benefits for all ethnic groups in the project area while contributing to economic growth ensuring timely servicing of loan service obligations.

Magampura Mahinda Rajapaksa Port

Development of Magampura Mahinda Rajapaksa Port consists of two Phases. Phase I of the project was implemented with a loan of USD 307 million obtained from Export Import (Exim) Bank of China and USD 53 million from Sri Lanka Ports Authority. The Loan from the Exim Bank China was obtained on commercial terms. The proceeds of the loan were used to construct the breakwater, approaching channel, harbor basin, stoking yard, internal road network and the administration building. The total cost of Phase II is USD 808 million of which USD 600 million is provided by the Exim Bank of China under Preferential Buyer's Credit facility. Of the balance, Renminbi Yuan one billion is provided under concessional loan and USD 51 million is provided under Buyer's Credit facility by the Exim bank of China to cover the entire cost of Phase II. The weighted average interest rate of the three loans is 2.2 percent per annum. Repayment period of the two loans under Preferential Buyer's Credit and Concessional loan is 20 years while the repayment period of Buyer's Credit is 15 years. These funds are used for construction of 6 numbers of container berths, oil terminal, yards, internal roads, handling facilities and excavating new basin area to enhance the container handling capacity.

Table 13 Container Throughput Forecast of Magampura Port (TEUs million)

	2015	2020
Domestic Container Throughput	0.30	0.60
International transit From/to: India	1.40	3.00
From/to Other areas	0.35	0.75
Throughput Demand of Magampura Port	2.05	4.35
Total	4.1	8.7

Sours: Sri Lanka Ports Authority

According to the economic development targets of the country, the external trade is expected to increase by average 11 percent every year from 2010 to 2015. This rate would be remained around 8.3 percent after 2015 as international economic situation is expected to get better during 2015 to 2020 period. It is expected that the total volume of international trade would be USD 43 billion and USD 64 billion in 2015 and 2020 respectively. Accordingly, with the limitation of further expanding capacity of the Colombo port, incremental quantity of imports and exports should be handled through Magampura port. This port will also be a powerful supplement to Colombo international container hub port, and it will help Sri Lankan ports to retain the container transshipment hub position in south Asia.

Table 14 Operational Revenue per Annum of the Magampura Port

	Revenue(USD Mn)
Handling	132.6
Other Services	33.2
Total	165.8

Source: Department of External Resources

The total cost of the project includes public service cost, maintenance cost, labor cost, interest of loan and deprecation and other costs. Total debt service including principal repayments, interest and other charges for Phase I and II of the project would be USD 1,390 million (estimated). Estimated operational revenue per annum is USD 165.8 million. Accordingly, the total debt service of Phase I and Phase II of the project could be recovered only from 9 years of operational revenue of the project.

Further, pre - tax Financial Net Present Value of the project is 192.97 and Financial Internal Rate of Return is 12.87 percent which is higher than the lending rate.

In this context, it is expected that Magampura port will generate adequate cash flow to service the loan without burdening to the national budget of the Government.

Modernization of Processing Factories of MILCO (Pvt) Ltd under Export Credit Assistance from Denmark (HSBC)

The Development Policy Framework of the Government has emphasized the importance of increasing the domestic milk production by facilitating to increase the capacity of the existing Milk processing factories and encourage the private sector participation in this process. In response, MILCO has planned to increase its liquid milk production to Liters 165 million from the existing level of Liters 30 million.

However, the existing machinery and the equipment in the all four factories i.e. Narahenpita, Ambewela, Plonnaruwa and Digana are 30 - 40 years old. It has adversely affected the efficiency of milk production for a long time. Therefore, Modernization of Processing Factories of MILCO (Pvt) Ltd is an urgent need to achieve the Livestock sector development objectives in the Country. Accordingly, processing factories located at Digana, Polonnaruwa and Ambewela are selected to modernize under this project. The factory at Narahenpita will be relocated at Kotagala farm belonging to the National Livestock Development Board and renting out of Narahenpita land to Urban Development Authority on long term basis. The income generated through leasing out of Narahenpita land will be utilized to cover the cost of relocation and the balance is to be deposited in a special account for the purpose of loan service payment to the Government.

The total estimated cost of the modernization project is Euro 33,779,210 (approximately Rs.5,670.85 million) that is fully financed from commercial borrowing from Export Credit Fund (EKF) of Denmark and Hong Kong and Shanghai Banking Corporation Limited. Out of total funding requirement for the project, Euro 28,712,328.5 or 85 % is financed under Buyer Credit facility provided by Export Credit Fund (EKF) of Denmark and Hong Kong and Shanghai Banking Corporation Limited, and the balance Euro 5,066,881.5 or 15% of the total loan amount is financed under commercial credit facility provided by Hong Kong and Shanghai Banking Corporation Limited. The amount borrowed under this loan will be on-lent to MILCO (Pvt) Ltd on terms determined by the Treasury enable the Government to sustain loan repayment capacity. The expense on taxes of the project is born by the Government of Sri Lanka

Table 15 The Financial Terms and Return of the Project

No	Farm	Pay-Back Period (Years)	Net Present Value (Rs.Mn)	Internal Rate of Return (IRR) %
1	Total Proposal	7	12,715	32
2	Ambewela	9.5	912	4
3	Digana	4	1,837	55
4	Polonnaruwa	2	8,593	67

Source: Department of External Resources

The project has an average pay-back period of 7 years; i.e. the time required to recover the cost of the investment and Net Present Value of Rs. 12,715 million. The Internal Rate of Return of the project is 32 percent. Accordingly, this project is considered as a financially viable project and will provide economic returns to cover the cost of loan service payments. Meantime, the financial indicators for individual factories show positive results ensuring the sustainability and viability of them as separate business entities.

The social and economic benefits of this project will spread over many areas. Directly it will save the foreign exchange out flows on importation of milk, create more direct employment opportunities, positively affect on Balance of Payment, increase the government revenue, bring down the milk prices in the domestic market it will pave the way to build healthier nation and ease to compete with imported milk, and increase the usage of organic fertilizer that will help to earn export income and sustain the agriculture and plantation sectors.

The indirect benefits of this project will include increasing resource utilization, raising the milk based by-products that will cut down foreign exchange out flows, increasing income of families and creating opportunity to access international market depending on the competitive advantage. Therefore borrowing this loan will have major advantages to the Sri Lankan economy.

Upper Kotmale Hydropower Project

All hydropower plants situated in mountain region in Sri Lanka have been adding 1207 Mw to the total power generation capacity of the country since 2011. The latest hydropower project; the Upper Kotmale Hydropower project (UKHP) has added another 150 Mw to the national grid from year 2012 to national power generation capacity. This represents 12.5 percent of the total hydropower generation capacity and 4.78 percent of total power generation capacity (3,141 Mw) of Sri Lanka from all sources.

The Government of Sri Lanka decided to implement this project using a Japanese ODA loan of USD 299.5 million (Rs 29,900 million) to address the electricity demand which is growing annually at a rate of 7-8 percent. The total electricity units sold in 2000 was 6,686 Gwh and it has increased rapidly to 10,023 Gwh units in 2011. UKHP provides electricity units of 409 Gwh to the national grids from 2012.

UKHP significantly contributes to low cost electricity generation in order to provide electricity at a competitive price to consumers. This project also helps to minimize the economic effect that is causing due to more expensive alternative power generation methods which are used to create the country as a regional energy hub under the strategic development programme of the government. Accordingly, this project contributes significantly to the economic development of the country.

Some of the camp facilities including clinics, restaurants, shops that were constructed under this project have transferred to community use and roads, electricity, telecommunications, water supply, garbage disposal facilities were also switched to facilitate lives of the people in this area. In addition, the project has also contributed to promotion of tourism and fisheries industry while stimulating regional growth. The project also provided houses for 495 displaced families with all utilities including electricity and water. This project was implemented ensuring least disturbance for the environment. Therefore, this project will be one of the landmark projects which create strong base for sustainable economic development of the county while recovering the amount invested before the loan repayment period of 40 years.

Foreign Financing for State Owned Business Enterprises

State Owned Business Enterprises (SOBE) play a key role in the economic development of the country as most economic infrastructure in the respective sectors is either owned by or exclusively managed by these SOBEs. Considering this strategic role played by the SOBEs, the government has taken steps to strengthen these enterprises by assigning more autonomy to enable them to operate them as commercially viable entities. Accordingly the strategic state business enterprises are expected to enhance their revenue generation activities while minimizing the dependence on Treasury funds for their investments and operational expenditure.

Government plans to promote investments in SOBEs in the fields of banking, insurance, power and energy, water supply, ports, aviation, transport and pharmaceuticals by improving the corporate management practices and addressing the existing structural and operational deficiencies to meet the increasing demand for services provided by these SOBEs while providing a greater contribution to the national development initiatives in their respective sectors.

At present, foreign financing is provided to SOBEs with a number of objectives. Foreign financing will essentially help to address the capital inadequacy of these SOBEs, improve their balance sheets, enhance management capacity and improve competitiveness. As foreign financing helps to acquire latest technology, foster innovation, enter new markets and obtain other connected benefits through technical assistance, access to foreign financing is an important factor for development of SOBEs. Meantime, foreign financing will ease the burden on the government budget and allow government to allocate more domestic resources to other priority areas while sticking to the overall foreign financing exposure limit. The government therefore promotes innovative and flexible ways of obtaining foreign financing for these SOBEs.

Government has already provided a significant amount of foreign financing to the strategic SOBEs such as Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB), Road Development Authority (RDA), Airport and Aviation Services (Sri Lanka) Ltd. (AASL), Sri Lanka Port Authority (SLPA) and Telecommunication Regulatory Commission of Sri Lanka (TRC) to build up their infrastructure network while enhancing capacity and efficiency of service provision.

Government has adopted several strategies to finance the SOBEs through foreign financing. In the initial stages government has provided foreign financing to selected strategic SOBEs on a grant basis for enhancement of their resource base and expansion of service delivery activities. This strategy was adopted by the government since most of the SOBEs did not have the capacity in the initial stages to raise foreign financing by themselves.

The first loan which was obtained under this method amounted to Japanese Yen 7.589 million (USD 34.9 million) and provided to the SLPA for the Port of Colombo Expansion Development project in 1981.

With the gradual improvement of the revenue base and the capacity to repay, government encouraged these SOBEs to bear a part of the investment cost. Accordingly, a portion of the foreign financing is provided on an on-lending basis while the remainder is provided on grant basis. At present, government facilitates these agencies for the generation and repayment of loan portions provided to these enterprises on an on-lending basis. Meantime, government continuously provide foreign financing on a grant basis to the SOBEs which provide basic services to people such as CEB and NWSDB to expand their services to remote areas where commercial services are not available. The grant element varies depending on the type of the service and the area and higher grant portion is provided when services are expanding to rural areas.

Considering the importance of providing essential services to the people, a significant amount of foreign financing has been allocated to the AASL, SLPA, RDA, NWSDB, TRC and the CEB on an on-lending basis.

The ongoing projects financed through combination of on-lending and grant procedures include Jaffna and Kilinochchi Water Supply and Sanitation Project, Grater Colombo Water Supply Service Expansion and Improvement Project, Grater Colombo Waste Water Management Project, Dry Zone Urban Water Supply and Sanitation Project, Northern Road Connectivity Project, Northern and Eastern Provincial Road Improvement Project, Sustainable Power Sector Project, Clean Energy and Access Improvement Project.

The Greater Dambulla Water Supply Project Phase I was implemented with a buyers credit facility of USD

60.69 million from Exim Bank of India. Although the government is the borrower, the NWSDB is required to reimburse the loan to the government through generation of sufficient revenue.

With the adoption of the above strategies government was able to improve the balance sheets of a number of strategic SOBEs and raise the confidence of lending institutions on these SOBEs. As a result, these SOBEs are now in a position to obtain foreign financing directly from the development partners and lending agencies to meet their investment priorities. Accordingly, development partners have provided credit facilities to a number of key SOBEs with government guarantees.

In order to address the increasing demand for airport and aviation services, a credit facility of Japanese Yen 28,969 million (RS. 40,557 million) has been provided to the AASL with a government guarantee to double the handling capacity of the Bandaranaike International Airport (BIA) through improving and modernizing the existing facilities under the Bandaranaike International Airport Development Project Phase 2. Although development partners were not confident enough to provide credit facilities to AASL at the initial stages, considering the government request, the Government of Japan has agreed to provide the above credit facility to AASL after verifying their capability of debt servicing and their balance sheet. The AASL which holds the ownership, maintenance and operation of the air port, plans to repay the loan from the revenue generated through the above expansion of the facility.

Hambantota International Air Port is another significant project implemented by AASL using a credit facility of USD 190 million obtained from the Exim Bank of China. As the total cost of the project is USD 209 million, the remainder of USD 19 million is financed by AASL. The debt service of the loan will be borne by the AASL.

Similarly the TRC obtained a credit facility of USD 88.66 million from Exim Bank of China with the government guarantee for construction of a 350 meter high multifunctional television and telecommunication tower with a leisure park in Colombo.

In addition, CEB has made arrangement to obtain a loan of US $ 69.72 million from Industrial and Commercial Bank of China (ICBC) to cover 85% of the cost of Broadlands Hydro Power Project. The remaining 15% of the investment (USD 12.30 million) will be financed from Hatton National Bank. Both loans are to be obtained by the CEB with government guarantees. It is expected to add 30 Mw of Hydro power to the national grid under this project.

Moving towards further liberalization of financial management of SOBEs, they are encouraged to raise funds from alternative sources of investment by their own from the local and international capital market. The SOBEs are comforted by issuing a government guarantee or a comfort letter to raise these funds.

Accordingly, Sri Lankan Airline has obtained a syndicated loan of USD 175 million from the Mashreq Bank of United Arab Emirates for the expansion of their fleet and working capital requirement, providing a bank guarantee.

Bank of Ceylon was able to raise a tradable bonds (it is listed on the Singapore Stock Exchange) of USD 500 million at a 6.875% from the international market.

Government is monitoring the way that SOBEs are meeting the debt servicing obligations in relation to the foreign loans obtained by them with government guarantees. The government will replace the guarantees with comfort letters with further improvement of capacity of the SOBEs to handle and service foreign financing in the future.

Government encourages development partners to work with SOBEs to improve their assets base and financial viability by addressing their operational and structural deficiencies such as inadequate competencies in corporate management, lack of proper business models with long term vision and failure to address the structural deficiencies in the organization to position them in the middle income country policy framework. These enterprises should also be able to manage their risks by introducing strong discipline in financial management. Introducing the best corporate practices and financial management in the SOBEs will lead to a positive impact on growth, inflation and unemployment as well as on the macro-economic level.

Development partners have already agreed to engage with several SOBEs including banks to enhance their credit ratings. With the enhancement of ratings, these enterprises can raise capital from either local or foreign markets without any government guarantee. This will further reduce the cost of borrowing while improving the capacity of government to release more domestic funds for various other development priorities. Eventually these enterprises will become key self sustaining institutions fostering overall economic growth and providing decent employment opportunities for people.

Grant Procedure

Foreign Grants are non-repayable funds disbursed by one party, often a government or international funding agency, corporation, foundation or trust to a recipient country. These grants play a vital role in our development financing.

Generally, grants are made to finance a specific project or a part of project which is already being implemented with loan financing. Also, grants are normally provided by most of the recognized multilateral development partners as technical assistance to project preparation and designing. In addition, grants can be extended to individuals, such as victims of natural disasters or non-governmental organizations which are involved in development work.

At present, Official Development Assistance (ODA) accounts for approximately 65% of the government capital expenditure, with most of the major infrastructure development and social development investment being supported with foreign development assistance in the form of concessional loans and grants. Approximately 10% of the total ODA obtained during last 5 years has been received in the form of grants.

The following table shows the foreign loan and grant commitments received from 2007 to 2012 and the share of grants in the total ODA portfolio.

Table 16 Commitment of Foreign Loans and Grants from 2007 to 2012

Year	Loans (USD Mn	Grants (USD Mn)	% of Grants
2007	1,505	170	10.2
2008	1,825	242	11.7
2009	1,936	287	12.9
2010	3,137	124	3.8
2011	1,945	161	7.6
2012 up to 30th Sep	2,961	351	10.6

Source: Department of External Resources

Large grants including grants received as a part of ODA are normally included in the country assistance programmes of respective development partners based on the periodical negotiations with the relevant government agencies including the Ministry of Finance and Planning.

Technical Assistance in a Form of Grant

Technical assistance is also an important method of providing grants. The Government of Sri Lanka annually receives around 600 foreign training awards by way of long term (8 months or over) and short term training opportunities under the Technical Assistance Programmes from more than 15 development partners. A total of 723 foreign training opportunities were received in 2011 and out of them 53 have been long term programmes and the remainder were short term programmes.

Considering the long term training opportunities received by the Government of Sri Lanka, most of the post-graduate diplomas and masters' level degrees are offered to junior and middle level officers to enhance their academic and professional skills required for their future career development. The short term training, seminars, conferences and workshops are offered to middle and senior level public officers to enhance their existing knowledge and skills in the relevant fields. Mostly, these training courses are conducted at the best leading training institutions and universities in the world.

Therefore, technical assistance offered by development partners has also made a significant contribution towards the human resources development and economic development of the country. This has also contributed to reducing the burden on the government budget in terms of human capital development. However, it is important to make good use of the assistance extended through Technical Corporation by the development partners by following more systematic approaches, properly identifying our requirements for development studies and utilising them efficiently towards the development of human resources of the country.

Legal Framework for Obtaining Grants

According to the existing legal framework for borrowing foreign financing and the Financial Regulations of the Government of Sri Lanka adopted in 1992, all foreign financing including technical Assistance should be channeled to the implementing or beneficiary agencies through the Ministry of Finance and Planning. For project aid in the form of a grant which is integrated with budgetary expenditure, the utilization should be provided for in the Annual Estimates under Recurrent or Capital expenditure projects. The financial provision for foreign financing projects should be made only if such projects have been approved by the government.

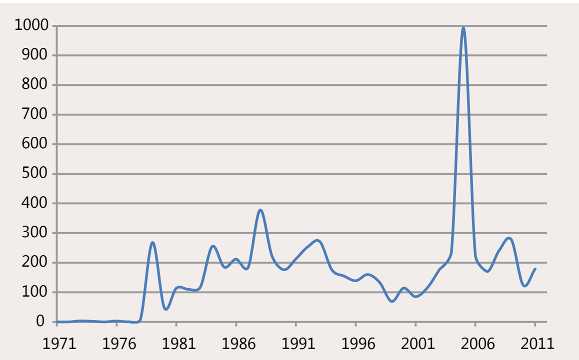
It is also mentioned that provision in respect of foreign aid to State Corporations as foreign assistance is given on a government to government basis, all grant assistance to State Corporations being channeled through the Ministries in charge of such Corporations.

It is defined that grants can be in a form of cash, equipment, materials and ancillary services including consultancy and technical assistance as a part of the cost of a project. The receiving agencies are responsible for incorporation of such grants into their respective annual budgetary estimates in coordination with the Departments of National Planning, External Resources and National Budget.

Grants Received from the Development Partners during last Four Decades

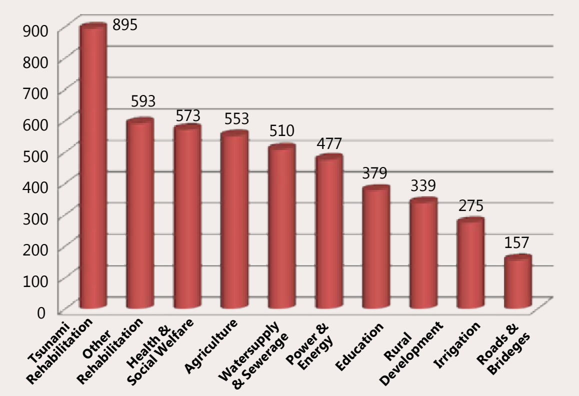
Until 1978, Sri Lanka had not obtained noticeable foreign financing assistance from bilateral and multilateral donor agencies. Development partners started providing foreign financing assistance with the opening up of the country's economy 1977. Grant assistance has also increasingly been received and a significant contribution has been made through grant assistance towards the development of the country.

Chart 20 Grant Received during 1971 to 2012 (USD Mn)



During the period of 1971-2011, Sri Lanka has received a total amount of USD 6,798 million as grant assistance from bilateral and multilateral development partners. Of this, the highest amount received in the form of grants,recorded in 2005 was USD 993 million of which, USD 895 million was recorded as the assistance extended for tsunami rehabilitation and recovery activities. Grants received after the tsunami destruction made a significant contribution to restore the infrastructure and recover the livelihoods devastated by the tsunami. The tsunami affected area rebuilding project with a total cost of USD 150 million funded by Asian Development Bank in 2005 is a good example.

Chart 21 Sectoral Contribution of Grants during 1971 to 2012 (USD Mn)



Rehabilitation of infrastructure, irrigation and other facilities are important aspects of the development of a county. Almost USD 600 million has been received as grant assistance in order to carry out rehabilitation activities in the country during last 40 years including the war-affected Northern and Eastern provinces. Rehabilitation assistance programmes including protected relief and recovery programmes with a total cost of USD 175 million received as grant assistance from the World Food Programme in 2009 have made a significant contribution to the rehabilitation activities of the country.

Health and social welfare sectors have received USD 573 million as grants during last 40 years. Projects including the health sector development project with a total cost of USD 60 million funded by International Development Association in 2004 have made important contribution in improving health status of the country.

The agriculture sector has received USD 553 million of grant assistance during the period while USD 275 of grant assistance has been received by the irrigation sector in order to improve these sectors with the implementation of projects and programmes including development of the Mahaweli system starting from the early 1980's. These development activities were also integrated with the development of power & energy generation in the country. Grant assistance has made an enormous contribution to the development of the electricity sector with a total grant assistance of USD 477 million during last 40 years. Hydropower electricity generation projects including the construction of Victoria Dam and power station (phase 1) project with a total cost of USD 230 million from the Government of United Kingdom in 1979, and Kothmale hydro power project with a total cost of USD 125 million from the Government of Sweden were received as grant assistance.

More than USD 500 million has been received as grant assistance during last 40 years for the development of water supply and sewage. Many development projects and programmes have been implemented obtaining grant assistance including the rehabilitation of the Ambatale treatment plant project with a total cost of USD 31 million under financial assistance during the Government of Japan in 1993. Almost USD 340 million has been received as grant assistance for rural development from the period of 1971-2011. Rural development programmes including integrated rural development programmes (IRDP) were implemented under the grant assistance of many bilateral and multilateral donors in 1980's and 1990's. The IRDP projects were implemented in districts including Badulla, Moneragala, Hambantota, Kandy, Anuradhapura, Matara and made a significant contribution to uplift living conditions of the rural population.

Need for Streamlining Direct Grants Received for Government Agencies and NGOs

During the last five years, grant assistance received from development partners has gradually declined with Sri Lanka's graduation as a middle income country. Future grant commitments will further shrink with the growth expectation in next few years in the economy. Therefore, future development activities will no longer be able to depend on grant assistance and new methods of financing will have to be explored in the future. Furthermore, existing grant assistance received from the donors should also be allocated properly and utilized in the most economically effective manner in order to make the best use of it towards the development of the country.

Many government agencies and institutions such as Ministries and their affiliated agencies, universities, research institutions receive grants in the forms of technical, research and humanitarian assistance and donations from agencies such as foreign funding agencies, universities, NGOs and other organizations. Furthermore, there is an increasing tendency of some bilateral donors and other agencies to use NGOs as a channel for grant assistance. They are being increasingly treated as partners in the development process with particular reference to the delivery of assistance to the poor and disadvantaged groups.

Most of the grants received directly to the government agencies or their affiliated institutions and NGOs are not channeled through the formal procedures with the coordination of the External Resources Department and therefore, they are not included in the National Budgetary Estimates. As they are not properly recorded, there is no appropriate methodology to trace the receipt of grants, monitor their disbursements and evaluate their contribution and effectiveness to the development of the country.

Therefore, there is a growing need for implementing a comprehensive mechanism in order to monitor and evaluate the receipts and disbursements of the total grant assistance received from the foreign parties and maintain better transparency in the above transactions. This will help to assess the real impact on the development of the country by grant assistance received from foreign development partners.

As grant assistance, either as a form of technical assistance or direct grant is very important in terms of its potential contribution towards the development of the country, following proper procedures and channels in obtaining grants are highly essential and should be encouraged in order to make sure the best use and proper utilization of foreign grant/technical assistance towards the economic and social development of the country.

FOREIGN FINANCING FROM DEVELOPMENT PARTNERS

Section 2

FOREIGN FINANCING FROM DEVELOPMENT PARTNERS

Asian Development Bank (ADB)

After joining the ADB in 1966 as a founding member country, Sri Lanka has borrowed USD 5.13 billion through 153 sovereign loans. In addition to the credit facilities, Sri Lanka has received USD 353 million grant assistance for development projects and another USD 111 million through 245 technical assistance grants.

The current portfolio of USD 2,223 million is spread across 7 sectors with roads & transport as the largest sector (31% of the portfolio) followed by water supply and sanitation (20%), power and energy (18%), port (14%) and multi sector including regional development (12%).

Table 17 ADB Loan Portfolio and Sector Distribution

Sector	No. of Loans	Amount (USD Mn)	%
1. Road & Transport	8	685	31
2. Water Supply, Sanitation and Waste Management	7	448	20
3. Education & Skill Development	1	65	03
4. Power & Energy	3	410	18
5. Port	1	300	14
6. Finance & Fiscal Management	1	50	02
7. Multi Sector (including regional development)	4	265	12
Total:	25	2223	100

Source: Department of External Resources

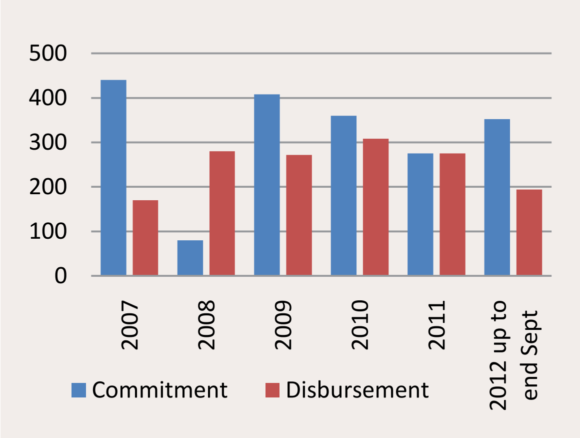
The major portion of ADB financial resources has been mobilized for development of roads and transport, water supply, power and energy sectors where ADB is more capable and specialized in handling related infrastructure projects. The current portfolio includes 25 projects including 8 road projects, 7 water supply projects and 3 power projects. The Ordinary Capital Resources (OCR) borrowed from ADB at near market rates are generally invested in projects that generate sufficient economic return to repay the loans in the medium to long term while the loans obtained from the Asian Development Fund (ADF) at concessionary rates are channelled to the sectors that need somewhat longer periods to produce results- such as education and skills development. An appropriate mix of ADF and OCR resources is also being used to improve rural water supply and electricity services, development of provincial and rural roads to ensure connectivity between remote villages as well as for regional development.

Commitments and Disbursements (2007-12)

The annual commitments from ADB during the past five years have been varied with an average annual commitment of USD 320 million, depending on resource requirement from different economic sectors and Government priorities.

The commitment in 2008 was comparatively low due to the prevailed world economic recession during that time. However, with the signing of new loan agreements for rehabilitation of national and provincial roads in the Northern, Eastern and North Central provinces, improving water supply and sanitation facilities in the dry zone areas and Jaffna, and Kilinochchi Districts, sustainable development of power and energy sector and improving financial management efficiency, the commitments have increased in 2009, 2010, 2011 and 2012. Over the period annual disbursement has reached the level of USD 300 million.

Chart 22 Commitments and Disbursments of ADB Financing (USD Mn)

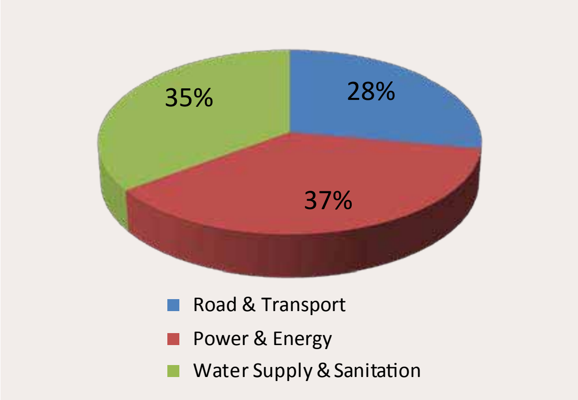


Having recognized the challenge for keeping annual commitments and disbursement levels steady without unusual annual fluctuation, Government has changed the borrowing strategies by adopting a proper mix of OCR and ADF as one of the option. Moving further Government is now approaching a new financing modality called Multi-tranche Financing Facility. Under this financing modality ADB provides a long term funding commitment to address the development needs in priority sectors jointly agreed by the Government of Sri Lanka and ADB.

Commitments and Disbursements in 2012

The total commitment by the ADB up to September 2012 amounted tor USD 352 million which has been in concessionary and non-concessionary loans. These commitments include USD 98 million for the Road and Transport sector, USD 130 million for the Power & Energy Sector, USD 84 million for the Greater Colombo Water and Wastewater Management Programme and Rehabilitation of Drought affected Area. The total disbursement made under the ADB funded projects in 2012 (up to end September) was USD 194 million which is 68 percent achievement over the annual disbursement target. It includes USD 70 million to the Transport Sector, USD 35 million to the Port Sector, USD 22 million to Regional Development, USD 9 million to the Education Sector, USD 12 million to the Water Supply and Sanitation Sector and USD 34 million to the Power & Energy Sector.

Chart 23 Commitments for Priority Sectors in 2012



LIBOR- Based Loans (LBL) form Ordinary Capital Resources (OCR) of ADB

Sri Lanka obtains different types of financial products from ADB which includes loans, grants, technical assistance, guarantees, and debt management products. These products are financed from Ordinary Capital Resources (OCR) as well as the Asian Development Fund (ADF).

OCR is a pool of funds offered at near-market terms to middle-income countries. The interest rate on the loans from the OCR is based on the London interbank offered rate (LIBOR). These LIBOR- based loans (LBL) give borrowers a high degree of flexibility through

- choice of currency and interest rate basis,
- a wide selection of repayment terms, and
- ability to change the original loan terms during the life of the loan

Initially, LBLs carried a floating lending rate consisting of 6-month LIBOR and an effective contractual spread and, where applicable, a maturity premium fixed over the life of the loan.

For the loans negotiated after 1st April 2012, ADB has introduced a maturity-based pricing. Under the new pricing structure, loans with an average loan maturity of up to 13 years will not include a maturity premium. However, loans with an average loan maturity (the weighted average time to repay a loan) of greater than 13 years and up to 16 years will be charged a maturity premium of 10 basis points per annum. Loans with an average loan maturity of greater than 16 years and up to 19 years will be charged a maturity premium of 20 basis points per annum. Even though a maturity premium is applied for the loans which have an average loan maturity of over 13 years, it is beneficial because for concessional loans, longer repayment period with maximum grace period would generate higher grant elements. The proposed maturity period and grant element depend on the grace period, term of the loan, repayment method, currency, loan amount, commission and other charges. Since the best pricing option for loans varies with the above variables, the most suitable option for repayment should be selected by evaluating on case by case basis. Borrowing for economically viable projects with fairly longer repayment period will ensure debt sustainability as those projects will generate economic benefits within a short period of time.

Badulla - Mahiyangana Road rehabilitated with ADB assistance

ADF Resources

ADF credits are generally provided to ADB member countries at low interest rates in comparison with the market rates based on their per capita income level and each country's performance on macroeconomic policies, the quality of public sector management and the performance of its portfolio of ongoing projects and programmes. In general, the member countries with low income have wider access to the special fund resources. Since Sri Lanka has shown a good progress in relation to the above criteria during the last 5 years, the country was able to secure about USD 100 million of the annual average allocation of ADF resources over the past 5 year period.

Strategy for Future Borrowing from ADB

Government encourages ADB also to support the on-going sectoral development programmes of the Government through identification of funding gaps therein and mobilizing necessary funds to fulfill them deviating from the currently practiced project based financing. In this regard, Government has already taken steps to negotiate for multi-tranche financing facility (MTFF) by phasing large investment programmes in two or more financing tranches/agreements. This will reduce the transaction cost and time associated with borrowing separate loans for mega infrastructure development projects.

Accordingly, the Government has requested an MTFF in an amount up to USD 300 mn equivalent from ADB's Ordinary Capital Resources and Special Funds Resources to finance the Grater Colombo Water and Waste Water Management Improvement Programme. The Road map and Investment Program for this MTFF have been guided by the Government's policy framework and development priorities as outlined in the Mahinda Chinthana. To achieve the respective targets it is necessary to provide (a) full coverage and 24 hours water supply in Colombo city, and universal safe water supply in Greater Colombo area, and (b) universal sanitation coverage in the Greater Colombo area, with 100% connection to public sewers in Colombo city.

The Investment Programme will support the Government in achieving these targets for Greater Colombo. Global best practice and proven approaches of Non Revenue Water (NRW) reduction will be utilized to reduce NRW in Colombo City to 20% and 18% in critical areas[1] by the end of the Investment Programme. The Investment Programme will be phased as: (a) USD 84 million for Phase 1 in 2012 and (b) USD 80 million for Phase 2 in 2013, both focusing on reducing NRW and improving water service efficiency in Colombo city; (c) USD 100 million for Phase 3 in 2015, and (d) USD 36 million for Phase 4 in 2016.

The expected saving from NRW reduction in greater Colombo up to 20% at the end of the programme will be over Rs. 2 billion per year. As this programme will help to cater to the increasing demand for safe drinking water in the Colombo and sub urban areas through expansion of water supply services to the un-served areas, the expected benefits will be much higher than the estimated savings from NRW reduction. Also if the project based approach is used for achieving the above

[1] *Critical area is 12 km in north of Colombo City.*

targets, the investment cost would be much higher than the amount invested under the programme approach.

Also, Multi tranche financing facilities have been requested from ADB to finance the human capital development programme of the Government over next 8-10 years. Accordingly ADB has agreed to provide USD 465 million to support the Education Sector Development Framework and Skills Development Programme of the Government. Both programmes will have sector wide approach supporting the medium term expenditure frameworks of the respective sectors. The financing will be linked to results based disbursements while having a demand driven and balanced approach with private sector participation.

This will help Government to create a quality and student friendly education system which contributes to a knowledge economy and provides the required skills and virtues to face the emerging needs in the future.

MTFF provide a number of advantages over project based financing. The commitment of financial resources over number of years will provide flexibility to design a long –term development programme based on sectoral needs and priorities. As a result, implementation of ad-hoc projects in isolation of the sectoral development programmes could be minimized. Therefore, the local resources could be channeled to finance other priority projects.

The long-term financing facility will ensure the connectivity between development activities and sustainability of development programmes. This new approach will minimize the time taken for project preparation and designing while reducing the associated transaction cost. Also the MTFF will improve the coordination between respective agencies and institutions.

Hambantota Water Treatment Plant constructed under the Secondary Towns Water Supply & Sanitation Project

Country Partnership Strategy (CPS)

The Country Partnership Strategy which specifies the medium-term strategy and operational programme for utilizing ADB financing has been finalized by the Government in coordination with ADB in 2011. As per the priorities and targets specified in the Government's economic policy strategy; "Mahinda Chinthana- Vision for the Future", the CPS and connected programmes aims to show a visible transformation of the country and to address middle income country priority agendas such as skills development, optimization of transport network, supply of safe drinking water to people and sustainable energy. To ensure the availability of required financing and connectivity of the on-going development programmes of the Government, the CPS will take a programmatic approach while MTFF and additional financing are used as financing modalities. Co-financing and opportunities for partnership projects with the private sector will be considered and included as appropriate. The non-lending programmes will be used to blend 'hard' infrastructure with 'soft' interventions such as capacity development.

Public Private Partnership

The Government as a part of its investment strategy for higher capital formation is supporting partnership projects with the private sector in the areas of power, roads, industrial infrastructure, waste management etc. Accordingly, a significant portion of ADB financing will be mobilized for implementation of such projects.

Indicative Resource Parameters

As per the current CPS, the total lending allocation for 2013-2015 period is USD 926 million, consisting of USD 578 million of OCR and USD 348 million of ADF resources. The Government in coordination with the ADB will seek co-financing opportunities from bilateral and commercial sources to expand the scope of proposed programmes identified in each sector.

As per the priorities of the water supply and sanitation sector, a significant portion of resources will be allocated to the reduction of non-revenue water while expanding the water supply to other areas where pipe born water is not available. With regards to the energy sector, priority will be given to diversification of energy sources by increasing the share of renewable energy, including wind, hydro and solar, strengthening transmission infrastructure to absorb additional capacity from renewable sources, expanding access in remote areas and network efficiency improvement through technical loss reduction.

The National Highways Investment Programme will be processed in 2013 to optimize connectivity of highways and expressways currently under development. This will include upgrading of link roads connecting to Southern Expressway and elevated expressways between highways and Colombo city to bypass congestion.

In order to provide long term financing for education and to develop skills relevant for high economic growth, the Government is planning to develop a Multi Tranche Human Resources Development Financing Facility covering secondary education, vocational training and skills development sectors and innovation support.

Direct Borrowing to State Owned Enterprises (SOE)

Having recognized that the State Owned Enterprises (SOE) have a major role in infrastructure development, SOEs such as Ceylon Electricity Board and Water Supply and Drainage Board are encouraged to borrow directly from ADB for their future development programmes. At present, Government facilitates these agencies to generate and repay a part of the economic cost of loans provided to them.

Strengthening the Local Financial Sector

Government encourages ADB to provide financial support directly to local banks with the objective of strengthening the local financial institutions. Accordingly, the Government has granted approval for ADB to provide a loan to DFCC Vardhana Bank (DVB) under the non-sovereign operations of ADB. The proceeds of this loan are expected to be utilized exclusively for mortgage on lending and housing rehabilitation. This will benefit the people having owner – occupied residences. The special focus of the facility has been given to North and South of Sri Lanka with a geographic target set at a minimum of 30% outside Colombo; in the North, East, and tsunami-impacted areas.

Major On-going Projects

Clean Energy and Access Improvement Project

This project commenced in 2010 with a view to support the Government target of achieving 100 percent electrification of households by 2012-13 and generating an additional capacity from non conventional renewable energy by 2016. The total investment cost of this project is USD 188 million. Taking into consideration the economic benefits and urgency of the project, Government decided to allocate USD 24 million from domestic funds and obtain a loan of USD 160 million from ADB (USD 135 millions from Ordinary Capital Resources (OCR) and USD 25 million from Asian Development Fund (ADF)) to meet the investment cost. Detailed cost benefit calculations show that the project will deliver net economic benefits, with a 16 percent combined Economic Rate of Return (EIRR).

Sustainable Power Sector Support Project

This project will contribute to a reliable, adequate and affordable power supply for balanced and sustainable economic growth in Sri Lanka and increase electricity connections in rural areas, specifically in the Eastern, North Central, Southern and Uva Provinces. Construction of substations at Galle, Polonnaruwa, Vavunathivu and Moneragala and transmission lines from Ambalangoda to Galle, Mahiyangana to Vavunativu (via Ampara), Moneragala to Madagama will be carried out under this project, while improving the distribution system covering 486 rural electrification schemes to electrify about 12,190 households in 113 remote villages in Ampara district.

Pura Neguma Project

The Pura Neguma Project focuses on institutionalization of new systems of simplified taxation, and licensing, and transparent approval systems, while updating the capacities of Local Governments to manage these systems. Capital grants will be provided to about 100 selected local authorities under this project to improve local infrastructure such as water supply and sanitation (including sewerage), drainage, solid waste management, roads and bridges (including suspension bridges), improvement of maternity and health centres and other local authority infrastructure facilities such as public markets.

Additional Financing for the National Highway Sector Project

An additional financial assistance of USD 85 million (approximately Rs. 10 billion) was obtained for rehabilitation of 62 kilometers of national highway road sections under the on-going National Highway Sector Project (NHSP). The proceeds of Additional Financing will be used for rehabilitation of six main link roads to the Southern Expressway namely, Matara-Akuressa (3.40 km), Hikkaduwa-Baddegama (14.34 km), Horana-Anguluwathota-Aluthgama (3.48 km), Katukurunda to Neboda, (2.72 km), Kirulapona-Goadagama (5.33 km), and Colombo-Horana (12.70 km).

Education for Knowledge Society Project

The Government aims to upgrade 1,000 secondary schools island wide and the Education for Knowledge Society Project (EKSP) supports this initiative. The upgraded schools will provide positive benefits of high quality teaching in key subjects of Science, English, Information & Communication Technology (ICT) and selected technical subjects. Government borrowed USD 80 million comprising a loan of USD 65 million and a grant of USD 15 million from ADB to implement the EKSP project from 2008 to 2013.

Secondary Towns and Rural Community Based Water Supply and Sanitation Project

This project aims to provide safe drinking water and safe sanitation to people in Towns of Batticaloa, Hambantota, Muttur and Polonnaruwa and rural areas of Polonnaruwa, Anuradhapura and Batticaloa Districts. Total Investment Cost of the project is USD 263.26 million. The contribution of ADB is USD 149.1 million and the Government contribution is USD 114.16 million. At present about 94 percent of physical work of this project has been completed. The rehabilitated water supply schemes in Batticaloa, Polonnaruwa and Hambantota have already been commissioned while most of other project activities are scheduled to be completed by end of 2012. The Muttur water supply scheme is expected to be completed by mid 2014.

Northern Road Connectivity Project

As a part of the Government strategy to rebuild the physical and social infrastructure in the Northern region, the Northern Road Connectivity Project commenced in 2010. The project aims to rehabilitate about 140 km of provincial roads and 108 km of national roads in the Northern Province (NP) and selected bridge links and improve about 62 km of link national highways in the North Central Province (NCP).

the Government has obtained a loan of USD 130 million from ADB to rehabilitate the identified roads. The total investment cost of the project is estimated at USD 173 million, including taxes and duties of about USD18.6 million which is to be financed by the Government. The Project is timely and targeted - to help restore accessibility to essential social services for the rural people in the Northern Province by establishing mobility between the north and the south.

In addition, it will improve nationwide connectivity and will facilitate economic growth while contributing to the reduced disparities in Sri Lanka.

Table 18 ADB Loan Assistance 2005 - 2012

YEAR	PROJECTS	Loan / Grant
2005	Tsunami-Affected Areas Rebuilding Project	Loan
	North East Community Restoration and Development II	
2006	3rd Water Supply and Sanitation Sector Project	Loan
	Local Government Infrastructure Improvement Project	
	Technical Education Development Project	
	National Highway Sector Project	
	Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Supplementary Loan 1)	
2007	Colombo Port Expansion project	Loan
	Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Supplementary Loan)	
	Small and Medium Enterprise Regional Development Project	
	Education for Knowledge Society Project	
2008	Southern Transport Development Project (Supplementary)	Loan
2009	Clean Energy and Access Improvement Project	Loan
	Dry Zone Urban Water and Sanitation Project	
	Eastern and North Central Provincial Road Project	
	Greater Colombo Wastewater Management Project	
2010	Fiscal Management Efficiency Project	Loan
	North East Community Restoration and Development Project II (Supplementary)	
	Conflict-Affected Region Emergency Project	
	Northern Road Connectivity Project	
2011	Jaffna & Kilinochchi Water Supply and Sanitation Project	Loan
	Sustainable Power Sector Support Project	
	Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Supplementary)	
	Local Government Enhancement Sector Project	
2012	National Highway Sector Project (Additional Financing)	Loan
	Northern Road Connectivity Project (Additional Financing)*	
	Clean Energy and Network Efficiency Project*	
	Greater Colombo Water and Waste Water Management Improvement Project*	Loan

**These projects have been negotiated and effectivity of the respective loans expected within this year after the signing the Agreements scheduled for October 2012*

Source: Department of External Resources

Rehabilitated Badulla - Mahiyanganaya Road

Rehabilitated of A9 Road

World Bank

Focusing on the emerging economy's challenges, the World Bank extended its partnership to address long term strategic and structural development challenges of the country through the Country Partnership Strategy (CPS) of the World Bank for FY 13-16. The three main segments of partnership; facilitating sustained private and public investment, supporting the structural shifts in the economy and Improving living standards and social inclusion would harmonize country systems with a flexible stance.

The Government has already initiated the consultative process of identifying funding requirements for the development programmes which have already been formulated under the strategic guidelines stipulated in the Development Policy Framework of the Government; Mahinda Chinthana Vision for the Future. The Government's commitment to infrastructure, IT, education, health, SME, urban and regional development sectors has provided solid foundation for World Bank counterpart engagement in a perfect agenda.

This engagement will be supported by International Development Association (IDA), International Bank for Reconstruction and Development (IBRD) using full range of lending and non-lending instruments. Alongside, International Finance Corporation (IFC) will play a major role in providing investment for private sector enhancement. Furthermore, it helps developing countries achieve sustainable growth by financing private sector investment, mobilizing capital in international markets and providing advisory services to enhance public private partnership and interventions on banking and SME developments.

IDA financial support is deeply concessional, low or free interest rates, long tenors and grace periods. It basically support for programs aim at uplifting the economic growth and improving living conditions while achieving long term development outcomes focusing on health, educational and regional development sectors. IBRD's main goal is to promote sustainable economic development and reducing poverty in its developing middle income member countries. It pursues these goals primarily by providing loans, guarantees as well as the related technical assistance for projects and programmes for economic reform. Countries eligible to borrow both from IDA and IBRD enjoy blend status of IDA and IBRD.

Eligibility criteria for IDA, IBRD or IDA and IBRD blend status depend on the GNI per capita of a country concerned. Based on GNI per capita, the economy is classified as low income, lower-middle income, upper middle or high income. Accordingly, countries with GNI Per Capita of USD 1,025 or less are classified as low income countries, USD 1,026 - USD 4,035 as lower middle Income countries and USD 4,036 – USD 12,475 as upper middle Income Countries. Countries with more than USD 12,476 GNI per capita categorized as higher income countries.

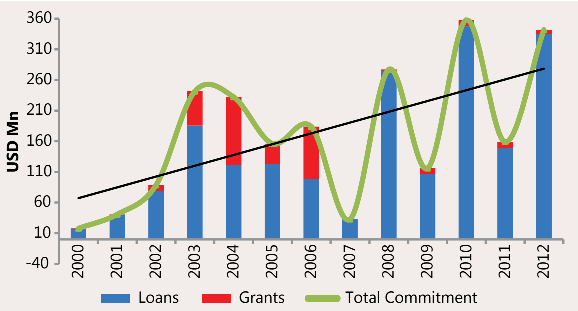
However, a country with stable financial & economic status along with high credit worthiness can enjoy blend status even if their per Capita GNI is considerably low.

In 1986, Sri Lanka lost its blend status and again in 2010 obtained the access to IBRD resources as a recognition with middle income country status by exceeding IDA cut off point of GNI per capita for more than three consecutive years. Since Sri Lanka will gradually be reaching upper middle income country status by 2016, blend status will be gradually phased out and IBRD-only left.

Commitments

The World Bank group has been an active partner in our development path since its first development credit for Aberdeen – Laksapana Power Project in 1954. With hindsight of the successful progress of the foremost joint venture, World Bank's constant contribution extended up to USD 4.6 billion as of 31st August 2012 covering a vast range of development sectors. For the year 2012 World Bank commitment is USD 335.73 million by way of loans and grants through all its lending and non-lending instruments.

Chart 24 Commitments during 2000-2012



The World Bank commitment shows a positive trend over the period of 2000 to 2012. The Government has obtained around USD 2.24 billion from IDA and IBRD during the last 13 years including 2012 comprising USD 2.02 billion from IDA and USD 223.9 million from IBRD. World Bank contributed around 7 percent to the total foreign financing in 2011 and doubled their commitment in 2012 to USD 342.2 million. IDA together with IBRD are expected to increase their total financing further by 50 percent in 2013.

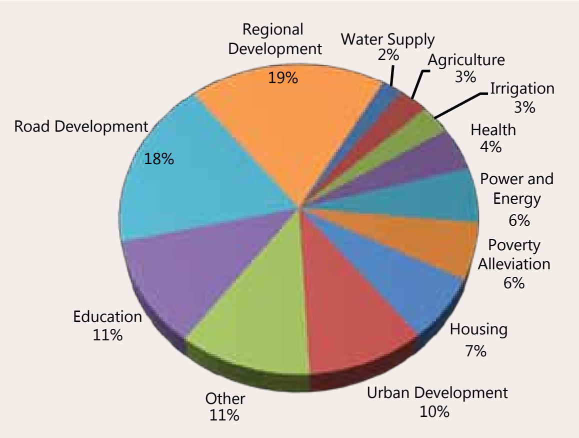
Chart 24 shows a substantial increase in World Bank assistance from 2008 onwards which reflects the economic & political stability in line with the accelerated economic development activities in the country specially in the Northern and Eastern Provinces. The highest commitment during the last 13 years was recorded in 2010 reaching USD 357.9 million in total and out of which USD 10.5 million was received as grants. A loan worth of USD 105 million for the Provincial Roads Project directly influenced the total commitments in 2010. Two new projects signed in 2010, namely Emergency Northern Recovery and Small and Medium Enterprise development project contributed heavily to the peaked financing of World Bank in 2010. Emergency Northern Recovery Project with total loan amount of USD 65 million was signed in 2010 as an immediate financing support to develop the conflict affected areas with a view to help IDPs return to their villages by providing demining assistance, cash for work programme, and community infrastructure rehabilitation. Moreover, Small and Medium Enterprise Development Facility Project of USD 57.4 million was signed in 2010 to improve access to finance for small and medium enterprises (SMEs) affected by the Global Financial Crisis.

In 2011, Government was able to realign all development projects in line with the Country Assistance Strategy FY 2009 – 2012. In this context, a large number of less cost effective small scale development projects was streamlined within the sector-wise programme approach in order to increase the effectiveness and economic viability of the development approach. Since the streamline process needed a substantial amount of time than anticipated, only additional financing for the Road Assistance Project with a total amount of USD 100 million and second and third additional financing for Community Livelihood in Conflict Affected Areas in USD 48 million materialized for signature in 2011. However, the result of the streamlining process was visibly displaced in 2012 by shifting the annual commitment level up to USD 313 million.

The IBRD loan of USD 223 million for Metro Colombo Urban Development Project and IDA loan of USD 100.0 million for Transforming the School Education as the Foundation of a Knowledge Hub program caused the sharp increase of commitments in 2012.

From 2003 to 2006, Sri Lanka received a considerable amount of grants amounting to USD 284.8 million with an average of USD 71.2 million per year. However, with the elevation to middle income country status, total grants decreased and therefore the average grant amount declined to USD 7.9 million per year for the next five years commencing 2008.

Chart 25 Commitments by Sectors during 2000-2012



In the sectoral commitments, chart 25 shows that World Bank had the highest commitment for rural development over the past 13 years which accounts for around USD 424.7 million. A major portion of funds in this category is allocated to the development of Northern and Eastern Provinces, particularly through the Emergency Northern Recovery, North East Local Services Improvement (Pura Naguma) and Community Livelihoods in conflict Affected Areas Projects.

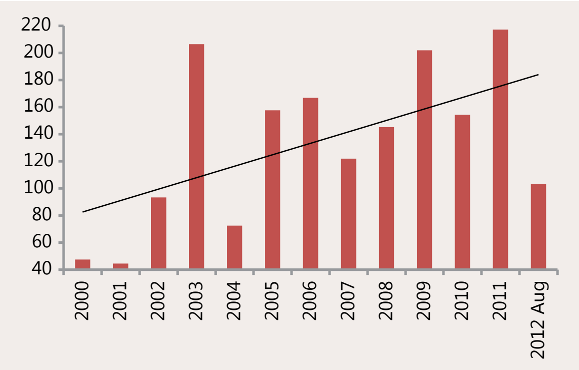
The second largest investment of the World Bank was in road sector development with a total investment of USD 398.6 million for the period 2000 – 2012. Financial assistance for road development was obtained under Road Assistance Project and Provincial Roads Project.

World Bank investment on education is high in the concerned period having the third largest commitment and it supported the Government's comprehensive education sector development programmes to achieve the Millennium Development Goals, including universal primary education and promoting gender equality.

Disbursements

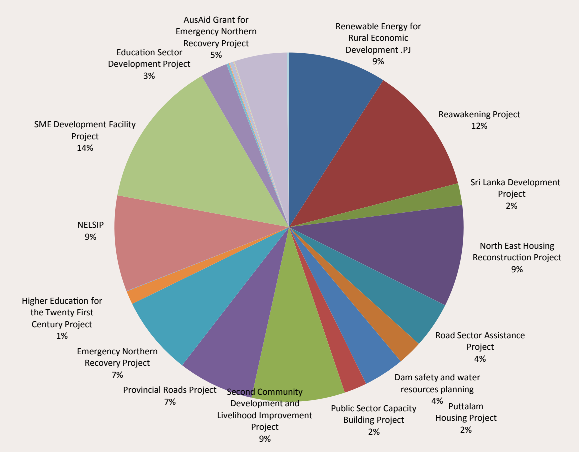
A visible increase of disbursements is seen in recent past amounting to USD 1,732.81 mn from the year 2000 to 2012 (up to August). The largest disbursement occurred in 2011, reaching USD 217.21 mn. This was largely due to the accelerated development activities in the country, particularly in Northern and Eastern parts of the country. Chart 26 explains how the disbursements were made during 2011 which again bears witness to the Government efforts to uplift the livelihood activities in the conflict affected areas.

Chart 26 World Bank Disbursements during 2000 – 2012 August (USD Mn)



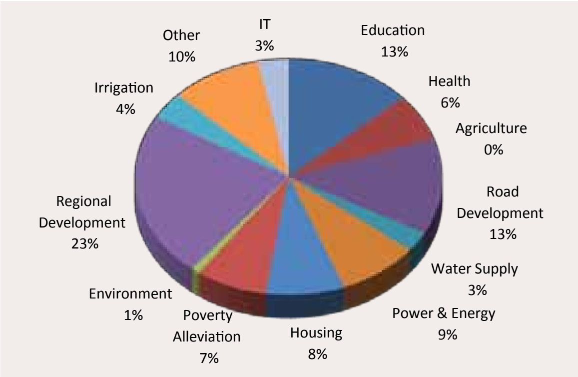
In this context, from 2000 – 2012, the Government's highest disbursement was made on regional development activities and was around USD 391.3 mn for the aforesaid period (chart 27). Disbursement on education, road development, power & energy, housing and health too were in a strong and steady position during the period.

Chart 27 World Bank Disbursements in 2011



North East Hosing Reconstruction and Puttalam Housing projects were implemented in conflict affected areas, encouraging internally displaced people to resettle in the area by restoring livelihoods and providing housing, health, education, water, roads and irrigation. Key objectives of this attempt was to help establishment of normalcy by adopting Home Owner Driven Concept by providing improved and affordable housing units for the conflict affected population in the region. In this respect, 40,307 fully damaged and 9,200 partly damaged houses were reconstructed covering three districts in Eastern and five Districts in Northern Province. Moreover, eight water supply schemes and 5441 new houses were constructed while providing water supply connection facilities to 6127 families in the Puttalam District.

Chart 28 World Bank Disbursements by Sectors 2000-2012



The Government has taken appropriate action periodically to review the World Bank portfolio and restructure ongoing development projects in order to harmonize with ground realities and new development challenges in the areas of focus. The Sustainable Tourism Development project, which was originated to achieve the aspirations of being a tourism hub in the region with a cost of USD 18 million, was one of those projects that were unable to fulfill the desired objectives at the time of project preparation. Realizing the ongoing development initiatives in the North and East in diverse fields, the original project scope was changed and the project was restructured focusing SME's in the tourism sector in the present day context. In this context, Government aims to encourage private sector participation and investment in tourism by facilitating provision of a conducive investment climate.

Sri Lanka identified the education sector as a priority area which has a dramatic impact of demographic transition. Therefore the Government's goal is to shift the economy to be more knowledge-based, globally

& internally integrated, competitive, modern and environmental friendly as identified by the 'Mahinda Chinthana Vision'. To help our efforts, World Bank extended their support to our education sector through Transforming the School Education as the Foundation of a Knowledge Hub and Higher Education for the Twenty First Century programmes.

Auditor General Department Constructed under World Bank Assistance

The loan for Transforming the School Education as the Foundation of a Knowledge Hub program provides investment support for the education sector in the annual budget of the Government which is signed on 18th May 2012. The average share of TSEP in the total education sector budget per annum is expecting to be around 1.8 percent. The project envisages enhancing access, equity and quality to primary and secondary education to provide a foundation for the knowledge-based economic and social development. The World Bank has introduced a new concept of disbursement system through this project, where each disbursement would be contingent upon the achievement of mutually agreed specific results (indicator). It is an innovative financing instrument to capture the impact of Government as well as the World Bank's efforts in the long term development of the country. Accordingly, preparation of the education sector master plan, establishment of school based teacher development programmes, strengthening education management & development at zonal & divisional levels, establishing a content & language integrated learning framework and programmes for school development have been selected to reflect and ensure the future prospects of the education sector program. These indicators are used to release World Bank disbursement tranches and recognized as disbursement linked indicators (DLI) within a negotiated framework. The total loan amount is USD 100 million for five years which has to be repaid in 25 years including five years grace period.

Government has succeeded in mobilizing World Bank financing for commercially viable infrastructure projects with high economic return, while obtaining funds for programmes with high social impact and low economic return projects.

Commencing of Metro Colombo Urban Development Project

In the light of above, initiatives were taken by the Government to mobilize foreign financing through World Bank for the Metro Colombo Urban Development Project which transforms Colombo into 'a truly world class city' by revitalizing metro Colombo region as the international gateway to Sri Lanka. It aims at an integrated flood and drainage management system to solve several long standing drainage infrastructure constraints in the Colombo region while converting the city into the site of many recreational and worthy centerpieces for economic activities. Environmental mitigation activities integrated with flood management and rehabilitation interventions of micro drainage channels, primary and secondary canals and lakes would enhance the economic value and aesthetic qualities of urban population. In this perspective, the first IBRD loan of USD 223 miilion was obtained for the Metro Colombo Urban Development Project jointly funded with the Government aiming at qualitative and visible changes in the Metro Colombo Region.

World Bank's financial commitment extended to the National Health Sector Development Programmes is currently under preparation and would support to enhance & modernize the Government health care system. The programme is worth USD 200.0 million and is included under the third CPS segment which is to support the Mahinda Chinthana Goal of 'improved living standards and social inclusion and equitable access'. This loan is designed to be provided as sector budget support for the Government's/our own comprehensive health sector five year development programme from 2013 to 2017. Main focus of this project is reduction of malnutrition, non communicable diseases; NCDs (heart diseases, diabetes, cancers, & asthma) and strengthening the national health system. Under the system strengthening, special emphasis will be given to health infrastructure, human resources planning and development, a modernized health management information system, health care quality assurance, health financing and public private partnership. This loan will support the annual escalating health care cost of the Government to improve lifestyles and quality of health services which promote healthier childhood, aging and reduce the impact of NCDs on our development.

Regional Growth Pole/ Economic Development Project of a total loan amount of USD 50 million is proposed to be funded in 2013 under IDA and IBRD Portfolio. Skills Development Project of total loan amount USD 100 million, Urban Infrastructure/ Transport Project of a total loan amount of USD 227 million and Investment Policy Reform Project of a total loan amount of USD 100.0 million are expected to be funded in 2014. In the financial years 2013 and 2014, the total IDA lending is expected to be USD 577 million where total IBRD lending is expected to be USD 450 million. Moreover the blend of IDA and IBRD funds for 2013 is declared as USD 500 million and for 2014 as USD 527 million totaling to USD 1,027 million for the next two years.

Result Based Financing – Innovative Financing Instrument for Capturing Development Results

The Government of Sri Lanka focused its main attention on the conflict affected areas of the Northern and Eastern provinces at the time that the World Bank Group's Country Assistance Strategy (CAS) FY 09-12 was prepared in 2008. However, the country context has considerably evolved from 2009 onwards and the entire country needed to focus on long term strategic and structural development challenges. This included realigning public spending and policy with the needs of a middle income country, ensuring opportunities for all Sri Lankans to benefit from the economic growth. In particular, attention was given to obtain foreign financial assistance for sector based development programmes in order to achieve long term development perspectives of the country in a more flexible manner. In this context, it was required to identify innovative financial instruments that will place more direct emphasis on development results that are tangible, transparent and verifiable.

Having identified the key implementation issues of the CAS FY 2009 – 2012 and the advantage of new financial instruments, the Government extensively engaged in the preparation of the Country Partnership Strategy (CPS) FY 2013 – 2016, during the latter half of 2011.

Programme-for-Results is a development financing instrument to formally link disbursements to the achievement of tangible results, and the World Bank and the Government agreed on the instrument during the consultative process of CPS FY 2013 – 2016.

Under the CPS FY 2013 – 16 the World Bank will extend its financial assistance to a fraction of the overall funding for a large country development programme while providing technical expertise and capacity building support to a larger range of Government spending. The new financing instrument is seen as a complement to the World Bank's existing lending instruments and as a potentially effective way to help build Government systems and institutions and thereby enhance development impact, governance, and sustainability.

Initially the Government agreed to apply the instrument in health and education sectors and depending on its flexibility, it can be applied to other sectors too in the future. The key features of the new instrument are proposed to be as follows:

a) Development programmes are financed with clearly defined results. Programmes to be supported by Programme-for-Results can be sectoral or sub sectoral programmes, national or sub-national, community development programmes, and so on. They can also be ongoing or new programs. With other development partners, where relevant.

b) Disbursement is based on achievement of results and performance indicators, not inputs and disbursements, and will be determined by reference to progress on monitorable and verifiable performance indicators, rather than by assuring whether expenditure has been incurred.

c) The Financing instrument is focused on strengthening the institutional governance, capacity, and systems that are essential to ensuring that the programmes achieve their expected results. A priority area for both preparation and Implementation support will be to strengthen the institutional capacity of the programme's own systems, and thereby enhance development impact and sustainability.

d) Programme-for-Results Complements Development Policy and Investment Lending. It will provide recipient countries with a wider range of instruments to choose from, depending on the nature of the support they are seeking, the risks, and the desired results.

The appropriateness of Programme-for-Results for specific countries, sectors, and programmes can be determined in the context of the Country Assistance Strategy/Country Partnership Strategy (CAS/CPS) and the recipient's institutional capacity to undertake those programmes, and its commitment to improving those programmes and the associated systems. In using the programme's own systems and focusing on how best to improve them, Programme-for-Results has the potential to make a major difference in terms of governance, institution building and sustainability. But there are also important risks involved with such an approach, which will need to be carefully assessed and managed.

The technical soundness of the programme and key risks have to be assessed before the implementation stage. The technical assessment will focus on the strategic relevance of the programme i.e. how the programme is situated in a strategic context in the country and sector, its technical soundness and its institutional quality and implementation capacity. It will also examine the programme's expenditure framework, including the level, allocation, efficiency and financial sustainability of programme expenditure. Once a Programme-for-Results is in operation it is borrower's responsibility for overall implementation of the development programme while utilizing other funding sources as appropriate.

The Lender and borrower can easily monitor progress on the action plan and on achieving the programme's results and associated disbursements. The distinct nature of Programme-for-Results requires a dedicated instrument and associated set of operational policies. Under Programme-for-Results, the activities to be financed support a Government development program that may predate World Bank involvement and involve other development partners; Bank funding may represent a modest part of the total financing, with partners, when possible, endeavoring to rely on and improve the programme's own systems and controls.

Commencing of Dam Safety Project

Table 19 New Commitments as at 31st October 2012 (USD Mn)

YEAR	PROJECTS	Loan / Grant
2005	North East Housing Reconstruction Project	Loan
	Tsunami Emergency Recovery Project	Loan
	Tsunami Emergency Recovery Project	Grant
2006	Road Sector Assistance Project	Loan
	Education Sector Development Project	Grant
2007	Puttalam Housing Project	Loan
2008	Renewable Energy for Rural Economic Development (RERED)	Loan
	Dam Safety and Water Resources Planning	
	Public Sector Capacity Building Project	Loan
	North East Housing Reconstruction Project (Additional Financing)	
	Education Sector Development Project (Additional Financing)	
	Road Sector Assistance Project (Additional Financing)	
2009	Second Community Development and Livelihood Improvement Project - Gamidiriya	Loan
	Health Sector Development (Additional Financing)	
2010	Provincial Roads Project	Loan
	Community Livelihoods in Conflict Affected Areas (Reawakening project - (Additional Financing)	
	Emergency Northern Recovery Project	
	Higher Education for the Twenty First Century Project	
	Sustainable Tourism Development Project	
	North East Local Services Improvement Project (Inter Divisional Rural & Small township Development Initiative for the Northern and Eastern Provinces – Pura Neguma /NELSIP)	
	Small and Medium Enterprise Development Facility Project	
2011	Local Level Nutrition Interventions in the Northern Province (JSDF) Project	Grant
	Road Sector Assistance Project (Second Additional Financing)	Loan
	Community Livelihoods in Conflict Affected Areas (Second &Third Additional Financing)	Loan
	Global Partnership on Output Based Aid (GPOBA) Project	Grant
	North East WASH Project	Grant
2012	E-Sri Lanka Project (Additional Financing)	Loan
	Transforming School Education System as a Foundation of A Knowledge Hub Project under the Education Sector Development Framework and Programme	Loan
	Metro Colombo Urban Development Project	Loan
	Warehouse Receipt Financing Project	Grant

Source: Department of External Resources

Advanced Asian Economies

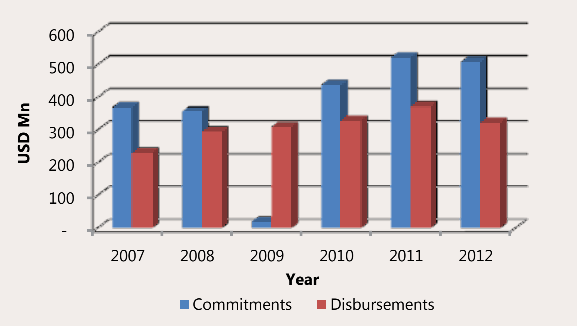
Japan

The Government of Japan has been a key development partner of Sri Lanka since 1952. The significance of the development partnership with Japan is attributed mainly to the specific nature of the Japanese ODA which includes (a) continuous funding support for the selected economic sectors, (b) comparatively larger size of the resource envelope and (c) technical cooperation. Accordingly, Japan has accounted for a substantial share of total foreign loans and grants invested in Sri Lanka and became the third largest partner of Sri Lanka's total foreign lending.

Ports and aviation development, improvement of power generation capacity, transmission line improvement, upgrading of the national highway network and regional development are the main areas which Japanese assistance has continuously been mobilized.

As of September 2012, the current portfolio of Japanese financial assistance consists of 39 projects with a value of around USD 3,124 million, playing a very significant role in Sri Lanka's economy by investing in major sectors such as Port, Power & Energy, Water Supply and Road sector. Of this total portfolio, 23 are loan projects amounting to around USD 2,864 million and 16 are grant projects amounting to around USD 260 million.

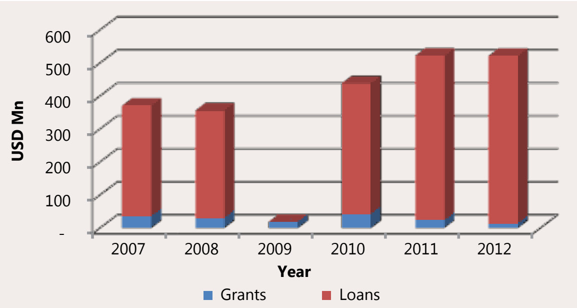
Chart 29 Commitments and Disbursements (2007 – 2012 up to September)



During last five years, GoSL has obtained Japanese financial assistance to facilitate large-scale economic infrastructure projects such as the Greater Colombo Urban Transport Development Project Phase I & II (Outer Circular Highway), Southern Highway Construction Project, Bandaranaike International Airport Development Project I & II, Vavuniya Kilinochchi Transmission Line Project, Upper Kotmale Hydro Power Project and Water Sector Development Project in order to secure sustainable economic development.

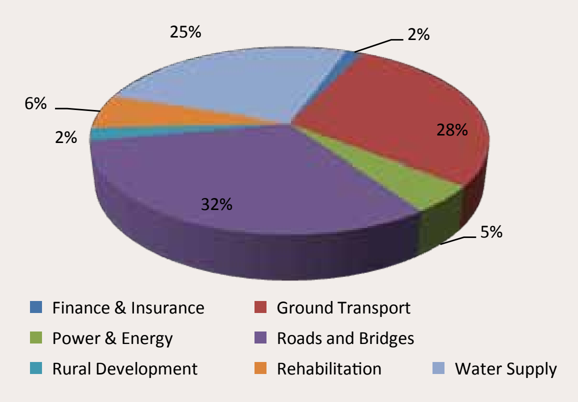
With the graduation of Sri Lanka to a middle-income economy, the composition of Japanese financing has substantially changed over the last few years. Consequently, the percentage of the grant financing has decreased from 9 percent to 4 percent while loan financing has increased from 91 percent to 96 percent of Japanese total financing.

Chart 30 Composition of Commitments 2007-2012 Sep.



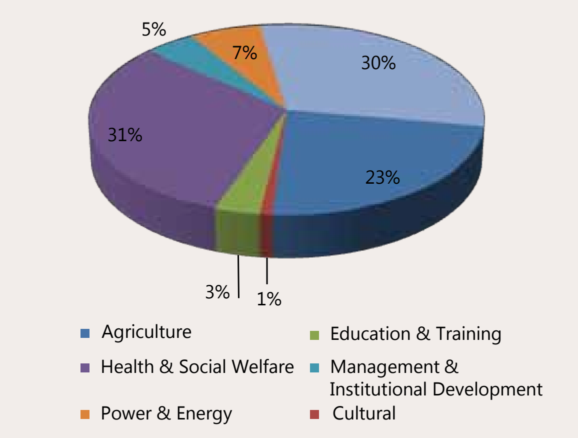
In accordance with the priority sectors identified in the Development Framework, both Governments have agreed and committed to implement the projects which are aimed at accelerating economic growth and providing essential infrastructure facilities in the country.

Chart 31 Sectoral Composition of Loan Commitments 2007-2011



GoSL has obtained USD 1,556.6 million during the period of 2007-2011 as loan assistance from JICA at concessional rates and the larger share of these loans have been allocated to the Roads and Bridges, Ground Transport and Water Supply sectors amounting to 32, 28 and 25 percent respectively.

Chart 32 Sectoral Composition of Grant Commitments 2007-2011



In the same period, Sri Lanka has received grant assistance of USD 152.5 million for development projects. This grant assistance helps Sri Lanka to obtain optimal economic benefit from the connected projects enabling it to release more domestic financing to other development priorities.

With the end of the conflict in 2009, Government assigned high priority to rehabilitate infrastructure facilities in the Northern Province, in addition to the connecting economic and social infrastructure development programmes in the other part of the country. Accordingly, GoSL has planned a number of large scale infrastructure development projects in order to facilitate transformation of Sri Lanka into a dynamic hub in the region as targeted in the economic policy strategy of the Government. Accordingly, Government has encouraged JICA to provide sufficient resources to fulfill the requirement for priority development programmes.

Given the fact that the terms of borrowing are concessional comparing to the other development partners, Japan has extended their 41st Yen Loan Package (YLP) to finance the Greater Colombo Urban Transport Development Project with USD 391 million and the Vavuniya-Kilinochchi Transmission Line Project with USD 17.5 million in 2011.

Achievements in 2012

With the signing of three loan agreements under 42nd YLP for the Habarana - Veyangoda Transmission Line Project (USD 115.3 million), Improvement of Basic Social Services Targeting Emerging Regions (USD 47.4 million), Development of Bandaranaike International Airport Project (USD 346 million) and three grant agreements for the Rehabilitation of Kilinochchi Water Supply Project (USD 8.3 million), Improvement of Japanese Language Learning Equipment of the Universities of Kelaniya and Sabaragamuwa (USD 0.5 million), Provision of Industrial Products (USD 3.7 million), the total new commitments made by the Japanese Government amounted to USD 521.3 million in 2012. Of this total amount, higher commitments have covered a wide spectrum of sectors of Power & Energy, Aviation and Water Supply due to the priority given by the Government to provide urgent basic infrastructure needs of the country.

The total disbursement of the projects funded by Japan, recorded as at September 2012 was around USD 307.6 million. It was a 27.6 percent increase compared to the total disbursement of 240.9 million in September in 2011. This consists of 96 percent in project loans and 4 percent in grants.

Based on the results of the consultation process carried out between the Government of Sri Lanka and Japan, the following projects have been identified for financing under the 43rd Yen Loan Package in 2013 with the total amount of USD 516 million.

- Greater Colombo Transmission and Distribution Loss Reduction Project
- Major Bridges Construction Project of the National Road Network
- Landslide Disaster Protection Project of the National Road Network
- Anuradhapura North Integrated Water Supply Project

Project for Development Planning of Rapid Promotion of Reconstruction and Development in Jaffna District

Highlights

Bandaranaike International Airport Development Project – Phase II (2)

With the objective of transforming Sri Lanka into a main commercial and business hub in the region, Government has provided guarantee for Sri Lanka Airport Aviation Services Ltd to raise financial assistance of USD 346 million from JICA to improve and modernize the supporting facilities at Bandaranaike International Airport (BIA).

The proceeds of this loan will be utilized to construct a two storey passenger terminal buildings with two terminals for arrivals and departures, Pier No. 2 with 8 gates and 14 aerobridges, aircraft parking apron and taxiway, as well as to improve the utilities such as water supply, electricity and waste water disposal system.

Due to annual increase of international passengers and international aircraft movement during the last decade, the number of passengers visiting Sri Lanka in 2011 has exceeded 6 million and it is estimated that more than 8 million international passengers will arrive in the country by 2015. Accordingly, this project will contribute towards further development of the tourism industry which has shown a remarkable progress parallel to the country's rapid economic growth in the current peaceful environment.

In addition, the number of overflying has increased significantly during the recent past with continuous growth in the air service sector in South Asian Region. This situation has created more opportunities for Sri Lanka to earn a large amount of foreign exchange by providing necessary monitoring services to the overflying aircrafts. Therefore, this project will generate sufficient economic benefits within the country to recoup the investment cost earlier than the 40 year repayment period.

Emergency Natural Disaster Rehabilitation Project

With the great success of activities carried out in Tsunami rehabilitation and restorative work, Government has decided to secure a loan of USD 91 million in 2011 at a concessionary interest rate of 0.01% per annum with a repayment period of 40 years including a grace period of 10 years to implement the Emergency Natural Disaster Rehabilitation Project. The project will be implemented with the aim of restoring socio economic activities and providing protection from natural disasters like flood which occur in North Central, Central and Eastern Province, thereby contributing to a substantial living environment.

The proceeds of this loan will be utilized for implementation and rehabilitation infrastructure in the Nuwara Eliya, Matale, Kandy, Polonnaruwa, Anuradhapura, Trincomale, and Ampara Districts. The Road Development Authority, Provincial Road Development Authorities in the respective provinces work as the project implementation agencies.

It is expected to rehabilitate 30km of national roads, 90km of provincial roads, 14 km of rural roads in the North Central Province, 50km of national roads, 40km of provincial roads, 14km of rural roads in the Central Province and 46km of national roads, 100km of provincial roads, 23km of rural roads in the Eastern Province under this project. In addition, 50 small scale irrigation schemes each from the North Central Province and Eastern Province will be rehabilitated. The construction of this project is expected to be commissioned by end of December, 2013.

The project for the Improvement of Basic Social Services Targeting the Emerging Regions

The Government has planned to invest approximately USD 47.4 million of the loan amount for expansion of the production capacity of the State Pharmaceutical Manufacturing Corporation (SPMC) and the improvement of existing facilities in secondary hospitals. Accordingly, four new tablet machines with higher capacity will be installed at SPMC along with other supporting processing machinery to enable the production of 4,000 million tablets to meet the annual pharmaceutical requirement of the country.

Also, selected secondary hospitals in Central, Sabaragamuwa, North Western and Eastern Provinces i.e. Teldeniya, Warakapola, Galgamuwa and Kalawanchikudy hospitals will be upgraded to the required level to function as core hospitals in the region, with the objective of improving health conditions of the community in rural areas while minimizing the current issues in relation to providing health facilities for patients coming to tertiary care medical institutions.

In addition, 124 ambulances will be provided to hospitals in Central, Sabaragamuwa, North Western, North Central, Uva, Eastern and Northern Provinces, ensuring speedy transfer of patients who are in a critical condition from peripheral, central and district hospitals to base and teaching hospitals for immediate curative treatment. This will help to create an opportunity for people to participate in their economic activities actively while ensuring a healthy society. Accordingly, this loan which is obtained under concessionary annual interest rate of 0.2% will be repaid before the loan repayment period of 40 years through the economic benefits that will be generated by the project.

Manufacturing of Pharmaceuticals

Japanese Assistance for Road and Power Sector Development

Being a middle income country, Government has reviewed its strategy of obtaining development assistance from Government of Japan for livelihood development. As Sri Lanka no longer depends on foreign assistance to implement livelihood support programmes, the funds obtain from Japan will be allocated to infrastructure development programmes. Government has identified two major sectors including roads and power to obtain assistance from the Government of Japan by considering the expertise knowledge, advanced technology and experience they have gathered in these fields. Government plans to obtain assistance from Japan as loans, grants, development studies and technical cooperation, for the development of road sector and power sector.

Japanese Expertise for Speedy Access

As an emerging economy, the challenge for Sri Lanka is to maintain sustainable economic growth. Therefore, the road construction, rehabilitation, improvement and bridge construction has become one of the top priorities of the Government which can provide an acceptable level of mobility for people living in urban as well as emerging regions. Hence, Government has been obtaining financial assistance from Japan for the development of all types of roads including rural roads, provincial roads, national roads and expressways during past few decades.

Government has identified one of the bottlenecks to economic growth in rural areas as poor infrastructure. Reducing poverty in rural areas by rehabilitating and improving the rural road network is the highest priority amongst urgently needed infrastructural development work, in order to improve access of the rural community to market and reduce travel time.

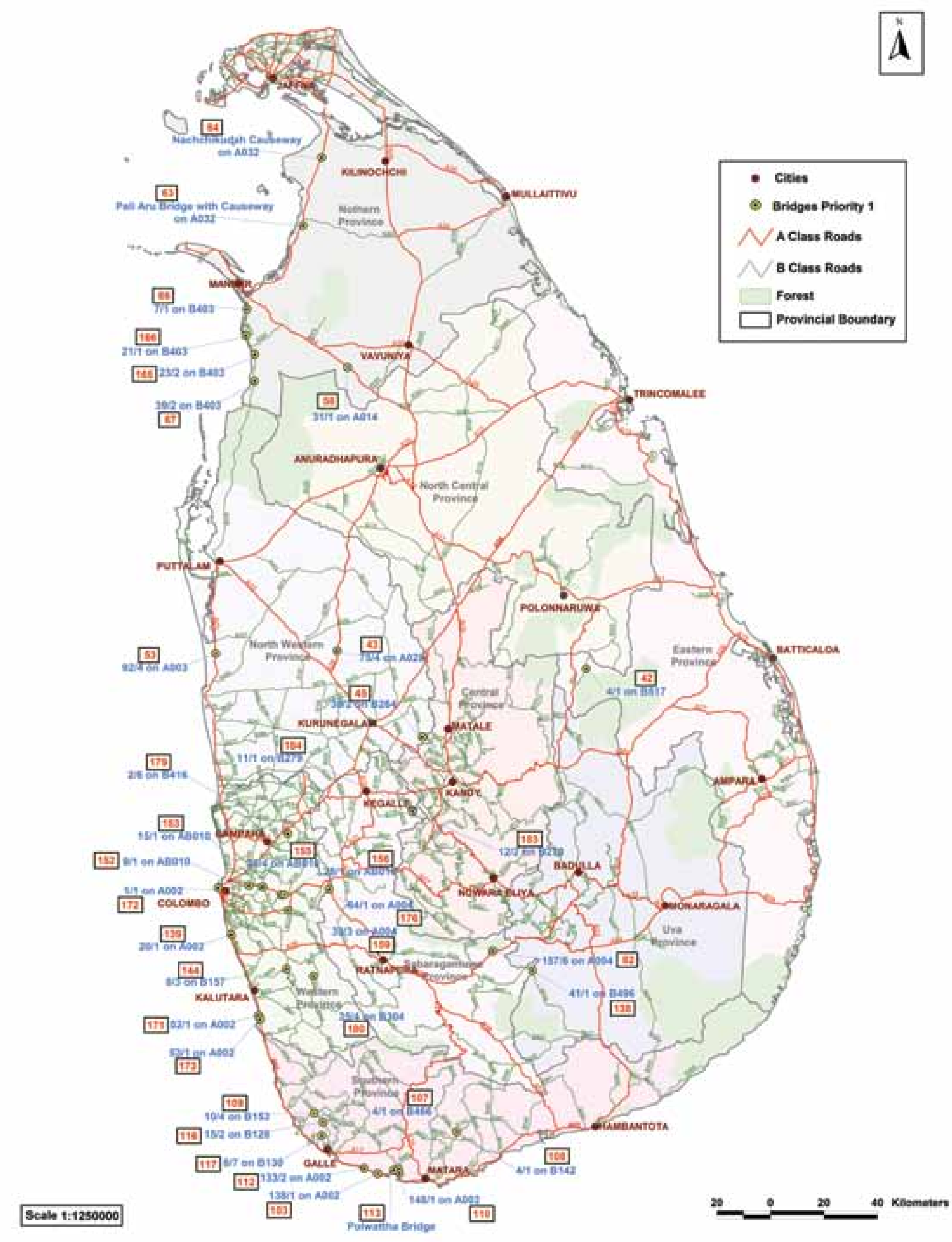
Therefore, Government has obtained financial assistance from Japan for rural road development under Pro Poor Rural Development Project to mitigate regional inequalities in Badulla, Moneragala, Hambantota and Ampara Districts while benefiting 133,000 persons directly. Further, Government is utilizing financial assistance received from Japan for the rehabilitation of provincial roads in Central, Sabaragamuwa and Eastern Provinces to create more economic opportunities for people living in those areas.

After moving to the middle income category, the Government of Sri Lanka has taken measures to construct an expressway network throughout the country with the aim of boosting economic activities further by encouraging growth in manufacturing, tourism, fisheries and agricultural industries. The Southern Expressway is Sri Lanka's first expressway which has been declared a milestone in Sri Lanka's history. This is the longest expressway with 125.6 km connecting Kottawa to Matara that reduce the traffic congestion on the existing Colombo – Matara road and transportation time. The funds for the construction of the road from Kottawa to Kurudugahahetekma have been provided by Japan and Government has gained the technical assistance from them for the installation of a toll system throughout the whole expressway by considering their experience as well as advanced technologies. On the other hand, Japanese are transferring their knowledge and skills to local people to manage expressways under the expressway administration project. Further, Government is expected to utilize the technical expertise of the Japanese to install an Intelligent Transport System (ITS) for the expressway network in Sri Lanka to provide necessary road traffic information to drivers by ensuring smooth and safe transportation. Hence, Japan has provided a grant under the technical assistance scheme to conduct preparatory survey to introduce ITS, initially for Southern expressway aiming future expansion of the system.

In addition, the Government has secured financial assistance from Japan for the Greater Colombo Urban Transport Development project which includes construction of an Outer Circular Highway (OCH) to the Colombo city, linking seven high priority trunk roads and express ways to mitigate traffic congestion in the Colombo Metropolitan area and enhance the connectivity with other regions. Construction of 12 km section from Kottawa to Kaduwela has already been finished utilizing USD 186 million and section from Kaduwela to Kadawata is still under construction with Japanese assistance. It is expected to be commissioned in 2015.

Since Government intends enhancing connectivity island wide, financial assistance has obtained from Japan for construction of bridges under the Japanese General Grant Aid scheme from 1989. Reconstruction of Victoria Bridge (1989), Sri Lanka Japan Friendship Bridge widening project (1993), Construction of the Mahaweli Road Bridge (1995), Reconstruction of Five Bridges (1998), Reconstruction of Gampola and Muwagamuwa Bridges (2001), were major landmark projects which will help understand the way Government utilized Japanese expertise to achieve our development goals. GOSL has clearly identified the importance of connecting city and village which will be a good solution even to reduce conflicts. With the completion of the 30 year conflict

Government has utilized more resources to rehabilitate conflict affected areas and channeled more Japanese assistance to reconstruct bridges in Eastern province which can also be bridges of peace. Further, Japanese grant of USD 16 million is used for reconstruction of Mannar Bridge with a span of 157m in length and 10m in width and Causeway 3 km in length and 11m in width on the Medawachchiya- Mannar-Taleimannar road by connecting Mannar Island and Main Island. New Mannampitiya Bridge was constructed using USD 9.7 million ensuring smooth traffic flow along the Maradankadawala – Tirakkandimadu road, which is the main access to the Eastern Province and benefits 904,000 families.



High Priority Bridges to be Taken Under JICA Funding

Source: Road Development Authority

Mannampitiya Bridge

In addition, 5 bridges are being reconstructed on the Peradeniya-Badulla-Chenkalady road and Baticaloa-Trincomalee road to accelerate the economic activities in the Eastern Province. Furthermore, Government has signed a Grant Agreement in 2011 to reconstruct Manmunai Bridge across Batticaloa Lagoon to reduce the distance across the lagoon from 32 km to 300 meters and Manmunai Western shore to Batticaloa town from 27 km to 15 km and to improve the access to emergency medical services and educational services for residents. Accordingly, it is expected to improve the transportation capacity across which will provide transportation facilities directly to 90,000 and indirectly 10,000 beneficiaries. At present, Government has decided to obtain loan assistance from Japan for reconstruction of 40 identified Bridges island-wide by widening narrow bridges from 2 lanes to 4 lanes considering nearly 25 years experience of Japanese in Bridge construction in Sri Lanka.

Opening of Mannar Bridge

In addition, Government is expecting to obtain financial assistance for the construction of a second new Kelani Bridge from Japan with the aim of minimizing the traffic congestion which has been caused due to the increase in the number of vehicles entering Colombo City across Expressways especially with the construction of Colombo -Katunayake Expressway. The feasibility study and Detailed Design of this bridge construction is expected to be carried out next year with Japanese grant assistance provided under the Development Study scheme.

Rapidly growing traffic congestion is becoming a huge challenge. Currently the road network in the Colombo Metropolitan Regions has reached its maximum level and the volume of traffic is rising due to the increase of the number of vehicles that are entering to city from nine entry points, shortage of parking areas and inadequate facilities for the pedestrian. Hence the GOSL has understood the necessity of developing an alternative plan in order to realize an economically viable efficient urban transport network and the promotion of reliable and safe transportation system in the Colombo Metropolitan region.

Foundation stone of OCH 2

The Government has also decided to carry out a feasibility study using Japanese grant assistance to assess the requirements for alleviating the traffic congestion in Colombo city.

The rapid growth of private vehicles will cause an increase of traffic demand in the Colombo metropolitan area. The annual growth rate was private cars 5.7%, three-wheeled vehicles 15.8% and motor cycles 10.7% during the period of 2005 – 2010. Based on the understanding on the current situation and future perspective, it is expected to develop an Urban Transport Master Plan, targeting year as 2035 to introduce a mass transit system which could be one of the following; mass rapid transit (MRT), light rail transit (LRT), mono rail, bus rapid transit (BRT) and other public transport modes with large passenger capacities.

Accordingly, Government has obtained approximately USD 1450 million in loans and USD 121 million in grants from Japan for road sector development during last three decades enabling the country to achieve rapid development.

Japanese High-Tech for end to Blackouts

The power sector is a pivotal component of any economy. This sector drives economic activity and development literally and figuratively. Likewise, the Sri Lankan economy also hinges on the power industry. However demand has been outstripping supply, increasing 7% to 8% annually; the domestic power sector has been struggling to meet the expanding demand for electricity through the late 1980s, 1990s and the first two years of the new millennium.

In line with its brightening economic prospect, Sri Lanka is geared to narrow the power deficit which has been prevalent over the last few decades. By 2010, the country had achieved 86% electrification; as per the national energy policy, the Government intends to raise this to 96% by 2016 with a mix of grid extensions and off-grid solutions.

Hydropower, wind power, biomass, solar power and municipal solid waste are potential energy sources for Sri Lanka. Hydropower provides 12.46% of total energy demand, as the main indigenous source of primary commercial energy source in Sri Lanka. While identifying the importance of the sector, the Government has secured external finance from Japan in line with the formulated policies, strategies, and programmes to meet the increasing demand for electricity in the country.

As a one of the major development partners, Japan also clearly recognizes the importance of the energy sector for Sri Lanka's socio economic development and has supported many initiatives to improve the efficiency of the energy sector of Sri Lanka including the construction of the Samanalawewa Hydro Power Project in 1986.

Samanala Wewa Hydro-power Project

This was the second largest hydroelectric power project in the country, producing 405 Gwh of energy annually. When the Mahaweli and Laxapana hydroelectric power projects were implemented, the demand for electricity in Sri Lanka rapidly increased. When it became clear that it would not be possible to meet the demand with coal-fired power plants, the Government of Sri Lanka decided to initiate another hydroelectric power project. A reservoir type hydroelectric power plant was planned to be constructed across the Walawe river, to address the shortage of electricity in the country. This was commissioned in 1992.

The construction of the Kukule Ganga Hydropower Project commenced in 1997 and was completed in 2003 to ensure uninterrupted electricity supply and it was possible to inject 70 Mw to the national grid.

Kukule Ganga Hydro-power Project

In order to enhance the hydro power capacity to meet the growing demand for power, Government obtained approximately USD 299.5 million towards the Upper Kotmale Hydro Power Project which added 150 Mw to the national grid. The people of Japan are extremely conscious of the harmful effects of damaging the environment, and as such, much efforts were made to design an environment friendly project with due consideration to social and economic concerns, landscape and scenic beauty.

The project would eventually contribute to enhancing the energy supply and the long-term facilities for the economic development. Special efforts were made in the project, where housing with all basic amenities and other facilities such as schools, places of worship, administrative buildings, roads etc were constructed as part of the Project. The ceremonial opening of the Hydro Power Station took place on July, 2012.

In addition, the Government of Japan has provided

USD 13 million through JBIC for rehabilitation of the Ukuwela power plant to ensure uninterrupted supply of power to the National Grid of 40 Mw.

The development and strengthening of the transmission and associated grid substation facilities are of paramount importance to meet the growing electricity demand. The necessary transmission system reinforcements to maintain a satisfactory power system performance have been identified and several transmission projects are currently underway in the field of construction, rehabilitation and improvement of transmission lines.

Low loss conductor technology from Japan is expected to be introduced to Sri Lanka for the first time in constructing the Habarana – Veyangoda Transmission Line project, which will primarily assist in transmitting the 500 Mw of electric power to be generated by the proposed Trincomalee Coal Power Plant.

Further, Japan has extended a loan of USD 24.6 million to construct a grid substation in Kilinochchi and to reinforce the existing Vavuniya – Kilinochchi transmission line in order to deliver a reliable, adequate and efficient electricity supply to people in Vavuniya and Kilinochchi. And also, Government has obtained USD 24.3 million for the construction of 22 Kv transmission line from Kerawalapitiya to Kottegoda.

With Sri Lanka upgraded into a middle income country, adequate energy supply is a pre-requisite for accelerating industrialization and development. It is the ardent hope of Japan that the project will be put to its best use and contribute to enhancing the lives of the people.

Opening Ceremony of Vavuniya- Kilinochchi Transmission Line Project

For the future, considering the Government request, Japan has explored the possibility of extending financial assistance for implementation of the Greater Colombo Transmission and Loss Reduction Project under its 43rd Yen Loan package for the fiscal year 2012/2013. The project consists of two main components and it aims at constructing a transmission and distribution network in the Greater Colombo area, in order to strengthen transmission and distribution capacity, increase reliability of power and reduce transmission losses, thereby contributing to economic development in the areas surrounding Shangri-La hotel and Port City of Colombo.

Table 20 Loan Assistance

Sub Sector	Project Name	Amount (USD Mn)
Hydropower	Samanalawewa Hydroelectric Power Project (I), (II), (III)	266.5
	Engineering Services for Upper Kotmale Hydroelectric Power Project	11.0
	Upper Kotmale Hydroelectric Power Project	299.5
	Kukule Ganga Hydroelectric Power Project	213.8
	Power Sector Restructuring Project	85.6
Thermal	Engineering Services for the Coal Fired Thermal Development Project	9.8
	Kelanitissa Combined Cycle Power Plant Project	119.5
	Energy Diversification Enhancement Project (E/S)	7.6
Transmission	Transmission System Augmentation and Development Project (I), (II)	44.4
	Transmission and Grid Substation Development project	24.6
	Transmission and Substation Development Project (I), (II)	56.2
	Vavuniya - Kilinochchi Transmission Line Project (I), (II)	29.4
	Habarana – Veyangoda Transmission Line Project	115.0
Distribution	Medium Voltage Distribution Network Reinforcement Project	43.7
	Colombo Electricity Distribution Development Project	45.5

Source: Department of External Resources

To cope with the increasing power demand in the country as well as to diversify sources of power supply Kelanitissa Combined Cycle Thermal Power Plant was constructed with a total installed capacity of 150 Mw. This project was completed in 2002.

Accordingly, for the continuous improvement to the distribution network, by way of expansion and replacement of the existing ageing sections of the network and updating of outdated control and protection system are crucial to ensure the reliability and high quality supply of electricity. To reinforce and rehabilitate the electricity distribution network in the Colombo City, to meet the demand growth and provide a satisfactory level of service to the excising and future customers through Solar Energy, although another option, is still deemed too expensive. That said, solar powered energy could become viable as part of an off-grid power system that supplies remote areas. Considering the importance of the development of renewable energy sources using solar power, Japan has provided a Grant of USD 9.7 million for establishment of a Solar Power Plant in Hambantota. The establishment of this power plant can be described as an attempt to change the perception of developers, lending agencies and equity investors on the performance, environmental impact and sustainability of commercial scale solar power generation by demonstration. This would be the first commercial scale solar based power generation project in Sri Lanka.

Table 21 Technical Cooperation for Power Sector Development

Project Name	Year
Feasibility Study on Upper Kotmale Hydro Power Project	1987
Master Plan for National Transmission Network	1997
Electricity Baseline Study	2000
Feasibility Study on Broadlands Hydro Power Project	2004
Study on Hydro Power Optimization in Sri Lanka	2004
Master Plan for Power Sector	2006
Feasibility Study for Victoria Hydro Power Expansion	2009
Energy Efficiency Improvement promotion	2008-2010
JICA Expert for Ceylon Electricity Board	2002-2009

Source: Department of External Resources

Habarana- Veyangoda Transmission Line Project

Government has secured USD 115 million to improve the stability and reliability of the transmission system while minimizing the transmission losses by constructing a 220kv transmission line between Habarana and Veyangoda with enhancing capacity, thereby meeting the annually growing demand for electricity and minimizing the CO2 emissions during power generation.

Further, this project will help to meet the country's power requirement of the country by transmitting the power from in the proposed coal power plant at Sampur, Trincomalee to the national grid.

This project will also ensure continuous power supply without interruption and contribute directly and indirectly to economic development of the country by creating opportunities for the business community and procedures to maintain their economic activities in a more organized and productive manner. Accordingly, the cost of investment, USD 115 million would be recorded before the loan repayment period of 40 years. This project is expected to be ready by September 2016.

Upper Kothmale Hydropower Project

Vavuniya - Kilinochchi Transmission Line

Accordingly, over the last three decades Sri Lanka has obtained around approximately USD 1,380 million in loans and USD 9.7 million in Grant Assistance and Technical Cooperation for the power sector development with their sound expertise in the field.

Table 22 Agreement Signed during the Period 2005 to 2012

YEAR	PROJECTS	Loan / Grant
2005	Small Scale Infrastructure Rehabilitation and Upgrading Project (SIRUP) – II	Loan
	Small & Micro Industries Leader & Entrepreneur Promotion Project (SMILE)-III	Loan
	Environmentally Friendly Solution Fund (E-Friends) II	Loan
	Project for the Upgrading of the Sewer Cleaning Equipment in Colombo City	Grant
	Increase in Food Production	Grant
	The Project for the Construction of a New Highway Bridge at Manampitiya	Grant
2006	Galle Port Development Project – Phase I	Loan
	Pro-Poor Eastern Infrastructure Development Project	Loan
	Tourism Resources Improvement Project.	Loan
2007	Greater Colombo Urban Transport Development Project (Outer Circular Highway) – First Phase	Loan
	Water Sector Development Project	Loan
	Pro-Poor Rural Development Project	Grant
	Detail Design of Construction of Mannar Bridge	Grant
	Construction of Mannar Bridge and Improvement of Causeway	Grant
	Project for the Improvement of Display Equipment of the Sigiriya Museum	Grant
2008	Poverty Alleviation Micro Finance Project	Loan
	Energy Diversification Enhancement Project	Loan
	Southern Highway Construction Project (additional funding)	Loan
	Water Sector Development Project Stage II of Phase 1	Loan
	Greater Colombo Urban Transport Development Project (Outer Circular Highway)	Loan Grant
	Improvement of Anuradhapura Teaching Hospital	Grant
	Improvement of Curative Healthcare Services at the Teaching Hospital of Anuradhapura	Grant
2009	2KR Food Security Project for Underprivileged Farmers	Grant
	Improvement of Anuradhapura Teaching Hospital (Phase II)	Grant
	Introduction of Clean Energy by Solar Electricity Generation System	Grant
2010	Provincial / Rural Road Development Project	Loan
	• Provincial Road Development in Central and Sabaragamuwa Province	Loan
	• Rural Road Development in Eastern Province	Loan
	Eastern Province Water Supply Development Project	Loan
	Kandy City Wastewater Management Project	Loan
	Upper Kotmale Hydro Power Project (II)	Loan
	Reconstruction of Five Bridges in Eastern Province (Detailed Design)	Grant
	Reconstruction of Five Bridges in Eastern Province	Grant
	The Project for the Improvement of Central Function of Jaffna Teaching Hospital	Grant
2011	Greater Colombo Urban Transport Development Phase 2 (II)	Loan
	Vavuniya Kilinochchi Transmission Line Project (II)	Loan
	Emergency Natural Disaster Rehabilitation Project	Loan
	Improvement of Cartoon Production Facilities at Sri Lanka Rupavahini Corporation	Grant
	Food Security Project for Underprivileged Farmers	Grant
	Project for Construction of Manmunai Bridge Across the Batticaloa Lagoon	Grant
2012	Development of Bandaranaike International Airport – Phase 2	Loan
	Habarana – Veyangoda 220kV Transmission Line Project	Loan
	The Project for the Improvement of Basic Social Services Targeting the Emerging Regions	Loan
	Rehabilitation of Kilinochchi Water Supply Project	Grant
	Improvement of Japanese Language Learning Equipment in the Universities of Kelaniya and Sabaragamuwa	Grant
	Provision of Industrial Products	Grant

Source: Department of External Resources

Korea

Overview

Development cooperation between the Government of Korea and Sri Lanka has a long history and Korea has played a significant role by extending its assistance to economic development of Sri Lanka, especially during the last 7 years from 2006 -2012. The total assistance extended by Korea during the last 7 year period was USD 271.5 million of which USD 226.7 million was loan funds and the remainder USD 44.8 million was provided as grant assistance. The total portfolio of Korean assistance in 2012 is USD 174.3 million.

Grant Assistance from the Government of Korea

Grant assistance is extended by the Government of Korea through Korean International Cooperation Agency (KOICA). They annually provide grant assistance of around USD 3 - 5 million to Sri Lanka with a view to promoting international cooperation while contributing to the economic and social development of Sri Lanka. The priority areas for grant assistance are feasibility studies for projects which could be considered for financing under Korean loan programmes and selected during mutual consultations between the two Governments, mainly in the areas of environment, construction and rehabilitation of school buildings and hospitals etc. Construction of the Godagama hospital, Hambantota International Convention Centre, Reconstruction of Mahanama Bridge are some of the projects funded with grant funds from KOICA.

Loan Assistance from the Export Import (Exim) Bank of Korea

The Korean loan assistance is generally extended through the Economic Development Cooperation Fund (EDCF) of the Export Import Bank (Exim Bank) of Korea. EDCF loan refers to long term low interest credit. The interest rate and repayment period of these loans are changed periodically by the Korean Government. The special feature of the EDCF loans obtained during the last few years, especially after 2009 was that they were obtained at more concessionary interest rates with a longer repayment period compared with the EDCF loans obtained before 2009. The current interest rate for EDCF loans is 0.15 % per annum and repayment period is 40 years including a 10 year grace period. Therefore, EDCF loan are considered as more concessional loans. The Government of Korea provided relatively small amounts of assistance until 2008.

According to Korean procedure, it was required to sign a separate Framework Agreement for each project approved by the Government of Korea for financing under EDCF until 2008. The amount of assistance obtained by the Government through EDCF has increased substantially since 2008. As a result, instead of signing a Framework Agreement for each project a Framework Arrangement was introduced by the Government of Korea to be signed between the two Governments for a four year period indicating a ceiling for projects to be financed through EDCF funding during the specified period and outlining the procedures involved with the administration of the EDCF loan programme. Accordingly, this Framework arrangement indicates the total loan funds that could be financed by the EDCF within an agreed time period. The first Framework Arrangement was signed in 2008 between the two Governments allowing the Government to obtain loans from EDCF upto USD 140 million. Accordingly, the Government obtained concessionary loans of USD 55 million to finance the Padeniya Anuradhapura Road USD 6.6 million to finance the Lanka Network Stage II and USD 76.3 million to finance the Ruhunupura Water Supply Project in 2008 and 2009.

The Second Framework arrangement was signed in 2010 allowing the Government to obtain loans from EDCF upto USD 200 million for the period from 2009 to 2012. Accordingly, the Government obtained a concessionary loan of USD 40 million to finance the Hatton- Nuwara Eliya Road Improvement Project. Based on the request of the Government, the Exim Bank of Korea has further agreed to provide USD 33.5 million to finance the Construction of Solid Waste Disposal Management Project, USD 26 million to finance the Gampaha College of Technology and the Colombo Vocational Training Centre Project, USD 25 million to finance the construction of an Administrative Complex at Gampaha, USD 20 million to finance the construction of Northern Provincial Office Council Complex, USD 10 million to finance the remainder funds required for the Padeniya Anuradhapura Road Improvement Project, USD 20 million to finance the Solar Power Plant in Hambanthota project and USD 25 million to finance the Electrification of the 4 Islands in Jaffna.

The third Framework Arrangement is ready to be signed between the two Governments. This will allow Government to obtain loans from the EDCF upto USD 200 million during the period from 2013 – 2016. High level discussions were held between the two Governments to increase the ceiling of the Framework arrangement from USD 200 million to USD 500 million. Accordingly the both sides have agreed to increase the amount based on the progress of signing of loan agreements.

Country Partnership Strategy (CPS)

The Government of Korea has introduced Country Partnership Strategy (CPS) indicating how Korea intends to assist Sri Lanka to achieve its development objectives for the period 2012–2016. The priority areas of the CPS have been established through regular consultation and policy dialogue between the two Governments. Priority areas of CPS are in line with the priorities identified in the Development Policy Framework of the Government and include roads, water supply, education, vocational education and good governance. According to EDCF, at least 70% of Korea's ODA will be allocated to the above priority areas identified by the Government of Sri Lanka. However, there is flexibility to allocate additional amounts to respond to urgent humanitarian demands and socio economic changes in Sri Lanka.

Challenges for Obtaining Korean Assistance

The Government has to face several challenges in utilization of Korean assistance. According to Korean procedure, Record of Discussions (ROD) including terms of reference, cost, project activities, responsibilities of both sides etc. is signed between the Governments of Korea and Sri Lanka for each Korean grant financing project. ROD is considered as the grant agreement relevant for the respective project. Since Korean grant financing projects are relatively small in scale, ROD is generally signed by KOICA on behalf of the Government of Korea and the relevant line Ministry or agency on behalf of the Government of Sri Lanka with concurrence from the Ministry of Finance & Planning. Therefore, it is the responsibility of the relevant line Ministry or agency to obtain prior concurrence from the Ministry of Finance and Planning to sign the respective RODs. However, there are occasions where these requirements were not followed. In order to overcome such situations, the correct procedure has been conveyed to KOICA and the relevant line Ministry at the initial stage of the grant financing project.

Also, selection of contractors for their grant projects is entirely done by Korean authorities as per the existing Korean procedure. As there is no competition in the selection process and relevant line Ministry is not involved in the selection process of contractors, there is a possibility to have high contract prices and selection of contractors without required competent of relevant projects. In order to utilize grant funds provided by the Government of Korea efficiently and effectively for development projects discussions were held between the Government of Sri Lanka and Korean authorities to get relevant line Ministry involved in the selection process of contractors for Korean grant funded projects.

In terms of the General Condition of EDCF, contractors are selected following the open tender procedure which is restricted to Korean contractors. However, it is noted that a very limited number of contractors are bidding for contracts of EDCF funded projects. Therefore, there is only little chance to select a good contractor. Therefore, it is the responsibility of the relevant line Ministry to obtain a list of internationally qualified Korean contractors from a reliable source and select relevant contractors for their Korean funded projects following the competitive tender procedure.

Another important feature of EDCF financing is that although the loan amount for a project is approved by EDCF in US Dollars, the loan denominated currency is Korean won. Accordingly, loan amounts indicated in the loan agreement are converted to Korean won and fixed based on the exchange rate prevailing on the date of the 1st contract of the relevant project approved by the Korean Government. Therefore, available amount of US Dollars for the project depends on the exchange rate during the project implementation. Accordingly, if the Korean won has depreciated during the project period, the available USD amount will decrease and vice-versa. Due to the above reason and contract agreements for EDCF funding projects are signed in US Dollars or Sri Lanka rupees or both currencies, there are many difficulties when implementing EDCF funded projects. Therefore, discussions were held with relevant Korean authorities to explore the possibility of getting their loans in US Dollars instead of Korean Won and the relevant contract agreements signed in the same currency.

Another important feature of EDCF financing is that EDCF loans are tied loans. In other words, with regard to the procurement of goods and services, the eligible source country in respect of the foreign currency portion is Korea. Accordingly, all goods and services under EDCF loans should be imported only from Korea and not from any other country. Hence, only suitable projects are submitted for EDCF financing by the Government.

Commitments and Disbursements

The total commitment from Korea for the last seven year period from 2006 to 2012 was USD 240.8 million. Of this amount USD 213 million was loan assistance while the remaining USD 28 million was provided as grant assistance.

Table 23 Commitments from Korea from 2006 to 2012 (USD Mn)

	Loan	Grant	Total
2006	20.0	16.6	36.6
2007	15.1	-	15.1
2008	61.6	6.2	67.8
2009	76.3	-	76.3
2010	40.0	-	40.0
2011	-	5	5
Total	213	27.8	240.8

Source: Department of External Resources

The highest commitment (USD 76.3 million) during the last six year period was made in 2009 for implementation of the Ruhunupura Water Supply project. Out of the second highest commitment of USD 61.3 million in 2008, USD 55 million and USD 6.6 million were committed for improvement of Padeniya – Anuradhapura road and implementation of the Lanka Network project respectively.

Table 24 Disbursements from Korea from 2007 to 2012

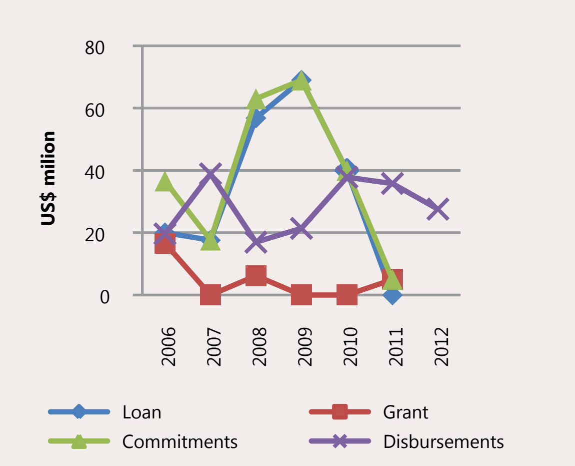
2007	19.6
2007	38.9
2008	17.0
2009	21.4
2010	37.8
2011	35.8
2012	27.6
Total	**198.1**

Source: Department of External Resources

In addition, commitment of around USD 44 million has been agreed in 2012 for the Construction of the Solid Waste Disposal Facilities project (USD 33.5 Mn) and for the supplementary loan of the Padeniya Anuradhapura Road Improvement project (USD 10 Mn). Accordingly, the total commitment during the period from 2006 to 2012 would be around USD 278 million.

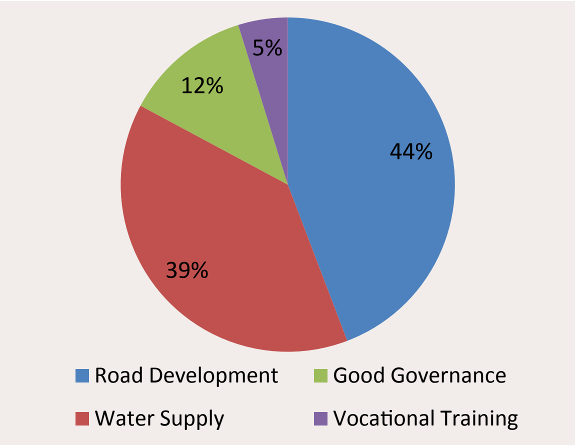
The total disbursement from Korea for the last seven year period from 2006 to 30th September 2012 was USD 178.4 million. The highest disbursements were recorded in 2010 and 2011.

Chart 33 Commitments Vs Disbursements from Korea 2006-2012



Sectoral Distribution

Chart 34 Korean Current Project Portfolio Distribution 2006-2012



Financial assistance obtained from Korea during the last 7 years has been mainly used for development projects in the sectors of roads and bridges, water supply, good governance and vocational training. Of the total assistance received from Korea, the highest amount has been used for the road sector. It is around USD 95 million which accounts for 44% of the total Korean assistance received by Sri Lanka during the last seven year period. The next highest amount of around USD 83 million has been used for the water supply sector. It represents 38.6% of the total assistance received by Sri Lanka during that period. Then good governance and vocational training sectors have used around 12.3% and 4.8% respectively of the total Korean assistance received to Sri Lanka during the same period. The sectoral distribution of the Korean assistance received to Sri Lanka during the last 7 years is depicted in the chart 35.

The main ongoing projects funded by Korea are summarized below.

Road

Improvement of Anuradhapura - Padeniya Road Project (USD 55 Mn)

The objective of the project is to improve the existing Padeniya – Anuradapura road to provide high mobility transport between Padeniya and Anuradhapura. The project includes widening and improvement of 80.8km in length and 14.0m in width Padeniya-Anuradhapura road with a two lane facility and a four lane facility in the town areas.

Anuradhapura Padeniya Road

Total cost of the project was USD 70 million of which, EDCF has provided USD 55 million on concessional terms. The project commenced in 2009 and was scheduled to be completed in 2011. However, during the project implementation in late 2010 due to extremely bad weather conditions, some cracks were formed on the newly laid asphalt binder course of the road. To rectify this problem, it was necessary to review the original pavement design of the road pavement structure by introducing an additional layer of 200 mm thickness of Dense Graded Aggregate Base and raising certain critical sections such as inundation sections, paddy field, low line and irrigation tank areas etc. in order to withstand extraordinary weather conditions.

Additional cost due to these improvements has been estimated at USD 13 million. EDCF has agreed to provide USD 11 million out of this USD 13 million as an additional loan for this project. The project is expected to be completed by December 2012.

Hatton - Nuwara Eliya Road Project (USD 40 Mn)

The objective of the project is to rehabilitate the road section from Hatton-Nuwara Eliya to improve the accessibility to the people living in the area, eliminate traffic congestions and enhance road safety between Hatton and Nuwara Eliya.

The existing road network from Hatton to Nuwara Eliya has suffered from a long period of under-investment. Many of the road pavements are original rough penetration macadam constructed up to 60 years ago and have received only limited maintenance intervention to keep the roads open. The project includes widening and improvement of the 46.7 km long Hatton – Nuwara Eliya road with a 2 lane facility.

The direct and indirect effects of the project are expected to shorten the travel time, reduce the vehicle operating costs, reduce traffic accidents, improve the quality of public transportation services and provide basic framework for regional economic growth by facilitating the movement of passengers and freight between the regions.

The total project cost is USD 49.9 million of which USD 40.0 million is provided by the Government of Korea on concessional terms. The project commenced in 2010 and is scheduled to be completed in 2014.

Water Supply

Ruhunupura Water Supply Development Project (USD 76.3 Mn)

The objective of the project is to provide sufficient and reliable water supply to the Ruhunupura Development area in the Hambantota District. The demand for pipe borne water is rapidly increasing in the Hambantota District due to development in industrial and social activities such as construction of the harbor, hospital and housing complexes. This project will contribute to increase accessibility to safe drinking water. The main components of the project are source improvement and construction of an intake at Ridiyagama tank, construction of a 17,500m3/day treatment plant at Koggalla, supply and laying of 45 km of water transmission system, construction of 4 ground reservoirs and 4 elevated towers and supply and laying of 400 km long distribution pipe network.

The total cost of the project is USD 115.7 million of which USD 76.3 is provided by the Government of Korea on concessional terms.

Vocational Training and Skills Development

Gampaha College of Technology and Colombo Vocational Training Centre Project (USD 26.03 Mn)

The objectives of the project are to establish two vocational training centres with modern technological facilities in Gampaha and Colombo to lead the Sri Lanka vocational training system and ensure providing formal professional education to students with regard to the latest technology and know-how in the selected areas to match the labor market requirements in other countries. This project is also intended to empower labour force with necessary knowledge and skills to meet the demands of the market both local and international, thereby increasing job opportunities and ultimately contributing to economic growth.

The total estimated cost of the project is USD 31.3 million of which USD 26.0 million will be provided by EDCF. It is expected to sign the loan agreement in 2012.

Environmental

Construction of Solid Waste Disposal Facilities Project (USD 33.5 Mn)

The main objective of the project is to construct sanitary landfill facilities in 4 locations i.e. Panadura, East Nuwaragampalatha, Udunuwara and Hikkaduwa to minimize environmental pollution and contamination and to preserve a comfortable urban atmosphere and improve the living environment of residents. The total estimated cost of the project is USD 42 million of which USD 33.5 million will be provided by the EDCF. The remaining USD 8.5 million will be provided by the Government of Sri Lanka. It is expected to sign the loan agreement in 2012.

Good Governance

Lanka Government Network Stage II Project (USD 6.6 Mn)

Project includes two Stages and Stage 1 was implemented in 2005 with financial assistance USD 15 million. Under Stage I of the project, 325 Government agencies were connected to the Lanka Government network.

The objective of the stage II is to expand the Lanka Government Network by connecting an additional 150 Government agencies in 5 District Secretariats, 94 Divisional Secretariats, 35 Ministries in Provincial Councils and 16 Departments in Provincial Councils. EDCF has provided a loan of USD 6.653 Mn to finance this project. The project was completed in July 2012.

Improvement of Hatton-Nuwara Eliya Road

Administrative Complex at Gampaha (USD 25 Mn)

This project is to construct a multi-stored Administrative Complex in Gampaha in close proximity to the city centre and develop infrastructure facilities in the city. The proposed building consists of eight floors and parking areas. The main objective of this project is to offer an efficient and effective service to the general public by concentrating administrative activities in a single location. The total estimated cost of the project is USD 25 mn. The entire cost is expected from EDCF. The duration of the project is 3 years.

Knowledge Sharing Programme

The Ministry of Strategy and Finance of the Republic of Korea introduced a Knowledge Sharing Programme (KSP) in 2010 in order to share Korea's development experience. Under this programme, 10 officials from Government Ministries and affiliated institutions received the opportunity in 2011 to undergo a one week study tour on the areas of export promotion & foreign direct investment and enhancing the competitiveness of the SME sector. In December 2012, 16 Sri Lankan Government officials are expected to follow the same programme in Korea.

Emerging Economies

China

Overview

China has now become a major bilateral development partner to Sri Lanka. Although provision of Chinese assistance for economic development of Sri Lanka commenced in 1971 it significantly increased only after 2005. The total assistance extended by China during the period between 1971 and 2012 was USD 5,056 million of which USD 4,761 million, representing around 94%, was extended during the last 8 year period from 2005 to 2012. The Government of Sri Lanka secures financial assistance from China by way of grants and loans. Grants are provided by the Government of China while loans are mainly provided by the Export – Import (Exim) Bank of China. In addition, the Government of Sri Lanka is able to secure financial assistance from China Development Bank (CDB). Arrangements have been made to obtain financial assistance from Industrial and Commercial Bank of China (ICBC).

Grant Assistance from the Government of China

The Government annually receives grant assistance of USD 10 – 15 million from the Government of China. Grant of RMB 50 million to 100 million (USD 8 – 15 million) without identifying any project is usually provided by the Government of China at a time, especially to mark a special event important to both countries such as visits of high level dignitaries either from Sri Lanka to China or from China to Sri Lanka. After mutual consultation between the two Governments suitable projects are identified to utilize grant funds, considering project proposals submitted by the Government of Sri Lanka. Priority area of utilization of grant funds are construction of nationally important land mark buildings and repairing or modernization of buildings constructed with Chinese grant funds. Bandaranaike Memorial International Conference Hall, Nelum Pokuna Performance Arts Theatre, Superior Court Complex, Lady Ridgway Hospital are some of the buildings constructed with Chinese grant funds. In addition, rehabilitation of the road from Kiribathgoda to Kadawatha was implemented with grant funds from China.

With a view to upgrading health facilities of the country, Government has requested grant funds from the Government of China for construction of a new Ambulatory Care Center at National Hospital and upgrading of Maternal and Childcare building at Ragama Teaching Hospital.

Loan Assistance from the Export – Import (Exim) Bank of China

The Government of Sri Lanka obtains loan assistance from the Exim Bank of China mainly in the form of Preferential Buyer's Credit, Chinese Government Concessional Loan and Buyer's Credit. Preferential buyer's credit is long term and low interest credit focusing on supporting infrastructure development projects and procurement of Chinese machinery and equipment which generate substantial economic benefits to the country. The amount of funds annually provided to a recipient country under preferential buyer's credit facility is limited and is subject to the approval of the Government of China. Chinese Government Concessional loan also refers to the long- term, low interest credit extended by the Exim Bank of China. The concessional loan is designed to fund infrastructure construction projects and social welfare projects and finance procurement of mechanical and electronic products. The loan denominated currency is Renminbi Yuan. Buyer's credit refers to the medium term and long term credit provided to foreign borrowers to finance their imports of Chinese products, technologies and services as well as overseas construction projects that can facilitate Chinese exports of equipment, construction machinery, material, technical and managerial expertise. Credit for overseas contracting and other exports projects finance will not exceed 85% of the contract value.

In relation to assistance obtained from other development partners during the last few years, availability of foreign assistance for large scale projects from Exim Bank of China is considered important. It is evident that loan amounts obtained by the Government from the Exim Bank of China were relatively large compared to multilateral development partners as well as other bilateral development partners. Based on the Chinese assistance obtained during the last few years from the Exim Bank of China, Chinese Government concessional loans were in the range of USD 20 million to USD 200 million. Preferential Buyer's Credit was in the range of USD 200 million to USD 900 million and Buyer's Credits were at the range of USD 20 million to USD 310 million. As a result the Government has been able to implement nationally important large scale projects such as the Puttalam Coal Power project at a cost of USD 1,350 million, Hambantota Port Development project at a cost of USD 1,168 million, Katunayake Expressway project at a cost of USD 292 million, Mattala International Port Development project at a cost of USD 209 million etc. with assistance from the Exim Bank of China. In addition, the Government is able to secure the total funds of USD 278 million required to finance the entire cost of the Matara-Beliatta Section of the Matara – Kataragama Railway Extension project from the Exim Bank of China.

Of the total loan assistance obtained from China including the loans to Lanka Coal Company Ltd, Airport & Aviation Services Sri Lanka Ltd and Sri Lanka Ports Authority during the period from 2005 to 2012 around USD 3,673 million was obtained from Exim bank of China. The amounts of loan assistance obtained from the Exim Bank of China under concessional loan, Preferential Buyer's credit and Buyer's credit during the above period is given in the following Table.

Table 25 Loans Obtained from Exim Bank of China by Types of Loans from 2005 to 2012 (USD Mn)

Concessional Loan	559
Preferential Buyer's Credit	1,791
Buyer's Credit	1,323
Total	3,673

Source: Department of External Resources

Concessional loans and loans under preferential buyer's credit facility were obtained at an annual interest rate of 2% with a repayment period of 20 years including a 5 year grace period. As shown in the above Table, around USD 2,350 million or 64% of the total assistance from the Exim Bank of China was obtained under Concessional loans and Preferential buyer's credit facility during the period from 2005 to 2012. Loans under Buyer's credit facility were obtained at an annual interest rate of USD 6 months LIBOR+2.4 with a repayment period of 15 years including a 3-4 year grace period. According to the above Table, USD 1,323 million or 36% of total assistance from the Exim Bank of China was obtained under Buyer's credit facility during that period. Government's strategy was to obtain assistance under Preferential buyer's credit facility and Concessional loan from the Exim Bank of China for commercially viable projects which need large investment and obtain assistance under Buyer's credit facility from the Exim Bank of China for commercially and socially viable projects. Accordingly, loans under Preferential buyer's credit facility and Concessional loans were obtained for Puttalam Coal Power project, Hambantota Port Development project and Mattala International Airport Development project. In addition, the Government was able to secure assistance under Preferential Buyer's credit facility and concessional loan for Matara-Beliatta Section of Matara – Kataragama Railway Extension project. Loans under Buyer's credit facility were obtained mainly for economically and commercially viable construction of expressways. Chinese loans are generally extended in Chinese currency. The Chinese currency is more volatile in relation to American United States Dollars. The Government was able to obtain loans under preferential buyer's credit facility and Buyer's credit facility for the above projects in American United States Dollars instead of Chinese Yuan. It helps to reduce the impact of appreciation of the Chinese currency and minimize the exchange risk of the Chinese debt portfolio.

In order to streamline a new project pipeline, a Memorandum of Understandings was signed between the Government and the Exim Bank of China for a five year period beginning 2013 on the medium term plan for future cooperation for concessional financing. Under this MOU, a rolling medium-term cooperation mechanism was established between the Government and the Exim Bank of China for financing of projects assigned high priority under Preferential buyer's credit facility and concessional loan facility. In addition, in order to extend further cooperation for financing of more infrastructure projects in the near future another MOU was concluded with the Exim Bank of China. Accordingly, assistance under Buyer's Credit facility of the Exim Bank of China will also be provided for projects which are assigned high priority in the near future.

Loan Assistance from China Development Bank (CDB)

The Government also obtains loan term credits from China Development Bank (CDB) at a competitive interest rate. The important feature of the China Development Bank is that they extend a lump sum amount of funds under one loan allowing implementation of several projects. CDB procedure for disbursement of funds is completely different to that of other development partners. Accordingly, CDB deposit the entire amount of the loan at an imprest account established at the Central Bank allowing the relevant authorities to release funds to the respective projects based on the progress of the projects. It is considered very important to implement the projects speedily in order to utilize the funds released to imprest account in a timely manner. Under CDB, there is a possibility to undertake a large portion of contracts with the participation of local contractors. Loan processing time for CDB loans are also very short and steps required to be followed for obtaining these loans are very much fewer compared to the other lending agencies. CDB has provided USD 652 million for road rehabilitation projects in 2010 and 2011 and USD 214 million for Moragahakanda Development project in 2012 at an annual interest rate of USD LIBOR +2.9% with a repayment period of 15 years including a 3-4 year grace period.

Salient feature of Chinese assistance is that the Government obtained a substantial amount of funds from China during the last 8 year period and invested it in high priority projects which would generate high economic return within a short period of time. For example, with the implementation of the Puttalam Coal Power project Phase 1, annual foreign exchange savings on fuel would be around Rs. 15,176 million which is equivalent to USD 116.7 million. In addition, the Government has been able to provide power supply without any power cut even during the drought season. Further, it helps to meet electricity demand increased due to the expansion of economic growth. It has also been able to maintain electricity rates at the current level, despite the increase of the oil price during the last few years. Further, due to conditions required to be completed for obtaining funds from multilateral agencies and exposure limits of other bilateral countries, if the Government tried to obtain financial assistance for the projects funded by China from multilateral agencies and bilateral countries other than China, it would take much longer period to implement some mega projects like Puttam Coal Power project and Hambantota Port Development project etc.

Challenges for obtaining Chinese Assistance

In spite of the benefits highlighted above, the Government has to face several challenges when obtaining and utilizing Chinese assistance. The Government obtains loan assistance from China, especially for large scale development projects and wishes to obtain a maximum amount under Preferential Buyer's Credit facility followed by Chinese Government Concessional loan as their terms are very concessional. The only difference between these two loans is that loan denominated currency of Preferential Buyer's Credit facility is United States Dollars whereas that of Chinese Government Concessional loan is Renminbi Yuan. The Government prefers to obtain Chinese loans under Preferential Buyer's Credit facility rather than Chinese Government Concessional loan as Renminbi Yuan is more volatile than American United States Dollars.

When requests are made to Exim Bank seeking assistance for large scale projects under Preferential Buyer' Credit facility and Concessional loan they may not agree to provide the required amounts of funds due to their ceilings. In such situations, the Exim Bank proposes to extend loans under mixed credits, blending Preferential Buyer's Credit, Concessional loan and Buyer's Credit. If a mix credit is approved by the Exim Bank it is required to obtain the full package which could include all three categories of loans or two categories of loans depending on availability of funds. As funds available under Preferential Buyer's Credit facility and Chinese Government Concessional loan are limited it could be necessary to obtain some funds from the Exim Bank of China under Buyer's Credit facility or China Development Bank or Industrial and Commercial Bank of China (ICBC). Terms of the Buyer's Credit facility of the Exim Bank of China and Industrial and Commercial Bank of China are comparatively higher and of a commercial nature due to the current volatile situation prevailing in the global market. In response to the above, interest rate has increased from LIBOR+ 2.4 percent from 2011 to LIBOR + 4.00 percent per annum at present. In addition, due to the unstable financial situation prevailing in the international market they tend to charge insurance premium instead of exposure fee. Therefore, the Government's strategy to obtain assistance from the Exim Bank of China is to finance the maximum amount of funds under Preferential Buyer's Credit facility, then maximum amount under Concessional loan and the balance under Buyer's Credit facility.

During the last few years China Development Bank provided USD 652 million for Road Rehabilitation projects on very reasonable terms. China Development Bank has also changed their policy and is currently considering providing loan assistance only for commercial viable projects. Therefore, flexibility of obtaining funds for socially viable sectors has been reduced. Therefore, the Government has placed special emphasis on identifying suitable projects for CDB funding by analyzing and appreciating economic and financial viability of projects which could generate sufficient funds for repayment of the respective loans. Therefore there is only little chance to obtain their assistance for road and water supply projects. Industrial and Commercial Bank of China (ICBC) has also expressed their interest in providing development assistance to Sri Lanka. But their terms are acceptable only for commercially viable projects. Therefore, the Government's strategy to obtain assistance from ICBC is for commercially viable projects.

In terms of the general condition of Chinese assistance, contractors for Chinese funded projects are recommended by the Government of China. Since there is no competition for selection of contractors for Chinese funded projects there is a possibility to have relatively higher contract prices and select contractors who have little experience and competence required for respective project implementation. In order to overcome such situations discussions have been held with the relevant Chinese authorities to select a suitable Chinese contractor for the respective project following competitive bidding process. In addition, according to lending policies of the Chinese finance agencies, equipment, material, technology or services demanded by the project should necessarily be procured from China. Due to this condition there is a possibility to import goods from China which are not compatible with our system or with our technology. In order to overcome this problem priority is currently given to submit only suitable project proposals for funding from China.

Commitments and Disbursements

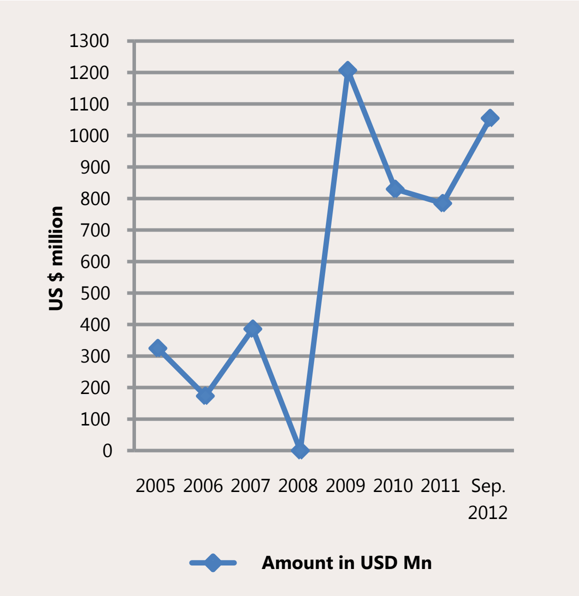
Table 26 Commitments since 2005

Year	Amount in USD Mn
2005	324.67
2006	173.17
2007	386.11
2008	_
2009	1,207
2010	830
2011	784.71
Sep. 2012	1,055

**commitments include the loans obtained for AASL, LCC and SLPA.*

Source: Department of External Resources

Chart 35 Commitments since 2005



The total commitment made from China for the last 8 year period from 2005 to 2012 including the loans obtained by Airport and Aviation Services Ltd, Lanka Coal Company Ltd and Ports Authority of Sri Lanka with Government guarantee was USD 4,761 million. Out of the

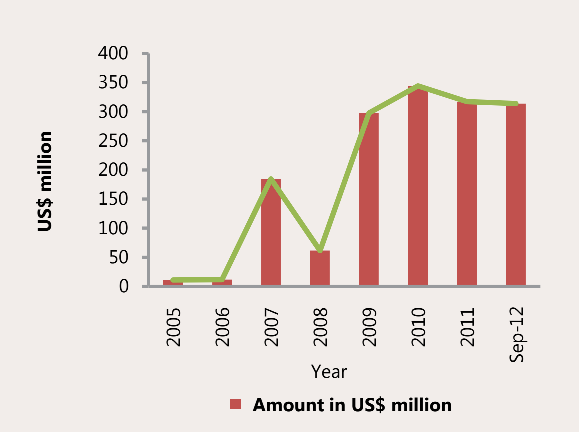
FOREIGN FINANCING FROM DEVELOPMENT PARTNERS total commitment made during the last 8 year period, the highest amount of commitment was made in 2009. It was USD 1,207 million. The commitment as at 15th September 2012 is USD 1,055 million. Arrangements are being made to obtain USD 278 million from China on concessional terms for the Matara – Kataragama Railway Extension project during this year. If it is possible to sign the loan agreements for this project within this year the total commitment will go up to USD 1,333 million in 2012 and it will become the highest amount of commitment made during the last 8 year period.

Table 27 Disbursements from 2005 to September 2012

Year	Amount in USD million
2005	11.01
2006	11.52
2007	184.67
2008	61.42
2009	297.86
2010	344.37
2011	317.30
Sep-12	314.00

Source: Department of External Resources

Chart 36 Disbursements from 2005 to September 2012

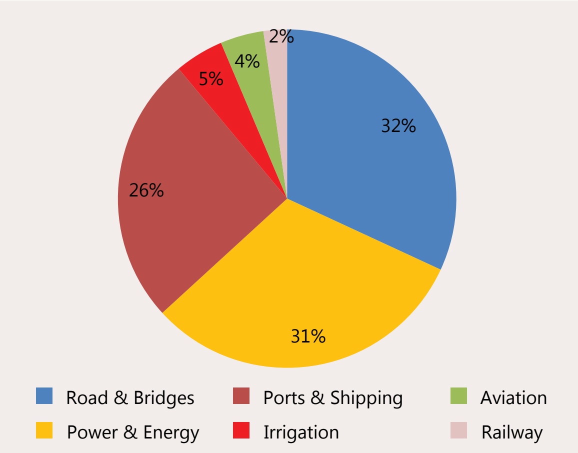


The total disbursement from China for the last 8 year period was USD 1,407 million. The highest disbursement of USD 344 was recorded in 2010. The disbursement as at 15th September 2012 was USD 314 million.

Sector Contribution

Financial assistance from China was obtained mainly for the development of infrastructure in the country. The current project portfolio distribution of Chinese assistance can be depicted as follows.

Chart 37 Chinese Current Project Portfolio Distribution



Road Development

Reconstructed Kalkudah Road under Priority Road Project I

The funds obtained during the last five year period from China for development of the roads and bridges sector is remarkable. Current total project portfolio of this sector stands at USD 3,680 million. The project portfolio funded by China stands at USD 1,463 million and it represents 40 percent of the total project portfolio of the sector at present. Of the total assistance obtained from China, 32 percent of the total project portfolio is for construction and reconstruction of roads and bridges. Of the total project portfolio of China the highest amount has been used for this sector. Of this, USD 386 million was committed for construction of National Highways such as Colombo–Katunayake Expressway and Pinnaduwa to Godagama Section of the Southern Transport Development Project. The remaining USD 1,077 million was obtained for improvement and reconstruction of national roads in the Northern and Southern parts of the country. Out of the ongoing road project portfolio funded by China, China Development Bank has provided USD 653 million for Improvement and Reconstruction of

Priority Road Projects I and II covering whole island and connecting all electorates and the Exim Bank of China has provided the balance USD 810 million for construction of Expressways and Northern Road Rehabilitation projects.

Colombo – Katunayake Expressway Project

The Colombo –Katunayake Expressway (CKE) is the second expressway in Sri Lanka and it is one of the key road projects that the Government is implementing to strengthen and expand the country's road network. Construction of the 25.8 km long Colombo – Katunayake Expressway between Colombo city and the Bandaranaike International Airport at Katunayake commenced in 2009 with financial assistance from the Export – Import (EXIM) Bank of China. Once the project is completed, travelling time from Colombo to Katunayake will be reduced from 90 minutes at present to 20 minutes. Further, it will reduce the existing traffic congestion at Peliyagoda on the Negombo road and improve mobility needs of the industrial development areas located in the vicinity and the associated container traffic.

Construction of Colombo – Katunayake Expressway

Project pipeline for Chinese assistance for the next 2 – 3 year period includes nationally important road projects such as Stage III of the Outer Circular Highway, Extension of the Southern Expressway from Matara to Hambantota and roads in Hambantota Hub Development projects.

Power and Energy

Of the total project portfolio of China, the second highest amount has been used for the power and energy sector. The current portfolio of China for power and energy sector including loans obtained by Lanka Coal Company Ltd with Government guarantee stands at USD 1,436 million and it represents 31 percent of the total portfolio at present.

Puttalam Coal Power Project

Puttalam Coal Power project is the landmark project under financial assistance from China. Project includes 2 phases. Phase 1 was completed at a total cost of USD 455 million provided by the Exim Bank of China in 2011. The power plant established under Phase I currently generates 300 Mw and it is added to the national grid. Phase 2 commenced in 2010 with a total assistance of USD 1346 million provided by the Exim bank of China and is scheduled to be completed in 2014. Once Phase 2 is completed in 2014, 900 Mw will be added to the national grid.

Opening of Puttalam Coal Power Plant I

In addition, in line with the Government policy three rural electrification projects namely Procurement of Material required for Power Sector Development programmes of the Northern Province, Lighting Sri Lanka Uva Province and Eastern Province projects are being implemented with financial assistance of USD 89 million obtained from the Exim Bank of China to achieve 100 percent electricity coverage in rural areas.

Port

Magampura Mahinda Rajapaksa Port

Chinese assistance for Ports sector covers 26 percent of the total project portfolio at present. Financial assistance received from China for port development was entirely committed for the construction of Phase I and Phase II of Magampura Mahinda Rajapaksa Port.

Magampura Mahinda Rajapaksa Port is a flagship project in the development programme of the country. The project consists of two Phases. The Exim Bank of China provided USD 307 million to cover 85 percent of the total cost of Phase I of the project while Sri Lanka Ports Authority provided the remainder of USD 53 million. Phase I of the project was completed in 2011.

Under Phase I of the project, 315m length of the East breakwater and 950m length of the West breakwater, two berths with total length of 600m, a marine structure to accommodate 100,000DWT container vessels and 1km length of approach channel with 210m width and 16m depth were constructed.

With a view to building the Magampura Mahinda Rajapaksa Port as a strong supplementary Port to Colombo Port as an international hub and supporting Sri Lanka to consolidate the status as a container transshipment hub in the Southern Asian Region Phase II of the project commenced in 2012. Phase II consists of construction of 6 numbers of container berths, oil terminal, yard and roads, deepening of entrance channel, construction of artificial Island, handling facilities and excavating new basin area to enhance the container handling capacity of the Port.

The total cost of the Phase II is USD 808 million. The Exim Bank of China extended a mixed credit for this project. It includes USD 600 million under the Preferential Buyer's Credit, RMB one billion under the Concessional loan and USD 51 million under the Buyer's Credit facility to cover the total cost of the project.

With the implementation of Phase II of the project, the whole landscape of Hambantota will be changed. On the one hand, Magampura port will be developed as the hub port for the South Asia region and it will help to meet the increasing demand for port activities created due to the fast economic development in the South Asian region in recent years. On the other hand, the project will help to develop greater Hambantota region. The development plan of Hambantota includes a large harbor industrial Zone, Industrial Park etc. It is also expected to be developed as an international logistic hub and industrial centre with the development of harbor, expressway, railway and airport.

Bunkering Facility and Tank Farm in Magampura Port

Establishment of a Bunkering Facility and Tank Farm is considered as an integral part of the Port Development project. The project will provide facilities to the Magampura Mahinda Rajapaksa Port to supply and store marine fuel, aviation fuel and LP gas and bunkering services for vessels passing by Sri Lanka. The main components of the project include construction of a bulk storage tank farm with a capacity of 82,000 cubic meters with mixing facilities for fuel oil, connection of pipe lines from tank farm to the oil terminal, loading/ unloading facilities and other service connections. The project is scheduled to be completed in 2013. The original total cost of the project was USD 76.58 million of which USD 65 million was obtained from the Export – Import (Exim) Bank of China to finance 85% of the project cost. The remainder was financed by the Sri Lanka Ports Authority. According to revised total cost, the project needs additional funds of USD 21 million to complete the project and it is expected to obtain the additional funds from a local bank.

Mattala Hambantota International Airport Project

The main objective of the construction of Mattala Hambantota International Airport is to develop an alternative international airport for the Bandaranaike International Airport. Construction of second International Airport at Mattala Hambantota has been considered important to support international travel and air sea cargo transshipment in conjunction with the Magampura Port. The project consists of several stages and Stage I and Stage II have been designed to handle short and medium term requirements.

Under Stage I, it is planned to facilitate one million passengers and 45,000MT of Cargo annually. After completion of Stage I, Hambantota International Airport will be equipped with a runway 3,500m in length and 75m in width, two sub taxi ways, apron to accommodate 10 aircrafts, 10,000 square meter terminal building and 5,000 square meter cargo terminal with modern 'State of Art' facilities which include Ground Navigation services and fire and Rescue facilities.

Out of the total cost of the Stage I of the project of USD 209 million, USD 190 million was provided by the Government of China under Chinese Government Concessional Loan. The Stage I will be completed at the end of 2012.

Irrigation

Chinese assistance was extended to the irrigation sector through provision of financial assistance for construction of the Moragahakanda Reservoir project in 2012. It represents 5 percent of the current project portfolio of China.

Moragahakanda Reservoir Project

The Moragahakanda Reservoir project aims to irrigate 82,000 hectares in the Central and North Central provinces. It is also expected to produce 66,000 metric tons of additional paddy per year and raise cropping intensity to around 181%. In addition, once the Moragahakanda project is completed domestic and industrial water supply to Matale, Anuradhapura, Trincomalee and Polonnaruwa districts will increased by 222%. A comparison of existing and future water supply of the four districts is given below.

Table 28 Comparison of Existing and Future Water Supply

District	Present	Future
Matale	6.1	31.2
Anuradapura	9.4	15
Trincomalee	8.3	34.2
Polonnaruwa	4.9	12
Total	28.7	92.4

Source: Ministry of Irrigation and Water Resource Management

Drilling Testing in Moragahakanda Dam Access

Annual fuel cost savings with the 20MW of hydropower generated from the project will be around USD 2.49 million. The average annual fish production potential of the reservoir is estimated to be around 4,700 tons per year, representing a net benefit of USD 1.67 million annually. Among other benefits, reduction of flood damage in the downstream area, improvement of the environment due to enhancement of the water table in the reservoir area and conveyance paths and benefits to the wildlife enhancement of eco – tourism will be significant.

China Development Bank provided a facility loan of USD 214.2million to finance the cost of Moragahakanda Development Project.

Railway

During the last five year period, China has contributed substantially to the development of railway sector. The total assistance obtained from China for railway projects during this period was USD 168 million. Of this amount current project portfolio for railway sector is USD 103 million and it represents 2% of the total project portfolio.

13 Nos. Diesel Multiple Units to Sri Lanka Railways

The Exim Bank of China provided Chinese Government Concessional loan of RMB Yuan 700 million (approximately USD 102.5 million) for procurement of 13 Diesel Multiple Units for Sri Lanka Railways in 2010. Of these 13 units, 7 units are for normal up country service, 4 units for the Kelani Valley line and the remaining 2 units for up country service with air conditioned coaches for tourist transportation. The Diesel Multiple Units available in Sri Lanka Railways at present cannot run on the main line beyond Rambukkana due to their length, curves in the railway line and low hauling power of the engines. Therefore, these Diesel Multiple Units are specially designed with a short length of 50 feet coaches and double engines in front and rear. The four units designed for Keleni Valley line also have short lengths as the Kelani Valley line also has curves and existing Diesel Multiple Units cannot run fast on the line.

Seven numbers of Diesel Multiple Units have already been procured. It is scheduled to procure the remaining 6 numbers of Diesel Multiple Units in 2012.

Cars for re-exportation at Magampura Port

First batch of 7 Nos. of Diesel Multiple Units for Country and Kelani Valley Services

Matara – Beliatta Section of Matara – Kataragama Railway Extension Project

The Government has assigned high priority to the implementation of the Matara – Kataragama Railway Extension project with the objective of extending the railway service up to Kataragama. It is expected that the Matara – Kataragama Railway Line Extension project will improve the transport system in the Southern Region by providing an efficient rail transport service from Colombo to Kataragama. With the construction of a fully fledged harbor in Hambantota and Airport at Mattala, Hambantota is expected to be developed as a growth centre in the Southern Region. Therefore, extension of the railway line from Matara to Kataragama would be an integral part of the transportation development plan of the region. The project is planned for implementation in three stages. Stage 1 of the project includes the construction of the railway line from Matara to Beliatta. It is expected to construct the railway line from Beliatta to Weerawila under Stage II and from Weerawila to Kataragama under Stage III.

Under Stage I, 26.75km length of single line broad gauge rail track from Matara to Beliatta and structures such as culverts, bridges, viaducts, those required over the Nilwala river flood plain, level crossings, underpasses, overpasses, tunnels, 4 numbers railway crossing stations, 2 numbers sub stations and functional requirements of stations will be constructed. The Exim Bank of China has agreed to finance Stage 1 of the project at a total cost of USD 278.2 million on concessional terms under Preferential Buyer Credit facility and Chinese Government Concessional loan.

Hungary

Hungary is one of the emerging donors in the west which extended financial assistance for implementation of development projects mainly in the water supply and fisheries sectors in sir Lanka.

Table 29 Hungarian Funded Projects 2005-2012

Year	Projects	Type
2009	Rehabilitation of Labugama water treatment plant	Loan
	Rehabilitation of Kalatuwawa Water Treatment Plant	Loan
	Supply of One Dredger and related Equipment for Excavation and Cleaning of Flit for Tsunami Affected Areas.	Loan

Source: external resources Department

The Government of Sri Lanka entered into three agreements worth of Euro 50 million with the Export Import Bank of Hungary in 2009 for the construction of the Labugama and Kalatuwawa water supply projects and supply of a Dredger and related equipment for Excavation and Cleaning of Flit for Tsunami Effected Areas.

Malaysia

The Government of Malaysia commenced extending of development assistance to Sri Lanka in 2007. It provided an interest free credit facility of USD 2.02 million to introduce a Disaster Recovery Backup System for Passport Printing and a Personalization System. Thereafter, Government obtained USD 4 million from the Export and Import (Exim) Bank of Malaysia in 2011 for the importation of 50 Terminal Tractors to the Sri Lanka Port Authority.

Middle East

The Saudi Fund for Development (SFD), OPEC Fund for International Development (OFID), Kuwait Fund for Arab Economic Development (KFAED), and the Government of Iran are the bilateral and multilateral development partners in the Middle East Region who have extended foreign financing for implementation of development projects in Sri Lanka since the mid 1970s. These development partners have offered a significant amount of foreign financing on concessionary terms for implementation of development projects.

Table 30 Committed/Agreed Foreign Financing

Donor	2011	2012	2013*
Kuwait Fund	10.5	62	30
Saudi Fund	-	60	100
OFID	-	40	60
Total	10.5	162	190

Source: Department of External Resources

Kuwait Fund for Arab Economic Development (KFAED)

The Kuwait Fund for Arab Economic Development (KFAED) has provided development assistances since 1975 to Sri Lanka and has committed USD 196 million for implementation of development projects in education, irrigation and road sectors in Sri Lanka.

The KFAED agreed to provide USD 62 mn for Rehabilitation and Reconstruction of 25 Bridges Project in 2012 which is USD 50 mn higher than 2011 commitment.

The South Eastern University of Sri Lanka Development Project Phase 1-A and 1-B, and Kalu - Ganga Development Project and Bridges Reconstruction project are being implemented under KFAED assistance.

Health centre at South Eastern University

The KFAED has also agreed to provide foreign financing for Rehabilitation and Reconstruction of Weak and Narrow Bridges on National Highway Network in the country. It is targeted to rehabilitate and reconstruct 25 bridges during three years period commencing 2012. The total cost of the project is USD 62 million. The Loan Agreement is scheduled to be signed at the end of 2012.

Table 31 Project Funded by KFAED

Year	Project	Loan/Grant
2005	Strengthening of Tertiary Education & Administrative Institutions Project	Loan
	Feasibility Study of Moragolla Hydropower Project (Grant)	Grant
2007	South Eastern University -Phase 1"A"	Loan
2009	Kalu-Ganga Development Project	Loan
2011	South Eastern University -Phase 1 "B	Loan

Source: Department of External Resources

Saudi Fund for Development (SFD)

Saudi Fund for Development (SFD) has extended foreign financing on concessional terms since 1981 amounting to USD 165 for development of water, power, irrigation, health, and road sectors in the country.

During the last three year period SFD committed USD 46 mn for the Kalu Ganga Development project, USD 20 mn for Epilepsy Hospital project, and USD 60 mn for the Road Network Development project.

The SFD has also agreed to provide financial assistance for implementation of the Badulla – Chenkaladi road project during 2013. The total estimated cost of the project is USD 121mn of which USD 103 mn is expected to be financed by SFD.

Table 32 Project Funded by SFD

Year	Project	Loan/Grant
2005	Neuro Trauma Project	Loan
2008	Epilepsy Hospital & Health Centres Project	Loan
2009	Kalu-Ganga Development Project	Loan
2012	Road Network Development Project	Loan

Source: Department of External Resources

OPEC Fund for International Development (OFID)

The OFID provides assistance through co-financing on concessional terms along with other development partners for development of the road, power & energy, and irrigation sectors based on the Government priority. They provide financial assistance at a 1.5 - 3.2 percent interest rate with a repayment period of 15 to 20 years inclusion of a 5 year grace period.

The National Highway Sector Project, the Kalu-Ganga Development Project and the Road Network Development Project were the major projects funded by OFID during the last five year period. The total assistance

Signing of Loan Agreement of Road Network Development Project

Visit of OFID Director General to review Progress of Kaluganga Development extended by the OFID for the projects is USD 64 mn.

In addition, considering the request made by the Government of Sri Lanka, OFID has agreed to provide USD 50 million to finance the rehabilitation and improvement of 45 km of national roads and the Narahenpita- Nawala bridge in the Colombo District. The Loan Agreement is scheduled to be signed in January 2013.

Table 33 Project Funded by OFID

Year	Project	Loan/Grant
2009	National Highway Sector Projec	Loan
2010	Kalu-Ganga Development Project	Loan
2012	Road Network Development Project	Loan

Source: Department of External Resources

Iran

The Government of Islamic Republic of Iran has provided development assistance through the Export Development Bank of Iran (EDBI) since 1975. The priority areas of development assistance are irrigation, power and energy and development of economic infrastructure. The total amount of loans extended by the Iranian Government as at 31st August 2012 is USD 533 million.

The Uma Oya Development Project with assistance of USD 450 million and Rural Electrification 8 projects with assistance of USD 98 million are currently being implemented under EDBI credit facility.

Table 34 Project Funded by Iran

Year	Project	Loan/Grant
2009	Uma Oya Multipurpose Development Project	Loan
2010	Rural Electrification –RE 8 Project	Loan

Source: Department of External Resources

SAARC Countries

India

Although the development cooperation between India and Sri Lanka has a history of 40 years Indian assistance for economic development of Sri Lanka significantly increased only in 2008 and thereafter. The total assistance extended by India during the last 5 year period was USD 1,453 million of which USD 1127 million was loan assistance and USD 326 million was grant assistance. The loan assistance is extended by the Export Import Bank (Exim Bank) of India while grant assistance is provided directly by the Government of India.

Provision of grant assistance by the Government of India has substantially increased during the last few years mainly for social infrastructure development, emergency rehabilitation and reconstruction activities. Grant assistance is extended through Special Development Projects and Small Development Projects. Suitable grant project proposals for financing under Special Development Projects are selected through mutual consultation between the two Governments. Accordingly, the Government of India committed grant assistance of around USD 260 million for construction of 49,000 housing units in 2012. In addition, construction of 1,000 pilot houses with grant assistance of USD 10.0 million was completed this year. Rehabilitation of Kankesanthurai harbor at a cost of Rs. 2,200 million and construction of Dickoya hospital at a cost of Rs. 1,200 million are some of the projects being implemented under Special Development Projects. Grant assistance through Small Development Projects has been provided by the Government of India since 2005 under the Memorandum Understanding (MOU) signed between the two Governments. The Government of India provides a maximum of Sri Lanka Rupees 300 million for a project under this category and has committed around Rs. 1400 million during the last 8 year period. Supply of medical equipment, fishing equipment and roofing sheets, rehabilitation of the Palmyrah Development Institute, repairing of schools in the Northern Province and rehabilitation of Achuvely Industrial Zone etc. are some of the projects being implemented under Small Development Projects.

The Exim Bank of India provides loan assistance to Sri Lanka on requests made by the Government of Sri Lanka through lines of credit and buyer's credit facility. Loan assistance provided under the line of credit refers to long term low interest credit extended by the Government of India through the Exim Bank of India while loan assistance provided under buyer's credit refers to long term credit with commercial terms extended to recipient countries by the Exim Bank of India to finance their imports of Indian products. Of the total loan assistance extended by the Exim Bank of India around USD 1,066 was provided as line of credits and the remaining USD 60.09 million was provided under buyer's credit facility.

Challenges for utilization of Indian Assistance

When utilization of Indian assistance, the Government has to face several challenges. In terms of the procedure of the Exim Bank of India, contract agreements have to be signed initially and submitted to the Exim Bank of India to process loans for relevant projects. When selecting contractors for projects they are selected only from Indian companies. According to the procedure of the Exim Bank of India, it is possible to follow open tender procedure restricted to India to select contractors for projects financed by the bank. However, currently there are only two Indian companies available for implementation of railway sector projects in Sri Lanka. One company is qualified for importation of rolling stocks and the other company is qualified for construction/rehabilitation of railway lines. Therefore there is no competition when contractors are selected for railway projects financed by India. Therefore, it is the responsibility of the relevant line Ministry to obtain a list of internationally qualified Indian contractors from a reliable source and select relevant contractors for their Indian funded projects following the competitive tender procedure and negotiate with Indian contractors in an effective manner and decide the contract prices.

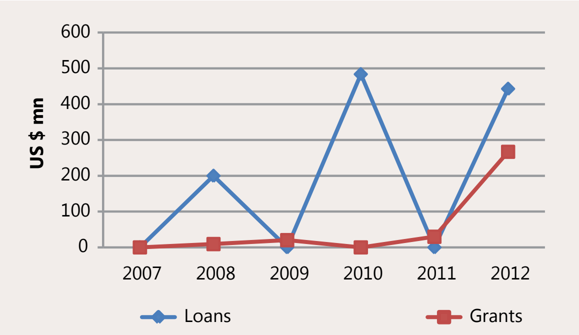
Although the Government of India provides a substantial amount of loan assistance the areas that Indian loan funds could be utilized in an effective efficient and effective manner are limited. Main purpose of Loan assistance extended by the Exim Bank of India both through line of credit and buyer's credit facility is to promote exports of Indian origin goods to recipient countries. One condition for utilization of Indian funds is that there should be import content at least 70% of goods of Indian origin. Therefore, Indian assistance could be utilized only for projects which are qualified to use goods of Indian origin.

Utilization of Indian assistance for development and improvement of railway service is considered feasible as Indian rolling stocks, railway tracks and signaling system are more suitable to Sri Lanka and more compatible with Sri Lanka railways. Further, the Indian railway is the world's fourth largest industry and is technically qualified for manufacturing of rolling stock, modernization of signaling systems, upgrading of railway tracks and track laying. Rehabilitation of rail tracks and relaying of railway track involves lot of imported items. Improvement of railway service also needs replacement of old rolling stock with new rolling stock. Therefore the Government strategy is to utilize Indian lines of credits to implement priority railway projects. Out of the total loan assistance obtained from the Exim Bank of India during the last five year period around USD 970 million has been allocated for railways, which represents 85% of the total loan assistance obtained from the Exim Bank of India during that period.

Commitments and Disbursements from India

The total commitment made from India for the last 6 year period from 2007 to 2012 was USD 1453 million. Out of the total commitments made during the last 6 years, the highest amounts of commitment were made in 2012 and it was USD 710 million of which USD 260 million was grant assistance. The next highest commitment was made in 2010 and it was USD 484 million.

Chart 38 Indian foreign financing Commitment during 2007-2012



Source: Department of External Resources

Table 35 Indian foreign financing Commitment during 2007-2012

Year	Loan	Grant	Total
2007	-		-
2008	200	9	209
2009	-	20	20
2010	484	-	484
2011	-	30	30
2012	443	267	710
Total	1127	326	1453

Source: Department of External Resources

The total disbursement from India for the period from 2007 to as at 30th September 2012 was USD 487million. The highest disbursements were recorded in 2011. They amounted to USD 208 million.

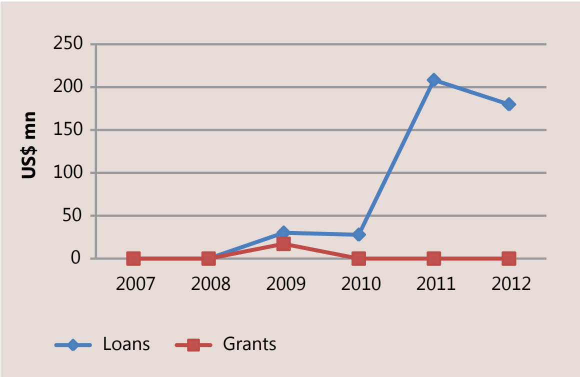
Indian financing is mainly for development of the railway sector. Around USD 967 million has been obtained from the Exim Bank of India for improvement of the railway sector during the last five year period. As informed earlier, it accounts for 85% of the total loan assistance obtained from the Exim Bank of India during that period. USD 60 million has been obtained for improvement of water supply. In addition, action is being taken to obtain USD 200 million from the Government of India for implementation of Trincomalee Coal Fired Power Plant. Accordingly, Indian financing is mainly for development of railways, supply of drinking water, power generation and procurement of capital goods from India.

Table 36 Disbursements from India from 2007 to 2012
USD in Mn

Year	Loan	Grant	Total
2007	14.6	-	14.6
2008	0.5	-	0.5
2009	30.1	17.1	47.2
2010	27.8	-	27.8
2011	208.0	-	208.0
2012	189		189
Total	470.0	17.1	487.1

Source: Department of External Resources

Chart 39 Disbursements from India from 2007 to 2012
USD in Mn



Source: Department of External Resources

Sectoral Contribution
Railway Infrastructure

Southern Railway Project

The main objective of the project was to upgrade the railway track from Colombo to Matara to run trains at a maximum speed of 100 kmph, import 20 Diesel Multiple Units (DMUs) and 3 locomotives, train 600 personnel of Sri Lanka Railways in India and provide rolling stock maintenance facilities at Alutgama, Galle and Colombo. The total cost of the project was USD 212.4 mn. of which USD 167.4 million was provided by the Exim Bank of India. The project was completed in 2012.

Upgrading of the Southern Railways from Colombo to Matara has increased the average operating speed from 40 kmph to 100 kmph allowing the express trains to cover the distance from Colombo to Galle in around 2 hours. 20 DMUs and 3 locomotives imported from India have increased the train capacity as well as frequency of train operations. The DMUs are specially designed for long distance and intercity travel and they have improved the long distance and intercity train service. About 595 personnel were trained in India.

Restoration of Northern Railways

The objective of the project is to restore the Northern Railway Service destroyed by the terrorists. The main components of the project are reconstruction of railway lines from Omanthai to Pallai - a distance of 90 km, Maddawachchiya to Thalaimannar - a distance of 110 km, Pallai to Kankesenthurai -a distance of 55 km and setting up of signalling and telecommunications systems for the Northern Railway line.

The Government obtained USD 652 million from the Government of India on concessionary terms to implement this project. The entire cost of the project would be financed by the Government of India. The project commenced in early 2011 and is scheduled to be completed in 2014.

Construction of Madu - Thalimanner Railway Line

Upgraded of Southern Railway Line

Water

Greater Dambulla Water Supply Project Phase 1

The objective of the project is to provide safe drinking water facilities to the people, around 300,000, living in the areas of Dambulla, Galewela, Sigiriya Habarana, Palugaswewa, Naula, Palagolla and Kekirawa. It is proposed to be implemented in the Matale district and Anuradhapura district covering 200 Nos Grama Niladhari Divisions. The total cost of the project is USD 77.8 million of which USD 60.69 million is provided by the Exim Bank of India and the remaining USD 17 million is provided by the Peoples Bank.

Energy

Implementation of 2x250 MW Trincomalee Coal Fired Power Plant

The objective of the project is to establish a Coal Power Plant in Sampur, Trincomalee to generate 500 mw and add to the national grid. The project is proposed to be implemented through a joint venture between the Ceylon Electricity Board (CEB) and NTPC of India. In addition to the contribution to be made by the CEB and NTPC, action is being taken by the Government to obtain a credit facility from India to construct a dedicated jetty to unload coal, transmission line from power plant site at Trincomalee to Habarana and provide the equity contribution of the Ceylon Electricity Board.

Housing

Indian Housing Project

The Government of India has agreed to provide grant assistance of USD 270 million for the construction of 50,000 housing units in Northern, Eastern, Uva and Central province under the Special Development Projects. Of the 50,000 housing units, construction of 1000 pilot houses in the Northern Province has already been completed at a cost of USD 10 million. The remainder of 49,000 houses are proposed to be constructed at a cost of USD 260 million. The project includes reconstruction of 38,000 houses under the owner- driven model for IDPs in the Northern and Eastern Provinces, repair of 5,000 houses under the owner-driven model for IDPs in the Northern and Eastern Provinces, construction of 6,000 houses units by agencies for vulnerable sections of IDPs in the Northern and Eastern Provinces and for Indian Origin Tamils in the Plantation sector in the Central and Uva Provinces. Relevant Memorandum of Understanding was signed between the two Governments on 17th January 2012 and the project commenced in 2012.

Port

Rehabilitation of Kankesanthurai Harbour (KKS Harbour)

The Government of India provided a grant facility of USD 19.5 million for rehabilitation of KKS harbor under the Special Development grant assistance projects. The project is being implemented in two stages. In stage 1 includes Wreck Removal and Hydrographic Survey and Soil Investigations and stage 2 covers Repair to Breakwater, Jetty and Deepening of the Harbour and Construction of Breakwater. Wreck removal was completed in January 2012.

Health

Construction of 150-bed hospital at Dickoya and Construction of 200-bed hospital at Vavuniya

Construction of a 150-bed hospital at Dickoya project is already being implemented under Indian Special Development Projects grant assistance of USD 10 million. It is expected to complete it in June 2013. Construction of 200-bed hospital at Vavuniya project will be started under Indian grant assistance at the end of 2012.

Construction of Dickoya Hospital

Vocational Training Centres

The Government of India has agreed to provide a grant assistance of Rs. 2,614 million for the rehabilitation of four vocational training centers at Vantharaimulai and Ondachchimadam in Batticaloa District and in Nuwara Eliya and Trincomalee and establish of two vocational centres in Jaffna and Vavuniya. It has already provided Rs. 540 million to rehabilitate vocational training centers at Vantharaimulai, Ondachchimadam and Nuwara Eliya.

Pakistan

Development cooperation between Sri Lanka and Pakistan commenced in 1991. Sri Lanka obtains foreign financing from the Government of Pakistan by way of loans and grants.

The Government of Pakistan provided a credit facility of USD 5 million in 1991 for importation of Railway wagons. Out of USD 5 million, USD 3 million was utilized for Supply of 40 wagons for Sri Lanka Railways in 1996. The remainder of USD 2 million of the credit line was utilized to import 15 wagons. Out of them, 9 wagons were received in December 2011 while the other 6 wagons were received in February 2012.

Further, the Government of Pakistan extended a credit facility of USD 50 million in 2006. Of that amount USD 45 million was utilized for procurement of equipment/Items from Pakistan.

The Government of Pakistan has also agreed to offer a credit line up to a sum of USD 200 million equivalent in Pak Rupees to Sri Lanka to utilize USD 150 million for the construction of housing units for slum and shanty dwellers in the Colombo Metropolitan area & Suburbs and the remaining USD 50 million for importation of livestock, plant and machinery of Pakistani origin.

The Government of Pakistan has so far provided two grant facilities for improvement of infrastructure facilities of schools amounting to USD 125,000 to construct a three storied building for the Babusalam Maha Vidyalaya, Pasyala in Gampaha District in 2011 and USD 90,000 for the construction of a school building at Aksha Maha Vidyalaya in Vavuniya in 2012.

Advanced Economies

Australia

Sri Lanka obtains grant assistance from the Australian Government through AusAID and loan assistance from Commercial Banks and Export Credit Insurance Corporation Australia (EFIC) through the Australian Trade Commission (AusTrad).

Australia's grant aid programme increased significantly during the last five year period from 2007 to 2011 especially, after the defeat of terrorism in 2009. Assistance was focused mainly on resettling civilians who were displaced due to the conflict. Accordingly, assistance obtained to meet the basic humanitarian needs including 10,000 metric tons of food aid, de mining support for the clearing of around 60 km^2 of land, reconstruction of around 2,700 houses in the Northern Province and providing seed and agricultural equipment to around 30,000 rural families. Since 2009 assistance of A$ 112 million was obtained. This assistance was focused on key priority areas such as water supply schemes to increase the access to safe drinking water, sanitation facilities, diary production, education in conflict affected communities in the Northern and Eastern provinces, community rehabilitation, health, environmental sustainability, governance well as capacity building programmes.

Apart from that, USD 2.0 million for provision of water supply to approximately 3000 families in 12 villages in Mannar and Trincomalee districts and USD 33 million for Education Sector Development were obtained during 2011.

Extending loan assistance from commercial banks and EFIC through the Australian Trade Commission commenced in 1999 and since then around USD 232 million loan assistance was obtained particularly for the sectors of water supply, agriculture and livestock. Accordingly, loans of USD 16.1 million from HSBC Bank and USD 105 million from Australia & New Zealand Investment Bank through EFIC was obtained in 2008 and 2010 for Supply and Installation of 5,000 Solar Powered Drip Irrigation Units project and Integrated Water Supply Scheme for the Unserved Areas of Ampara District project Phase III respectively. In addition, a loan of USD 12.94 million was obtained in 2011 from Cooperative Centrale Raiffeisen-Boerenleenbank, Netherlands and EFIC, Australia for importation of dairy animals from Australia.

Water Supply

Integrated Water Supply Scheme for Ampara District

The objective of the project is to improve the health and living standards of 88,200 people living in semi urban and rural areas of the Ampara District by providing safe drinking water. This is the third water supply scheme for the Ampara District under the Australian Export Credit Facility. Phase I and II of this project were implemented with assistance from Australia during the period from

1999 to 2006 at a cost of USD 22 mn and USD 55 mn respectively.

Phase lll covers 13 Divisional Secretary divisions of the Ampara District including Himidurawa, Konduwatuwana, Uhana, Gonagolla, Bakkiella, Chadayanthalawa, Navithanveli, Chawalakade, Paragahakele, Namal Oya, Inginiyagala, Hingurana, Damana, Madana, Thottama, Wadinagala, Deegawapi and Muwangala.

Livestock Development Sector -Importation of Diary Animals

Acute shortage of quality diary animals in the country has hampered the development of the dairy industry in Sri Lanka. This project aims at promoting the dairy industry in Sri Lanka by introducing improved breeds, feed resources ,better animal health, a well developed collection and processing network, good research and extension services with the aim of reducing the drain on the country's foreign exchange resources and supporting employment generation and family income.

Accordingly, arrangements have been made to increase the milk production in Sri Lanka by importing 4,500 diary animals from Australia and developing farms belonging to the National Livestock Development Board (NLDB) at Bopaththalawa, Nikaweratiya and Siringapatha.

Dairy Animals Received from Australia

This project has been formulated for this purpose and it will be implemented in two Phases. Under Phase I of the project, 2000 upgraded diary animals are proposed to be imported from Australia. Of this amount 500 upgraded animals were imported in January 2012 and handed over to the Bopaththalawa farm. Action is being taken to import the remaining 1500 cattle by December of this year and the Nikaweratiya and Siringapatha farms will be developed accordingly.

The total cost of Phase I of the project is USD 12.94 million and it is financed from the loan extended by Cooperative Centrale Raiffeisen – Boerenleenbank (Rabobank) of the Netherlands and Export Finance Insurance Corporation (EFIC) of Australia.

Human Resources Development

Following the request made by the Government of Sri Lanka, the Australian Government provided 29 and 30 scholarships in 2011 and 2012 respectively for Government officials and young professionals to follow master degree programme in Australian Universities to enhance the human resources capacity in key sectors such as governance, health, education and environment etc.

Western Countries

A large number of western development partners have extended their support over years for social and economic development in Sri Lanka through provision of financial assistance. The lager part of this assistance is received in the form of export credits and grant assistance. United Kingdom, the United States, Austria, Belgium, Canada, France, Denmark, European Investment Bank, European Union, Germany, Netherlands, Nordic Development Fund, Norway, Russia, Spain, Sweden, and other emerging bilateral funding agencies are the prominent Western Development Partners.

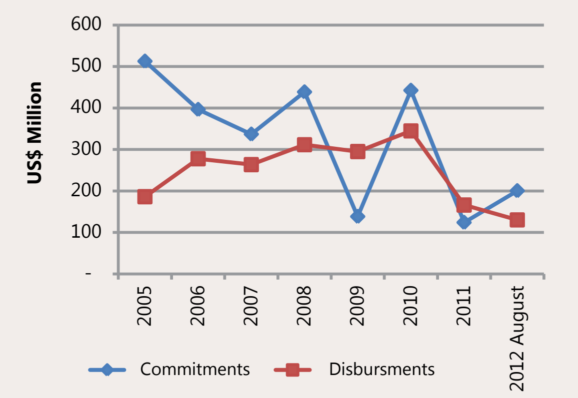
Mainly, Western financial assistance is obtained with the objectives of facilitating advanced technology transfer to the country, strengthening economic & bilateral relationships and filling the investment gap with foreign financing on terms that are acceptable to Sri Lanka.

Sri Lanka makes every endeavor to obtain external assistance at competitively low interest rates to foster economic development through facilitating the implementation of urgent and prioritized development projects. The underlying objective of this strategy is to sustain the higher growth momentum by maintaining a sufficient investment ratio while reducing the pressure on the balance of payments. The Government has taken several initiatives to soften terms and conditions of export credit facilities by strengthening development cooperation with these western countries with the objective of fixing more favorable terms and conditions.

Export credit assistance received from the western development partners have been generally utilized to complete commercially viable and prioritized development projects which can generate sufficient economic benefits or revenue flows over medium and long term to facilitate loan repayment. Most of the export credit facilities are used to procure equipment, material and machineries which are essential to carry out development projects. Accordingly, these export credit facilities are utilized to complete projects such as expansion of rural electrification, provision of water supply & improvement of sewerage facilities, construction of bridges in the national road network and national rail network.

Grant assistance obtained from the western development partners are generally channeled to health, education and livelihood support and other social services sectors. Specially, these grant assistance are mobilized to achieve the objectives of the human resource development sector, specified in the Government's Development Policy Framework with a special emphasis on education, health, livelihood support and governance.

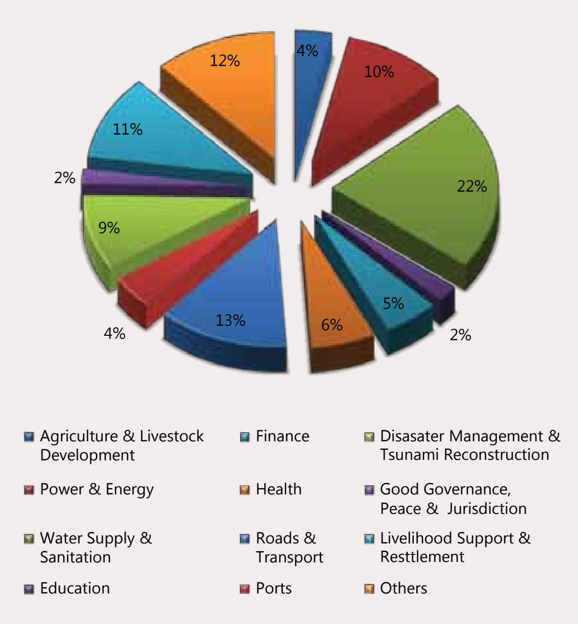
Chart 40 Commitments & Disbursements Movements from 2005 to 2012 August



The total disbursements and commitments from western development partners have varied from time to time. The main reason for this trend is the prudent, flexible external financing strategy, employed by the Government that directs borrowing authorities to borrow from low cost financing sources with favorable financial terms providing at the time. Therefore, the Government has inclined to finance the investment gap from regular sources including multilateral lending agencies and bi-laterally from countries.

The disbursement pattern often tends to change, as most of the assistance is obtained to finance projects which have shorter life span averaging from one to three years.

Chart 41 Sectoral Distribution of Western Commitment from 2005 to 2012 August



Austria

The development cooperation programme between the Government of Sri Lanka and Austria commenced in 1995. Since then economic and technical assistance have been extended to Sri Lanka covering the main sectors of Health, Water Supply and Waste Water Management, Infrastructure and Power Generation. Most of the financial assistance obtained from Austria belongs to the category of zero interest export credit. Raiffesen Bank and Unicredit Bank provide zero interest loans for development projects in which the total estimated cost is less than Euro 10 million. These two banks charge a nominal amount of commitment fee and management fee which is less than one percent for the loan amounts extended. The Government of Austria facilitates these export credits by providing grant assistance to cover 40 percent of guarantee charge of the loan.

Sri Lanka has obtained total finance assistance of USD 217.7 million from Austria. It comprised loans, amount to USD 105.4 million and export credits, amount to USD 112.3 million. Financing assistance in the form of Export Credits have been obtained for the implementation of priority projects including Rehabilitation of Old Laxapana and Greater Colombo Sewerage Rehabilitation Project. In addition, Austrian expertise and quality of material have been considered in securing financial assistance of USD 13.5 million for rehabilitation of the Eastern Railway line and construction of five bridges in 2006.

In addition, Austrian Authorities have given their consent to finance three projects namely (i) Projects for Supply, of 2 Nos. of Cardiac Catheterization Systems and 2 Nos. Echo Cardiography Machines to the Cardiology Unit of the National Hospital of Sri Lanka (Euro 2.38 million) (ii) Mahiyanagana Water Supply Project (Euro 10.4 million) (iii) Supply of Railway Steel Bridges and Auxiliary Supplies and Services (Euro 7.6 million). Construction of Kochchikade Bridge on A3 Road (Euro 8.5 million). Enhancement of Advanced Technical Institute Kandy (Euro 27.5 million.)

Table 37 Austrian Funded Projects from 2005 to 2012 August

Year	Projects	Type
2006	Enhancement and Strengthening of the Road Infrastructure by Construction of Five Bridges	Loan
2007	Greater Colombo Sewerage Rehabilitation System	Loan
2008	Railway Bridges to Extend Rail Tracks	Loan
	Rehabilitation & Augmentation of Kirindioya Water Supply Project	Loan
	Supply of Modern Medical Equipment for Teaching Hospital Kurunegala.	Loan
	Upgrading of Technical Education (SLIATE)	Loan
2010	Rehabilitation of Old Laxapana Hydroelectric Power Plant	Loan
	Rehabilitation of Eastern Railway Line	Loan
2012	Supply of Cardiac Catheterization Systems and Cardiograhpy Machines to the Cardiology Unit of the National Hospital of Sri Lanka.	Loan
	Supply of Railway Steel Bridges and Auxiliary Supplies and Services.	Loan
	Mahiyangana Water Supply Project.	Loan

Source: External Resources Department

Project for Supply of Cardiac Catheterization Systems and Cardiography Machines to the Cardiology Unit of the National Hospital of Sri Lanka (NHSL) for a sum of Euro 2.38 million is planned to be implemented in 2012. The cardiology unit at NHSL provides treatments to thousands of patients coming from all over the Island who are suffering from non-communicable diseases like Hypertension, Ischemic Heart Diseases, Dislipidemia etc. At present, this unit is unable to function at its full capacity due to frequent breakdown of Cath-Lab machines. The heavy usage of available machines over many years has caused this situation resulting in lower quality outputs from these machines. This has created many difficulties in performing angiography applications. Therefore, implementation of this project will greatly assist to overcome the issues face by the Cardiology Unit.

Negotiations are in process for the implementation of the Mahiyanagana Water Supply Project under Austrian export credit assistance for a sum of Euro 10.4 million. The existing Mahiyangana Water Supply Schemes cover only 9 percent of the total water requirement of the Mahiyanagana Divisional Secretariat area. Some of the people living outside the pipe born water distribution area are suffering from kidney ailments possibly due to consuming water with high level of hardness. Therefore, this project has been designed to provide safe drinking water for the people living in Ridimaliyadda D.S division and unserved areas of the Mahiyangana D.S Division.

Denmark

Sri Lanka initiated bilateral development cooperation with Denmark in 1968. The Development Cooperation Agreement signed in 1979 with Denmark was reviewed in 2003 by replacing the previous agreement. Accordingly, Denmark provides financial assistance, material resources, technical assistance, export credits and training opportunities to implement development activities in Sri Lanka. Up to now, Denmark has extended USD 336.5 million worth of development financial assistance since the commencement of bilateral cooperation in 1968. The total financial assistance comprises export credits of USD 208.9 million, loans of USD 79.26 million and grants of USD 48.34 million.

The Government of Sri Lanka has obtained Denmark Development Assistance especially to improve water supply and sewerage facilities taking into consideration the Danish expertise in providing safe drinking water as well as ensuring sewerage disposal. A Framework Agreement was signed between the two countries in April 2003 for this purpose and under this agreement the Government of Sri Lanka can obtain interest free loan facilities with a 10 year repayment period through Danish Banks for implementation of the development projects in Sri Lanka.

The Government of Sri Lanka has borrowed Euro 138 million from Denmark under export credit facilities to finance the Colombo Sewerage Rehabilitation, Towns South of Kandy Water Supply, Nuwara Eliya District Group Water Supply and Keleani Right Bank Water Treatment Plant Projects. Of these Water Supply and Sewerage projects, the first three projects have already been completed successfully.

Signing Agreement for Modernization of MILCO

Further, the Government has borrowed Euro 46 million from Denmark for the construction and development of Oluvil Port which is an important investment towards reducing regional imbalances. The project caters to large ships with in-built tanks exceeding the eight meter depth level mark.

Table 38 Danish Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Rehabilitation of Tsunami affected Water and Sanitation Services.	Grant
2006	Nuwara Eliya District Group Water Supply Project.	Loan
	Towns South of Kandy Water Supply Project	Loan
2008	Kelani Right Bank Water Treatment Plant	Loan
	Oluvil Port Development Project	Loan
2012	Modernization of Processing Factories of MILCO (Pvt) Ltd	Loan

Source: External Resources Department

Another significant project that is going to be implemented with Denmark assistance is the Modernization of Processing Factories of MILCO (Pvt) Ltd for a sum of Euro 33.7 million. The available machinery and the equipment in all four factories in Narahenpita, Ambewela, Polonnaruwa and Digana are 30 - 40 years old. It has adversely affected the efficiency of milk production for a long time. Therefore, modernization of processing factories of MILCO (Pvt) Ltd has been an urgent need to achieve the livestock sector development objectives in the Country. Accordingly, processing factories located at Digana, Polonnaruwa & Ambewela are selected for modernization under this project.

France

Sri Lanka has received financial assistance from France since 1971. The total financial assistance obtained from France is USD 359.3 million of which, USD 313.5 million has been obtained through export credits and loan assistance. This assistance was invested largely in development of Airport Services, Hydro Power Generation, Construction of Bridges in the National Road Network and Water Supply and Improvement of Health Services in Sri Lanka.

French assistance comes mainly under two categories.

a. Sri Lanka is a recipient of the Emerging Country Fund (RPE financing) which is governed by the French Ministry of Economy, Finance, Trade and Industry.

b. AFD (Agence Francaise de Development) is a specialized financial institution whose task is to implement the French Government's economic and social development aid policy. It operates in over 60 countries including Sri Lanka and provides untied financing through grants and loans with different levels of concessionality.

Laying foundation for Jaffna-Kilinochchi Water Supply and Sanitation Project

Trincomalee Integrated Infrastructure Project is one of the major projects initiated with the financial assistance of USD 76 million after the tsunami devastation in 2004. It consists of 3 main components; construction of roads and bridges, providing drinking water facilities and electricity distribution in the Trincomalee District and surrounding areas.

Under this project, 98 km of road section from Thirukkodyamadu to Trincomalee, on the A15 road and a 41 km section between Allai and Kantale on the D10 road and 11.9 km of road from Mawadichenai to Ganesapuram on the C – Class Costal road were reconstructed.

The project also includes construction of 5 new bridges on the A15 road namely Kayankerni Bridge (85m), Verugal Bridge (105m), Ralkuli Bridge (175m), Gangei Bridge (245m) and Upparu Bridge (315m). These bridges were opened to the public in September 2011. It paves the way to link between main townships as well as sub-urban areas to urban areas and rural villages with nearby towns. This helps to achieve the inclusive growth within the region by facilitating the efficient utilization of resources to enhance mobility and accessibility in the areas concerned. It also helped to ease the public transportation and created opportunities to transport their produce to the market and provided accessibility to health, education and other essential services by eliminating regional disparity. At present, almost all the construction work of this component has been completed.

Implementation of Jaffna & Kilinochchi Water Supply and Sanitation Project commenced with ADB and AFD co-financing assistance in 2011. The objective of the project is to improve water supply in the Jaffna Peninsula and Kilinochchi Districts, while providing sanitation infrastructure for residents living in the Jaffna Municipal Council area and strengthening water resources management in the Jaffna Peninsula. The project will supply 300,000 new water connections in the Jaffna and Kilinochchi Districts and connect 20,000 households (80,000 persons) in the Jaffna Municipal Council area to the sewer network. The total cost of this project is USD 164.04 million. The AFD contribution to this project is EURO 35 million (USD 48 million). The proceeds of the AFD loan will be utilized for the construction of a new water intake at Iranamadu Tank, construction of a water treatment plant, supplying and laying a raw water transmission main and supplying and laying part of the treated water transmission mains to the Jaffna Municipality.

Negotiations have been concluded for the implementation of a project for Widening and Reconstruction of 46 Bridges on the National Road Network at a cost of Euro 22 million. 46 weak and narrow bridges on the National Road Network will be replaced or reconstructed under this project. These bridges have been selected from Western, Southern, Uva, Sabaragamuwa, Central and North Western Provinces on a priority basis. Bridges which are located close to towns will be given high priority to eliminate traffic congestion. Replacement of structurally weak and narrow bridges will help to mitigate traffic congestion and traffic accidents while improving the connectivity of the road network.

Table 39 French Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Trincomalee Integrated Infrastructure Project	Loan
	Greater Trincomalee Water Supply Project	Loan
2007	Construction Sector Support Project	Loan
	Spatial Information Infrastructure for Reconstruction Monitoring Project	Loan
2008	Trincomalee Integrated Infrastructure Project	Loan
	Rehabilitation of Wimalasurendra and New Laxapana Power Stations	Loan
2010	Greater Trincomalee Water Supply Project	Loan
	Provision of Oxygen Concentrators Operating Theater & Medical Equipment to Tsunami Affected & Remote Hospital Project	Loan
2011	Implementation of Jaffna & Kilinochchi Water Supply & Sanitation Project	Loan
2012	Widening and Reconstruction of 46 Bridges on the National Road network.	Loan

Source: External Resources Department

Germany

Sri Lanka obtained loans and grants assistance from Germany to implement various development projects throughout the country. Construction of the Embilipitiya Paper Mill in 1973, purchase of eleven Locomotives, Construction of Randenigala and Rantambe Dam Projects and Sapugaskanda Diesel Power Plant Project are few flagship projects implemented in the past. Sri Lanka utilized German assistance mainly for development of Electricity, Small & Medium Enterprise, Water Supply and Vocational Training sectors.

Sri Lanka received first German financial assistance in 1966. Since then, Sri Lanka has received a sum of USD 1,242 from Germany. This includes loans and grants of USD 792.7 million and USD 449.6 million respectively.

Having recognized the effective contribution made to the vocational training sector by establishing the Ceylon German Technical College at Ratmalana, with its sharing of expertise knowledge from Germany, a new vocational training centre is being constructed in Kilinochchi with grant assistance from GIZ and KfW.

Table 40 German Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Emergency Transitional Aid for Flood Disaster	Grant
	DFCC IV Private Sector Development	Loan
	NDB Private Sector Promotion Programme	Loan
	Sapugaskanda Diesel Power Plant Project	Loan
	Rehabilitation of Electricity Supply in Jaffna Region	Loan
	Tsunami Housing Reconstruction Programme	Grant
	Study and Export Fund Tsunami	Grant
	Reconstruction of Water Supply Galle District – Phase II	Grant
	Infrastructure Programme Batticaloa	Grant
	Rehabilitation, Reconstruction & Modernization of Vocational Training	Grant
	Rehabilitation of Social, Technical and Productive Infrastructure	Grant
	Housing Project	Grant
	Promotion of Micro, Small and Medium Enterprises	Grant
2006	Reconstruction of the Water Supply Galle District – Phase I	Grant
	Rehabilitation of Social, Technical and productive Infrastructure Enhancement	Grant
	DFCC V Credit Line for SME in the North and East	Grant
	Promotion of Food Security and Reconciliation in the Batticaloa District	Grant
2007	Food Security in Conflict Transformation	Grant
	Micro Finance System Development	Grant
2009	Reconstruction of Water Supply Galle District – Phase II – Enhancement	Grant
2010	Reconstruction of Water Supply Galle District – Phase II Enhancement	Grant
2012	Construction of Mahamodara Maternity Hospital, Galle	Loan
	Vocational Training Institute in the North of Sri Lanka	Grant
	SME Development Programme	Grant

Source: External Resources Department

Completion of Mahamodara Maternity Hospital (Euro 28 million) which is the only maternity hospital situated in the Southern Province, where around 12,000 deliveries take place and services are provided to approximately 24,000 mothers annually is an important project which is implemented under financial assistance obtained from Germany. The objective of the project is to provide maternity and gynecology health care services to the female population of the Southern Province by reconstructing the hospital with 6000 bed maternity care facilities and 8000 patients treatment facilities at the outpatient department (OPD). Further, it is also expected to improve facilities of the consultation division, doctors and staff quarters and related infrastructure such as sewerage treatment and disposal unit, mortuary, lighting, power generation, car park etc.

The Netherlands

The Government of Sri Lanka has obtained financial assistance of USD 693.8 million from the Government of Netherlands by means of grant, loans and export credits. The Netherlands has extended Euro 123 million under the ORET Programme for financing of the Upgrading of Disaster Response Network in the Western Province and Selected Urban Areas (DRNP), Enhancement and upgrading of Advanced Technological Institutions (ATIs) at Mattakkuliya and Labuduwa under the Sri Lanka Institute of Advanced Technological Education (SLIATE), Implementation and Augmentation of Negombo Water Supply Project and Construction of Dikkowita Fisheries Harbour.

Implementation of the Development of Hambantota and Nuwara Eliya District General hospitals are at present in progress under the Netherlands Export Credit Facilities of Euro 78 million. As a result of the construction of a nine storied, 800 bed new hospital with modern medical equipment and other healthcare facilities, nearly 675,000 people living in Hambantota and other peripheral areas will have opportunities to obtain high quality health facilities. The Nuwara Eliya Hospital which will be built near the existing base hospital will be provided with 600 beds to cater nearly 700,000 people in the district. Further, the hospital will be equipped with modern medical equipment and other facilities, designed as a four storied building considering the topography of the site in order to preserve the natural environment of the vicinity.

Airborne Magnetic and Gamma Ray Spectrometer Survey Covering the Entire Sri Lanka including the Fringe of the Continental Shelf is a significant project, financed by the Netherlands fulfilling a long felt need since information gathered in the airborne magnetic survey conducted in 1958 is obsolete owing to the latest advanced technology. Therefore, a state-of-the art country-wide airborne magnetic/radiometric survey is essential in the context of the present development needs of the country. Hence, negotiations are in progress to obtain a loan facility of USD 16.4 million to finance the above project under Export Credit Facilities. The intended technology to be employed in this project; "Airborne Magnetic Spectrometer and Gamma ray survey" is the most cost effective method that can non-destructively investigate large areas in a relatively short period of time and locate potential sub surface mineral deposits. Further, this survey could also be used for mapping of ground water locations and salinity. Also in the petroleum sector, this data will be very useful for petroleum exploration activities.

Further, addressing timely needs in the health sector, two projects; Construction and Upgrading of Peripheral Blood Banks Coming under the National Blood Transfusion Services (Euro 23.7 million) and Upgrading the National Blood Transfusion Service of Sri Lanka with State of the Art Technology Giving Special Emphasis to North and East (USD 32.64 million) will be implemented under the Netherlands export credit facilities. The first project aims at developing infrastructure facilities and to providing urgently needed equipment for the 19 identified peripheral centres and providing essential blood bank equipment for the rest of the blood banks located in the Island. With the implementation of this project, National Blood Transfusion Services will ensure safe blood transfusion services and distribution of quality blood products throughout the entire country. The second project helps to provide the basic blood bank equipment to all the blood banks in Sri Lanka, as the present system operates with very old equipment, which triggers frequent breakdowns leading to a huge recurrent cost on the repairs hampering the effectiveness of the Blood Transfusion Service.

Table 41 The Netherlands Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Refloating of the "Diya Kowulla" and Repairs of KKS Port.	Grant
	Reconstruction of Tsunami Affected Fishing Boats	Grant
	Reconstruction of the Signaling & Communication System on the Tsunami hit Coastal Railway between Colombo and Matara	Grant
2006	Netherlands Sri Lanka Cultural Assistance Programme.	Grant
	Upgrading of the Disaster Response in the Western Province and Selected Urban Areas.	Grant
	Disaster Management & Emergency Response System.	Loan
2007	Supply of Two Multipurpose River Sea Vessels	Grant
	Disaster Management Communication & Response Project.	Loan
2008	Conservation & Restoration of the Old Dutch Naval Commissions House in Trincomalee.	Grant
	Negombo Water Supply and Optimization Project	Loan/ Grant
	Dikkowita Fishery Harbour Construction Project	Loan/ Grant
	Enhancement and Upgrading of Technical Education Project	Loan/ Grant
	Improvement of the Facilities and Programme of SLIATE	Loan/ Grant
2009	Conservation & Restoration of Ancient Dutch Fort in Jaffna	Grant
	Extension of a Disaster Management and Emergency Response System	Loan
2012	Development of Nuwara Eliya General Hospital	Loan
	Development of Hambantota General Hospital	Loan
	Upgrading the National Blood Transfusion Service and Construction & Upgrading of Peripheral Blood Banks in Sri Lanka	Loan

Source: External Resources Department

Sweden

Foreign financing from Sweden is provided through a country programme by way of grants, concessionary loans and export credits.

Financial assistance of USD 558.6 million has obtained from Sweden for the implementation of number of development projects since 1974. Total amount of the grant assistance received as of now is USD 325.6 million. This assistance has been utilized to implement projects in the areas of energy, education, roads and bridges, science and technology etc. Export credit facilities were extended to Sri Lanka on concessionary terms to finance important development projects relating to telecommunications, electricity, water supply and railway. The total amount received in this regard was USD 233 million.

Government has given priority to infrastructure development projects and research cooperation to be implemented with financial assistance from Sweden. Considering their expertise in the field of research and development, Sri Lanka has used grant assistance obtained from Sweden for institutional and capacity building programmes as well as for enhancing the quality of research activities of local Universities. Swedish International Cooperation Agency (SIDA) has made a significant contribution to improving primary and secondary education by constructing and rehabilitating 475 plantation schools in seven districts including Rathnapura, Badulla, Nuwaraeliya and Matale.

Table 42 Sweden Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Employment Sourcing & Delivery System	Grant
	Equal Access to Justice	Grant
	Small & Medium Enterprise Development for Pro-Poor Growth	Grant
	Enhancing the Capacity in Civilian Policing in Sri Lanka	Grant
	Computerization of Population Registry	Grant
	Rehabilitation of Provincial Roads in North East of Sri Lanka	Grant
2006	Establishment of E-Learning Center at the University of Colombo	Grant
	Consultancy Fund 2006- 2007	Grant
	Capacity Building of Faculty of Fisheries & Marine Sciences & Technology, University of Ruhuna	Grant
	Emergency Bridge Project	Grant
	University of Kelaniya Research Project	Grant
2007	Quality Infrastructure Development Project	Grant
	Ratmalana / Moratuwa & Ja-Ela / Ekala Waste Water Treatment Facilities Project	Loan
2009	Fourth Rural Electrification Project	Loan
2011	Rural Electrification Project 4 Extension	Loan

Source: External Resources Department

In the recent past, the Government of Sri Lanka has focused more on economic infrastructure development to attract foreign investment and maintain sustainable economic growth. With this objective Sri Lanka has obtained export credit facilities from Sweden to implement two economically viable projects namely Ratmalana/Moratuwa and Ja-Ela/Ekala Wastewater Disposal Project (USD 92 million) and Rural Electrification Project 4 (USD 19.5 million). Recently, Government has obtained yet another USD 54 million export credit facility to finance of Extension to the Rural Electrification Project 4 with the aim of expanding the electrification coverage of the North Central Province. All these borrowings have been made on concessional terms.

Spain

Sri Lanka entered into its first bilateral agreement with Spain in 2006 by signing a loan agreement for the project of Supply and Construction of Pre-Fabricated Metal Bridges for a sum of Euro 14.64 million. Subsequently, the development cooperation with Spain has been further strengthened by entering in to export credit agreements.

Construction of the Veyangoda Railway Crossing Fly-over (Euro 11.22), which has recently been initiated is a vital project financed under an export credit facility extended by Spain. Regular closure of railway gates at the Veyangoda Railway Crossing frequently causes heavy traffic congestion especially in the Veyangoda Town and surrounding areas. To overcome this problem, a Steel Fabricated Fly-over for a length of 432 meters including ramps at the railway crossing in Veyangoda town is being constructed as a turn-key project. This project would assist in reducing traffic congestion in the Veyangoda town area a great deal. It would also reduce the travel time of users of the Veyangoda – Nittambuwa – Ruwanwella Road (B 445) and Katunayake – Veyangoda Road (B 208).


Trincomalee Water Intake


Sangupitiya Bridge

Table 43 Spanish Funded Projects from 2005 to 2012 August

Year	Projects	Type
2006	The Supply and Construction of Pre-Fabricated Metal Bridges	Loan
2007	Design Supply & Setting up of Two Water Treatment Plants at Galle and Negombo.	Loan
2012	Veyangoda Railway Crossing Flyover Project.	Loan
	Greater Rathnapura Water Supply Scheme Phase I	Loan

Source: External Resources Department

Further, the project of Greater Ratnapura Water Supply – Scheme 1, will be financed with the assistance of Spain and negotiations have been successfully completed to obtain Euro 21.93 million out of the total cost of 25 million as a buyer's credit. DFCC Bank has agreed to finance the rest of the project cost. Under this project nearly 160,000 people in Ratnapura, Kuruwita and Pelmadulla Divisional Secretary Divisions will benefit as the project enhances accessibility to safe drinking pipe-borne water. Further, the Greater Ratnapura Water Supply scheme – Phase I would increase the drinking Water Supply by 13,000 cubic meters a day against to the present supply of 6,500 cubic meters per day. In addition to that this project would improve economic activities in Kuruwita Industrial Zone.

United Kingdom

Bilateral relationship between Sri Lanka and United Kingdom (UK) has been thriving over a long period of time since joining of the Commonwealth. In 1979, Sri Lanka received the first financial assistance from UK for a sum of USD 247.11 million as a grant for the construction of the Victoria Dam & Power station which was a significant milestone in the development cooperation history of the two countries. Since then, the total UK assistance extended to Sri Lanka amounts to USD 1,045.4 million which consists of grant assistance of USD 390.84 million, loan assistance of USD 202.55 million and export credit assistance of USD 452.05 million.

Many vital projects have been successfully completed under the grants assistance of UK in the early phase of economic development in Sri Lanka, including the construction of the Samanalawewa Hydro Electric Power Station (USD 28.21 million), Forestry Project (USD 21.19 million), Colombo Airport Development Project (USD 7.6 million), Electricity Power Distribution Project (USD 11.19 million), Save the Children Fund (USD 11 million), the supply of Single Deck Bus Project (USD 4.5 million) and Colombo Road Rehabilitation Project (USD 5.83 million).

Kantale treatment plant new pumps

In line with the rapid socio economic development of the country, the Government has obtained more loan assistance from UK for economic and social infrastructure facility developments such as construction of roads and bridges. Particularly, the Government of Sri Lanka has used the loan assistance received from Hong Kong and Shanghai Banking Corporation Limited (HSBC) of UK to construct a number of major bridges in the country resulting in a wide range of benefits in the form of regional development, improving access to provinces, reduced travel time. Further, modern technology employed in this regard helped to save costs compared with the conventional type of bridge construction.

The Regional Bridges Rehabilitation Project for a sum of Japanese Yen 14 billion was a key project funded by HSBC. Fly-overs at Nugegoda, Dehiwala, Kelaniya and Sangupitiya Bridge were built under this project. Construction of these bridges and Fly-overs mitigated the traffic congestion and reduced the travel time which ultimately contributes to efficient utilization of resources towards economic development.

The Rural Steel Bridges Project for construction of 210 permanent steel bridges varying in lengths from 06-30 meters covering the whole Island is another major project which is implemented with financial assistance of Great British Pounds (GBP) 35 million from HSBC. All the arrangements have been made to commence the construction of this project in the latter part of 2012.

HSBC of UK has agreed to extend a loan facility of GBP 45 million to finance the Regional Bridges Project, Phase – II. Under this project, it is expected to construct 104 steel bridges throughout the Island replacing the old bridges which are in a weak condition and it would facilitate transportation needs in many rural areas of the country by improving access to remote areas. Therefore, rural communities will greatly benefit from improved access and they will have better opportunities to enhance economic and social activities.

Table 44 UK funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Partial Reimbursement of IDA Debt Service paid as a grant in the form of Poverty Reduction Budget Support	Grant
2007	Regional Bridge Project	Loan
2010	Emergency Purchase of Container Handling Equipment for Ports Authority	Loan
2012	Construction of 210 Permanent Rural Steel Bridges	Loan
	Construction of Regional Bridges Phase II	Loan

Source: External Resources Department

Sangupitiya Bridge declared open by H E the President

United States

Development cooperation partnership between Sri Lanka and the United States (US) dates back even before 1956. Financial assistance from US to Sri Lanka is channeled through the United States Agency for International Development (USAID). US extends its development cooperation by means of grant assistance as well as loans. The first US grant assistance was extended in 1978 for a sum of USD 3 million for the Malaria Control Project. So far, US has provided USD 744.3 million worth of grant assistance to finance a diverse range of projects like agricultural development, water management, forest management, research & development, enterprises development, emergency assistance, food relief, hydro power generation, good governance, technology transfer, livelihood supports etc.

Sri Lanka obtained the first loan from US in 1957 for USD 2.5 million for the importation of commodities. Since then, US has extended loan assistance amounting to USD 992.3 million, out of which USD 30 million has been obtained under export credit facilities. US loan assistance was mainly obtained for the sectors of food importation (PL 480 programme), agriculture, hydro power generation, fertilizer importation, agricultural research & development, water shed management, township development, Mahaweli development, defence and health etc.

In 2011, Sri Lanka obtained USD 4.5 million for development activities in the fields of health, agriculture, livelihood support, disability support and psychosocial needs of children. Besides that, selected schools and hospitals in Northern Province were rehabilitated using grant assistance of USD 5.8 million provided by the United States Department of Defense.

Table 45 US Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Increased Competitiveness in the Global Market Place	Grant
	Improved Integration of Targeted Disadvantaged Groups in to the Communities	Grant
	Peace Good Governance and Citizens Rights	Grant
	Tsunami Recovery and Reconstruction Support	Grant
	Technical Assistance	Grant
2006	Improved Integration of Targeted Disadvantaged Groups in to the communities	Grant
	Peace Good Governance and Citizens Rights	Grant
	Tsunami Recovery and Reconstruction Support	Grant
	Technical Assistance	Grant
2007	Increased Competitiveness in the Global Market Place	Grant
2008	Improved Integration of Targeted Disadvantaged Groups in to the Communities	Grant
	Peace Good Governance and Citizens Rights	Grant
2009	Increased Competitiveness in the Global Market Place	Grant
	Improved Integration of Targeted Disadvantaged Groups in to the Communities	Grant
	Peace Good Governance and Citizens Rights	Grant

	Peace Process Supported	Grant
2010	Increased Competitiveness in the Global Market Place (Enhancement)	Grant
	Improved Integration of Targeted Disadvantaged Groups in to the Communities	Grant
	Peace Good Governance and Citizens Rights	Grant
2011	Strengthened Partnership for Social Integration	Grant
	Increased and Equitable Economic Growth	Grant
2012	Strengthen Partnership for Sectoral Integration (Enhancement)	Grant
	Increased and Equitable Economic Growth (Enhancement)	Grant

Source: External Resources Department

In addition to the above, two Framework Agreements were signed between the Government of Sri Lanka and USAID in September 2011 to secure future development assistance worth USD 14 million for (i) increasing private sector investment and enterprise development in lagging provinces (ii) strengthening participating governance at local authority level and enhancing delivery of improved legal services. Further, amendments have been made to these two Framework Agreements in 2012 to obtain USD 5.1 million of US contribution.

Norway

Sri Lanka has obtained Norwegian financial assistance for a sum of USD 282.9 million. Out of the total receipt, USD 269.4 was received in form of grant assistance while the remaining 13.5 million was received in the form of export credit. This development assistance was channeled mainly to areas such as rural development, rehabilitation, plantation, labour and vocational training, environment, education and training, electricity, fisheries, water supply, ground transport etc.

Norway initiated the Integrated Rural Development (IRDP) approach in Sri Lanka in 1979 by inaugurating Hambantota IRDP. Norwegian expertise and specialized knowledge in aquatic resources has been considered in obtaining financial assistance for the establishment of the National Aquatic Resources Research and Development Agency (NARA). Technical assistance received for Delimitation of Outer Edge of the Continental Margin of Sri Lanka helped the Government to expand its marine resources.

In addition, the Government of Norway has also extended export credit facilities worth USD 13.5 million at concessionary terms for implementation of electrification projects, namely; Ampara Sub-station project in 1996, Anuradhapura Sub-station project in 1996 and upgrading of the Vavuniya Grid Sub-station project in 1999.

Table 46 Norwegian Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Hambantota Integrated Coastal Resources Management Project	Grant
2006	Delimitation of Outer Edge-Sri Lanka	Grant
2007	Employment Oriented Training for Youth	Grant
2008	Delimitation of Outer Edge of the Continental Margin of Sri Lanka	Grant
2012	Adaptation and Mitigation Responses to Climate Change in Sri Lanka	Grant

Source: External Resources Department

Finland

Being one of the development partners Finland has granted USD 196.2 million worth total financial assistance since the commencement of bilateral development cooperation between Sri Lanka and Finland. It consists of USD 121.8 million grant assistance as well as USD 74.3 million export credit assistance.

The project for Forestry Master Plan was started in 1983 with Finland grant assistance of USD 2.3 million. Since then, Finland has extended its extensive financial assistance for some of the landmark development projects in Sri Lanka. Finland assistance was mainly received for the development of water supply, rural development, health, telecommunication and energy sectors.

Harispattuwa Rural Water Supply Project (USD 13.46 million), Kandy Water Supply & Sanitation Project Phase I & II (USD 18.34 million), Colombo General Hospital Project - Phase I (USD 38.9 million), Hambantota Telecommunication Project (USD 17.4 million), Equipment Supply to Teaching & Base Hospitals in Sri Lanka (USD 27.9 million) and Matara Telecommunication Network Project (USD 15.48 million) are the flagship development projects that were completed under Finland development assistance in Sri Lanka.

Project for Water Supply in Ampara district was commenced in 2006 under the Finland grant assistance of USD 9.15 million. The overall objective of this project was to improve the quality of life in the service area of eastern coastal towns of Ampara district namely; Sainthanmaruthu, Karaitivu, Mawadapalli, Oluvil, Damana, Nintavur, Palamunai, Addalachenai, Akkaraipattu and Irakkamam which were directly or indirectly affected by Tsunami devastation in 2004. Under this project safe drinking water was provided for 199,190 people in the area who belongs to various ethnic groups. This project included project activities of building of water intake and water treatment plant with a capacity of 72,000 m^3 at Kinduwatuwana, laying of transmission mains, construction of nine water towers, and construction of four sumps.

Table 47 Finland Funded Projects from 2005 to 2012 August

Year	Projects	Type
2005	Solar Energy for the Development of Health & Education Facilities in Rural Areas	Loan
2006	Water Supply Project in Ampara	Grant

Source: External Resources Department

In addition to the above, development projects mentioned in the following table show the assistance received from other Western development partners.

Table 48 Foreign Funded Projects from 2005 to 2012 August

Year	Projects	Type
Switzerland		
2005	Repairs and reconstruction of schools damaged by Tsunami	Grant
	Post Tsunami Rehabilitation of Houses	Grant
2006	Post Tsunami Rehabilitation of Houses	Grant
2009	Cash grant for Housing Programme in the Jaffna District	Grant
Russian Federation		
2010	Russian line of credit	Loan
European Community		
2005	Tsunami affected Areas Rehabilitation Project	Grant
2006	North & East Road Rehabilitation Programme	Grant
	Post Tsunami Line of Credit (Contract A & B)	Loan
2007	DFCC Global Loan II	Loan
	North & East Road Rehabilitation Programme - Enhancement	Grant
	North & East Housing Reconstruction Project	Grant
Belgium		
2011	Kollonna-Balangoda Water Supply	Loan
2012	Reconstruction of six (6) Railway Bridges	Loan

Source: External Resources Department

Table 49 Major Infrastructure Projects in Northern Area

1. Railway Lines . Vavunia- Kankasanthurai Line -56 Km . Madawachchiya- Madu Line – 43 Km . Madu- Thalai Mannar Line – 63 Km . Omanthei – Pallai Line – 90.5 Km	USD 735 mn
2. National Highways . A9 Vavunia – Jaffna -135 Km . A32 Karathiu- Manna – 67 Km . Mankullam- Mullathiu – 49 Km . Jaffna- Kankasanthurai – 18.5 Km	USD 233 mn
3. Bridges . Mannar, Navakkuli, Paranthan & Sangupity	USD 36 mn
4. Provincial Roads . 141 Km of Provincial road in Vavunia and Mannar	USD 24 mn
5. Electricity Projects . Vavunia- Killinochchi Transmission Line . Killinochchi- Chunnakam Transmission Line . Lightning of Sri Lanka- Northern Province (14,512 connections)	USD 88 mn
6. Drinking Water Supply . Jaffna- Killinochchi water Supply Project . Mannar- Vavunia Water Supply Project	USD 221 mn
7. Irrigation . Irranamadu Scheme . Giant tanks reconstruction	USD 32 mn

Source: External Resources Department

United Nations Agencies

The Government of Sri Lanka works closely with the United Nation (UN) Agencies to ensure that benefits of economic development are not restricted to urban areas but also reach the rural hinterland for the country to enjoy those benefits to the fullest. In parallel with the rapid economic development in all parts of the country, Government plans to use the financial and technical assistance from UN Agencies to address the development needs of communities with the objectives of skills development for knowledge economy, promoting value addition in the agriculture sector, improving equitable and quality social services and improving environmental sustainability.

Accordingly, the UN Agencies such as United Nations Development Programme (UNDP), Food and Agriculture Organization(FAO), United Nations Children's Fund (UNICEF), World Food Programme (WFP), World Health Organization (WHO), United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), International Labour Organization (ILO) and UN Habitat have contributed significantly to the development process through implementation of the projects and programmes jointly identified in the Development Policy Framework of the Government as well as in the UN country assistance programme.

For this purpose, the United Nations Development Assistance Framework (UNDAF) is jointly prepared by the Government of Sri Lanka and UN Agencies in consultation with the relevant line ministries and development partners in each five year period to provide a strategic direction to implement UN supported projects and programmes to achieve the long-term development goals in Sri Lanka. It also serves as an umbrella policy document, guiding individual UN agencies to prepare their country programmes with more specific targets and detailed implementation programme. The existing UNDAF for the period of 2008 – 2012 has allocated approximately USD 434 million to Sri Lanka in grant form. These grants are being utilized for the socio-economic development projects in the areas of livelihood, health, education, agriculture, rural development, and disaster relief. Since the current UNDAF is scheduled to be completed this year, Government and UN Agencies have jointly prepared a new UNDAF for next five year period from 2013 – 2017 in consultation with the major stakeholders. The overall objective of the new UNDAF is to support sustainable and inclusive economic growth with equitable access to quality social services and to strengthen human capabilities. In order to achieve this goal the new UNDAF will be underpinned by the following four programme areas;

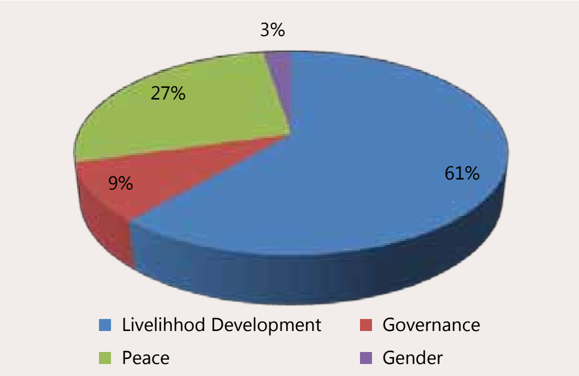
1. Equitable economic growth and sustainable livelihood
2. Disparity Reduction, equitable and quality social services
3. Governance, human rights, social inclusion and protection
4. Environmental sustainability, climate change and disaster risk reduction

At present, the Country Programme Action Plans (CPAP) also being prepared by each UN agency in line with the objectives of the new UNDAF. After the finalization of CPAP, the line Ministries are required to submit separate project proposals for clearance by the Department of National Planning and Department of External Resources to mobilize the assistance from relevant UN Agency.

Commitments and Disbursements (2008 – 2012)

The UN assistance received during the last four years has been utilized to address emerging relief, rehabilitation and reconstruction activities mainly for social and community development through specific projects to improve agricultural productivity, fisheries development activities, improve livelihood of rural communities, improve child and maternity health, early childhood development and primary education, rural development, disaster relief, environment protection and women's affairs. Out of the total commitments during last four years, about 61 percent or USD 266 million was provided for livelihood development activities of vulnerable people. The following graph shows the sectoral distribution of the commitments of UN agencies for the period of 2008 – 2011.

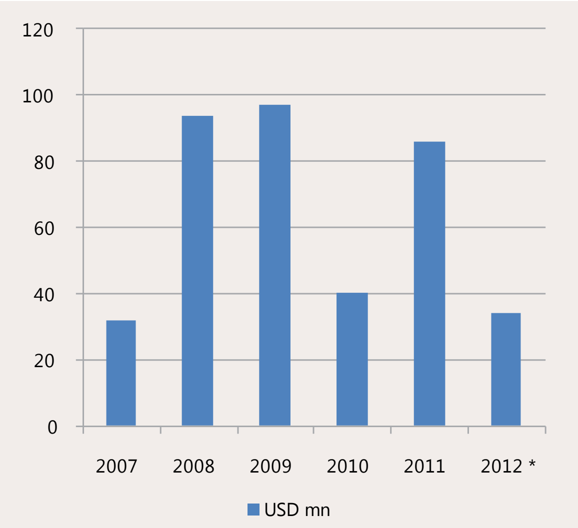
Chart 42 Sectororal Distribution of Commitments from all UN Agencies



Disbursements

The estimated cumulative expenditure for the period of 2008 – 2012 is USD 434 million. Of that amount approximately 88 percent or USD 383 million has already been disbursed by major UN Agencies. A major share of total expenditure (USD 97 million) was reported in 2009. The following graph shows the total annual expenditure of major UN Agencies (FAO, UNDP, UNICEF, UNFPA, WFP and UNHCR) for the period of 2007 – 2012 (up to September).

Chart 43 Total Annual Expenditure of Major UN agencies



** January to September*

United Nations Development Programme (UNDP)

Table 50 UNDP Funded Key Projects from 2005 to 2012

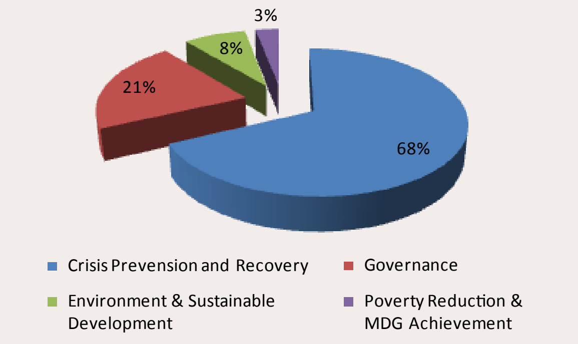
Year	Projects
2005	Tsunami Affected Community's Capacity Development for Recovery Programme
	Recovery of the Tsunami Affected Fisheries Sector
	Sustainable Recovery of Micro Enterprise Sector
2006	Community Reconstruction Project
	Transition Programme for Sri Lanka
2007	Sri Lanka Urbanization Framework Project
2008	Emergency Response to Flood
	Capacity Building for Disaster Risk Management in Sri Lanka
2009	Support Efforts and Action against Corruption
	Capacity Building for South South Cooperation
	Equal Access to Justice project (Phase II)
	Local Governance project
	Transition Recovery Project
2010	Strengthening Capacity of the Auditor General's Department
2012	Community Forestry Programme

Source: Department of External Resources

The UNDP is the main institution among all UN agencies and more capable of handling the development activities relating to the sectors such as livelihood development, agriculture, environment, legislature and judiciary and most of their programmes aim to accomplish the Millennium Development Goals by 2015.

As per the current programme cycle, UNDP assistance to Sri Lanka has been spread over four cluster programmes namely (i) crisis prevention and recovery, (ii) governance, (iii) environment and sustainable development and (iv) poverty reduction and MDG achievement. The following graph shows the allocation of the UNDP's funds through these cluster programmes.

Chart 44 Sectoral Distribution of UNDP Funds



Meantime, the proposed country programme of UNDP for the period of 2013 to 2017 is more focused on supporting Government in its efforts to reach development priorities in the following two areas.

1. Governance for empowerment and social inclusion
2. Environmental sustainability and resilience.

Food and Agriculture Organization (FAO)

The Government of Sri Lanka has significantly benefitted from the technical expertise and supports provided by FAO over the past 50 years. FAO has continually extended its active support to the Government to address the needs and development priorities mainly in the areas of agriculture, animal husbandry, fisheries and forestry.

Since 1979, around 350 projects and programmes have been implemented in Sri Lanka with FAO support and estimated cost amounting to nearly USD 300 million. Through these projects, farmers have received much-needed inputs including improved seed varieties for rice, seeds for other field crops and vegetable gardens. FAO has also provided appropriate fertilizers, fencing material and agriculture tools to farmers. Similarly, FAO emergency assistance has played a vital role in providing urgent and effective relief assistance in various natural disasters.

Meantime, many Sri Lankans have benefited from the local capacity building programmes as well as from the overseas training programmes and international conferences funded by the FAO and held around the world.

The following key projects funded by FAO have been implemented in line with the Government's broader strategy on food and nutrition security within last eight years.

Table 51 FAO Funded Key Projects from 2005 to 2012

Year	Projects
2005	Rehabilitation in Tsunami Affected Areas
	Assistance to Tsunami Affected Fisher Households
	Tsunami Affected Vulnerable Fisherman and Women in Sri Lanka
2006	National Agricultural Biotechnology Research and Development Programme
2007	Agricultural Assistance to IDPs and Host Families
	Hybrid Rice Development project
2008	Restoration and Improvement of Fish Landing Centres
	Agricultural Assistance in Support of the Returnees and IDPs
	Development of NARA for Marine Resources
2009	Enhancing Food Security among Farm Families in Eastern Sri Lanka
	Aquaculture Development in the Southern Province
2010	Provision of Seed and Other Essential Agricultural Inputs in the North
	Improving Post Harvest and Sustainable Market Development
2011	Sustainable Land Management and Climate Change Adaptation in South Asia
2012	Development of capacities for Early Diagnosis, Surveillance, Spread Prevention and Integrated Management of Weligama Coconut Leaf Wilt Disease
	Land Degradation Assessment and Monitoring for Sustainable Land Management and Climate Change Adaptation in South Asia
	Provision of Essential Agricultural Inputs for Returning War-affected IDPs in North
	Integrated Irrigation & Agricultural Livelihood Development in Kilinochchi and Mullaitivu Districts

Source: Department of External Resources

United Nations Children's Fund (UNICEF)

UNICEF supports Sri Lanka in her efforts to address various needs of children and teenagers. The programmes funded by UNICEF have been very active in Sri Lanka, ensuring equal access to quality education of all children with provision of safe drinking water and hygiene facilities. In addition, Government was able to obtain UNICEF's support for legislative reforms and strengthening policies, procedures and practices to respond to the needs of the most vulnerable people. Accordingly, the Government of Sri Lanka already took the initiative in collaboration with UNICEF for legislative changes related to child protection. These programmes start from early childhood (under 5 years) and progresses through the learning years (5 – 14 years) to youth (14-18 years) as each age group has specific needs that need to be met.

The main UNICEF programmes are currently being implemented under the following four clusters.

- Education
- Health and Nutrition
- Water, Sanitation and Hygiene
- Planning, Monitoring and Evaluation

"The Ministry of Child Development and Women's Affairs has launched a campaign on a 'Violence Free Society for Children' in partnership with UNICEF. The launch event took place in Anuradhapura followed by training for those working for children including probation officers, school principals and child rights protection officers. This campaign seeks to break the culture of silence and prevent child abuse. Several activities will be conducted across the most vulnerable and high risk districts in the country to build awareness on violence against children and child abuse in communities, schools and homes and to develop the capacity of the child protection system to better Identify and effectively respond to victims of violence and abuse."

World Food Programme (WFP)

WFP's activities in Sri Lanka focus on providing emergency food aid and recovery assistance to the most vulnerable and food insecure people. The four main components of current WFP interventions throughout Sri Lanka are:

- Nutritional supplement to pregnant mothers as well as children under 5 years
- Food for education
- Food for training activities
- Emergency support to returning IDPs and resettled families

The Protracted Relief and Recovery Operation (PRRO) which is a WFPs flagship programme in Sri Lanka is currently being implemented by the Ministry of Economic Development. This programme supports Government in its efforts to regain livelihoods and restore assets while supporting the displaced returnee population in Mannar, Vavuniya, Mullaittivu, Kilinochchi and Jaffna Districts in the Northern Province and selected areas in Eastern Province for their resettlement activities. In response to a request made by the Government of Sri Lanka, the WFP has agreed to extend the duration of this project up to end of 2012. With this extension, Sri Lanka has received additional assistance worth of USD 27.96 million to continue this programme.

Sri Lanka Donates Rice to Famine Stricken People in the Africa

The Government of Sri Lanka has donated a total of 10, 000 metric tons of white rice for the Horn of Africa nation through WFP in Sri Lanka. The first transshipment of 500 metric tons equivalent market value of USD 4 million has been done in March 2012. This donation endeavors to provide critically required food and nutritional assistance to the Somali refugees in camps in Ethiopia.

In addition, GOSL has been able to obtain assistance from WFP to increase the capacity of the Thriposha plant and provide machinery and equipment to Thriposha Limited in order to expand their current programme of providing Thriposha to every pregnant mother and infant. WFP assistance is also provided to improve soya cultivation in the country. Under this programme, farmers in Huruluwewa irrigation area produced approximately 1000 MTs of quality soya beans and provided it to the Thriposha processing plant at a very reasonable price during the last Yala season.

Table 52 WFP Funded Key Projects from 2005 to 2012

Year	Projects
2005	Assistance to Vulnerable Groups for Peace Building in Conflict Affected Areas
	Assistance to Tsunami Victims in Sri Lanka
2009	Protracted Relief and Recovery Operation (PRRO) Sri Lanka
2011	Emergency Operation Programme

Source: Department of External Resources

United Nations High Commissioner for Refugees (UNHCR)

UNHCR is one of the main providers of humanitarian assistance to IDPs and returnees in Sri Lanka. The Shelter Grant project funded by UNHCR is widely appreciated by the returnees, and will continue to help them to restart their lives. For this purpose, UNHCR has provided a shelter cash grant of Rs. 25, 000 to the returning families by way of distributing Rs. 5,000 through the Ministry of Resettlement upon arrival at the district of origin and Rs. 20,000 through the Bank of Ceylon. Accordingly, UNHCR has distributed a shelter cash grant of Rs. 5, 000 for IDPs in Vavuniya, Kilinochchi, Mullaittivu, Mannar and Jaffna to uplift their living standards since 2009. Details are as follows.

Table 53 Distribution of Shelter Grant from 2009 to 2011

Year	No. of families	Expenditure (Rs)
2009	39,475	197,380,000
2010	49,517	247,585,000
2011	13,188	65,940,000
Total	102,180	510,905,000

Source: Department of External Resources

Although the Government programme for resettlement has come to an end in September 2012, the UNHCR expects to continue its humanitarian assistance to returnees through their Shelter Grant Programme. Accordingly, UNHCR has agreed to provide shelter cash grant of Rs. 5,000 to another 2, 200 families in Mullaitivu.

Table 54 UNHCR Funded Key Projects from 2009 to 2012

Year	Projects
2009	Jungle Clearance and Land Preparation and Grants to Returnee Families
2010/2011 2012	Assistance to Resettlement of IDPs in Sri Lanaka

Source: Department of External Resources

United Nations Population Fund (UNFPA)

UNFPA's has taken a bilateral approach in strengthening the quality and delivery of reproductive health services. At the national level, UNFPA is strengthening the capacity of the Ministry of Health to establish a quality assurance system for reproductive health. At the district level, interventions are focused on selected under-served districts to improve their accessibility to and availability of quality reproductive health services. In this regard, UNFPA provided its supports to strengthen the cervical and breast cancer screening programmes and enhance interventions to prevent the spread of HIV/AIDS particularly among sex workers through partnerships with Government agencies. The main UNFPA programmes are currently being implemented under the following three clusters.

- Reproductive Health
- Gender
- Population

World Health Organization (WHO)

WHO was the first United Nations agency established in Sri Lanka (1952) and since then, WHO has been supporting the Sri Lankan people to attain the highest level of health status through strengthening of the health system focusing on equity, fairness and responsiveness with special emphasis on the poor and marginalized people. Sri Lanka has obtained WHO assistance for;

1. Providing leadership on matters critical to health and engaging in partnerships where joint action is needed
2. Shaping the research agenda and stimulating the generation, translation and dissemination of valuable knowledge
3. Setting norms and standards, and promoting and monitoring their implementation
4. Articulating ethical and evidence-based policy options
5. Providing technical support, catalysing change, and building sustainable institutional capacity
6. Monitoring the health situation and assessing health trends.

UN- HABITAT

During the last two decades, UN HABITAT has extended their cooperation in human settlement development and urban housing development. At present, UN HABITAT involvement is mainly in the field of Urbanization, city development, upgrading slums, human settlement and shelter support. Accordingly, UN HABITAT has already constructed 2,200 houses in the Northern Province under the IDPs Housing Project with AusAid financial assistance of Australian Dollars 10 million. In addition, UN-HABITAT is successfully implementing its USD 28 million housing programme to help people in North under the financial support of the European Union, AusAid, and Swiss Development Corporation. It is expected to build 4,400 new houses under this programme. Since permanent housing is essential for those displaced to rebuild their lives, UN-HABITAT has launched an "owner-driven" housing programme where the families themselves will have the main role in building their new homes. The programme is planned to be fully completed in two-and-a-half years.

International Labour Organization (ILO)

The cooperation between Sri Lanka and ILO commenced with the Sri Lanka's admission to the ILO in 1948. At present ILO is involved in a number of technical areas related to the wages, dispute settlement in the public sector, industrial relations and labour market governance, social security, employment policy development, strengthening of employer and worker organizations, prevention of child labour, promotion of youth employment, enterprise promotion and value chain development, community based vocational training, labour mitigation and labour based technology in close collaboration with the Ministry of Labour and Labour Relations.

International Fund for Agricultural Development (IFAD)

The International Fund for Agricultural Development (IFAD) has been a strong partner in Sri Lanka with a total financial assistance of about USD 400 million in poverty reduction projects in rural areas of the country benefiting some 550,000 rural households.

Table 55 IFAD Funded Ongoing Projects

Name of the Project	Cost (USD mn)
Loans	
Dry Zone Livelihood Support and Partnership Programme (2005-2012)	23
Post-Tsunami Coastal Rehabilitation and Resource Management Programme (2006-2013)	24
Smallholder Plantation Entrepreneurship Development Programme (2007-2014)	23
National Agribusiness Development Programme (2010-2015)	25
Iranamadu Irrigation Development Project (2012-2017)	22
Grants	
Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province of Post-Tsunami Sri Lanka Project	7

Source: Department of External Resources

In general, Sri Lanka has obtained IFAD assistance targeting development of livelihood in provinces with the highest incidence of poverty. Achievements in terms of infrastructure, agriculture and enterprise development have been significant. Paddy and tea production initiatives and the rehabilitation of irrigated tanks have made a significant contribution to small farmers' livelihoods. Savings and credit schemes have had modest effects on poorer families yet beneficiaries value the stronger empowerment gained through savings groups.

The Dry Zone Livelihood Support and Partnership Programme is to increase the income level and thereby improve the living conditions of more than 100,000 poor households in rural areas where poverty is widespread and income generating possibilities are limited. The project has successfully achieved its targets and is nearing its completion in 2012.

The Post-Tsunami Coastal Rehabilitation and Resource Management Programme was initiated in response to the devastation caused by the tsunami in 2004 on the livelihoods of coastal communities in 7 districts. The programme concentrates on infrastructure (particularly housing) and strengthening communities to manage coastal resources in a sustainable manner.

Tea Nursery at Hapugasthalwa, Kotmale developed under the assistance of the Smallholder Plantations Entrepreneurship Development Programme funded by IFAD

International Ozone Day 2012 Painted Bus Funded by UNDP

FAO Seed Assistance

The Smallholder Plantations Entrepreneurship Development Programme will improve the land tenure status of smallholder tea and rubber growers as well as develop and expand rural finance and credit services and improve the beneficiaries' institutional capacity and negotiation skills.

To respond to the needs of smallholder farmers in the Kilinochchi district, the Iranamadu Irrigation Development Project was introduced and the project will improve the downstream irrigation infrastructure of the Iranamadu reservoir. The reservoir, which has not been maintained adequately for many years, will also be rehabilitated to increase its water-holding capacity. The project is expected to benefit about 7,000 households in the area.

IFAD has so far provided loan assistance on highly concessionary terms and conditions. Since Sri Lanka has graduated as a middle income country, ordinary terms will be applied in future IFAD funding assistance to Sri Lanka. However, it is expected that there will be a smooth transition from softer to harder terms allowing the economy to get the best use of the funding assistance from IFAD.

Towards Free of Land Mines in Sri Lanka

The National Mine Action Programme of Sri Lanka was initiated in 2002 with the assistance of UNDP, UNICEF, INGOs, NGOs and several donor countries (Australia, USA, Canada, Russia, Japan, Norway, India, China, EU) with the goal of creating a mine and explosive remnants of war (ERW) free environment in support of the resettlement and development programmes of the GOSL. The initiation of humanitarian de-mining since 2002 has achieved many milestones during the process such as developing National Mine Action Standards in 2004 and 2010, setting up of GOSL Mine Action Strategy in 2006 and 2010.

Chart 45 Civilian Causality Breakdown (From 2002 – Sep 2012)

* January to September

Since 2009 the areas abandoned due to landmine and ERW contamination have been cleared, including paddy land (101, 827 hectares), water bodies (29,999 hectares), A class roads (538 km) and railway lines (263 km) In this process, the priority has been given to residential areas of villages that are identified for resettlement and livelihood areas which are in close closeness to settlements in the minefield clearance operations.

This progress is mainly due to the high priority given by the GOSL, with continues technical and financial support from the GOSL and the international community, in the mine action programme.

Development of Human Resources in the Public Sector: A New Approach

Having a middle income economy, Sri Lanka has now entered a rapid development pathway and recorded strong economic performances in recent years. The Government is taking appropriate action to maintain this growth momentum continuously in the future with a high economic growth rate. In order to support this economic growth as well as to work with the emerging global knowledge economy, it is critically important to develop the human resources of the country in a rapid way. Therefore, the quality of the public sector services needs to be raised substantially to address the needs of a middle income economy as people of the country expect high quality services from public officials with the increase in their income level and quality of life. Therefore, delivery of public services with the standards expected by the general public is one of the key challenges faced by public officials. A continuous capacity building in the public sector is therefore vital to raise the ability of public officials to deliver such services in an efficient manner to meet the expectation of the people of the country.

Also a number of strategic infrastructure projects are now being implemented by the Government to realize the development targets identified in the Development Policy Framework of the Government and a large number of new projects are also at design stage. Therefore, Sri Lanka needs highly skilled local experts to undertake these large scale, more complex and challenging projects as well as design and manage these projects. Particularly, technical expertise of public officials on economic analysis of projects, project management and quality control, financial management and procurement need to be enhanced substantially to meet these challenges within a very short period of time.

Therefore, Sri Lanka is utilizing the technical assistance programmes provided by bilateral countries and development partners as one of the strategies to improve the quality and efficiency of the public service by providing necessary training to public servants enabling them to cope with the emerging challenges. These programmes consist of both long term (such as master degree programmes) and short term training programmes. These programmes helps Government officials to acquire new knowledge, practice the latest technology and learn from the experience of developed countries through short term and long term foreign training in various fields in parallel with the other development initiatives to transform the country in to a knowledge centre. As these programmes are provided on a grant basis, public officials can be trained overseas without much cost to the Government under these programmes. Therefore, Government plans to utilize these programmes optimally for capacity building in the public sector. This will enable Government to save a large sum of financial resources which would otherwise have to be allocated for capacity building in the Government sector. Government also utilizes the technical assistance programmes connected to development projects and the training opportunities under different projects financed from foreign financing to enhance skills and knowledge of the Government officials. Accordingly, around 150 officials were trained under the Counterpart Training Programmes of different projects funded by the Japan International cooperation Agency (JICA) from 2008 to 2011. The Asian Development Bank (ADB) has also extended their technical assistance to train 53 officials under the ADB funded projects from 2007 to 2012. In addition, Sri Lanka is benefited through international workshops, seminars, conferences and volunteer programmes which are assisted by the development partners.

In the beginning, Sri Lanka had utilized the technical assistance programmes designed and provided by the bilateral countries including Japan, Korea, China, Singapore, Thailand, Malaysia, Australia, India, Pakistan and the multilateral development agencies such as ADB, World Bank, Commonwealth Secretariat, Colombo Plan and other Development Partners to provide new knowledge and skills to public servants to meet the emerging challenges. However, some of the regular foreign training programmes provided by the development partners are not in line with the current requirements and the Government development priorities. Therefore, Government has taken initiatives with the respective development partners and countries towards a process of redesigning these programmes to suit the country requirement as per the Government development priorities.

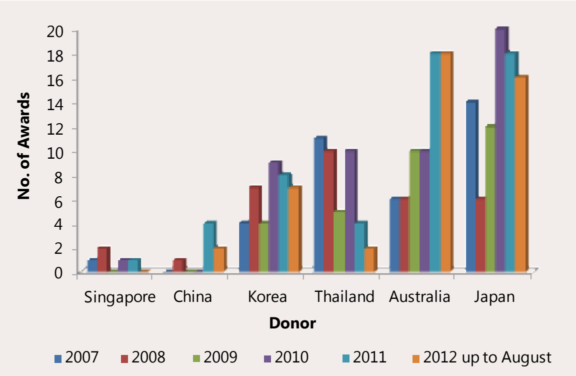
Accordingly, the some of the long term training programmes which were initially designed for course work have now incorporated a research element also to improve analytical skills of the trainees. In addition, the Department of External Resources conducts regular dialogues with development partners as well as bilateral countries to identify new foreign training programmes for the subjects where Sri Lanka does not have adequate knowledge and skills while optimally utilizing the available opportunities. Focus will be given to the new development priorities of the country when new training opportunities are identified in future.

Details of all relevant training programmes provided by development partners and countries are annually circulated among line ministries to review their training plans and identify appropriate officers in advance to avoid delays in the selection process. Meantime, ERD regularly provides the necessary information to relevant Government institutions throughout the country to update themselves on the qualifications necessary to apply for the available training programmes with the objective of enhancing the quality and quantity of candidates.

Long Term Foreign Training Programmes

Sri Lanka annually receives a significant number of long term foreign training programmes from Australia, Japan, Korea, Thailand, China and Singapore. During the last five year period, Sri Lanka has benefitted from around 250 long term training opportunities provided by these countries.

Chart 46 Long Term Scholarships received from 2007 to August 2012



Government encourage the development partners to provide more research based master degree programmes which will enable public officials to improve their analytical knowledge and decision making skills in line with Government priorities.

Australia, Japan and Korea play a vital role in providing long term training programmes to Sri Lankan public officials and they annually provides around 50 scholarships to Sri Lankan Government officials to follow Master Degree programmes in well recognized Universities in key subject areas including the environment, education and health, public administration and public policy, regional development, economics, fisheries, information technology, development policy, agriculture etc. Until last year (2011), the number of officials who had applied for these long term programmes was very low due to lack of knowledge and the inadequacy of the required level of English language (IELTS). Therefore, all ministries were advised to prepare their candidates to comply with the entry requirements of the programmes. In addition, the Department of External Resources has also conducted a number of awareness programmes in coordination with the Australian Development Scholarship Program (Aus Aid) through the South Asia Scholarship Programme (SASP), Japan International Cooperation Agency (JICA) through Japan International Cooperation Centre (JICE) in relevant Government institutions to enhance the number of candidates applying and their qualifications.

As a result of these awareness programmes, a large number of officials (around 100) had applied for this year's Aus Aid master degree programme and about 50 officials were qualified for an interview from which 30 applicants have been selected to follow the master degree programmes in Australian universities from 2013 based on their academic qualification, their enthusiasm to contribute to the development of the country and willingness to face challenges during this process. The number of placements for private sector candidates has been reduced to 6 as more candidates from Government sector are selected based on their merits suggesting that the quality of the public officials has improved compared with previous years. Government is now negotiating with the Aus Aid to include some other well recognized universities to improve the quality of the programmes. Government of Australia has spent around AUD 139,400 per scholarship. These investments have complemented Government investment on human resources development.

The Japanese Human Resource Development Scholarship Programme has a four year framework and 15 candidates who were selected for the first phase of this framework have completed their course work while another 30 candidates who have been selected for the 2nd and 3rd phases of the framework are now studying in

Japan. The Government of Japan invests approximately Rs. 7.46 mn per JDS candidate annually on these scholarships. At present, the necessary action is being taken to submit a project proposal for the next four year framework of the JDS programme. The Governments of Korea and Thailand also jointly provide around 20 long term training opportunities to Government officials annually.

Short Term Foreign Training Programmes

Sri Lanka annually receives around 600 short term foreign training scholarships from more than 15 development partners including Japan, Korea, Asian Development Bank, China, Thailand, India, Colombo Plan, Singapore, Commonwealth Secretariat, Malaysia, Brazil, Pakistan, Egypt and Netherlands. The Government of Brazil and the Government of Brunei Dharus Salaam have recently started providing short term training programmes to Sri Lanka. During the last five year period, Sri Lanka has obtained 3,581 short term training opportunities in various fields. In 2011, Sri Lanka has benefitted from 670 short term training programmes which is an increase of 25% compared with the previous year. The number of short term training opportunities obtained up to end of June 2012 was 305. These trainings are mainly provided in the fields of economic development, water, port sector development, environment, education, public sector development, disaster management, agriculture, power and energy, livestock, health, governance, transport and etc.

The Colombo Plan annually provides around 50 short term foreign training programmes to Sri Lanka in the areas of public administration, environment, public – private partnership development and drug demand reduction to improve the capacity building of the public officials of the Government of Sri Lanka. The 60th anniversary of the Colombo Plan was celebrated on 1st July 2011 in Sri Lanka and an International Seminar was conducted on South- South Cooperation with the participation of local previous participants of Colombo Plan Training Programme and international training programme on "Entrepreneurship Development Using the Blue Ocean Strategy" with 24 international participants. The Department of External Resources was able to help the Colombo Plan to obtain financial assistance from the United Nations Development Programme (UNDP) for this purpose. As a commemorative event of the 60th anniversary, the "Marine Drive Road" was renamed the "Colombo Plan Road".

Apart from the regular foreign training programmes, the Commonwealth Secretariat annually provides two special training programmes to 25 senior administrative officials of Sri Lanka Administrative Service and 5 officials of the Parliament of Sri Lanka to address the key skill gaps and provide core public administration and management skills.

The Group training programmes provided by the JICA and KOICA are also included under the short term training programmes. These group trainings provide around 100 opportunities through 7 programmes. The areas for group training programmes and the other short term training programmes are selected by the Department of External Resources in consultation with the development partners, relevant line ministries and other relevant agencies. Short term training programmes in new subject areas are planned to be introduced in 2013 in line with the Government policy and priorities.

Government also expects to strengthen our foreign economic ties with other friendly countries by exchanging our technical services through technical assistance and small project financing using expertise available in several ministries. There is a large availability of expertise in Sri Lanka in various fields. Some of this expertise is currently utilized by the other development partners such as UN agencies, Commonwealth Secretariat and ADB.

Other Technical Assistance Provided by the Colombo Plan and the Commonwealth Secretariat

The Colombo Plan was established on 1st July 1951 with seven member countries in the commonwealth nations including Sri Lanka and it has now grown up to 26 member countries including commonwealth and non commonwealth countries. During the past six decades Colombo Plan's support was focused on major infrastructure development. Lakshapana Hydro Power Station, the procurement of 15 diesel locomotives, establishment of the Hardy Technical Institute, Ceylon Milk Board, Katunayaka Bandaranaike International Air Port, Gannoruwa Agriculture Research Centre are few of major projects which obtained assistance from the Colombo Plan. The significance and value of these projects are great and still the Government of Sri Lanka gains benefits from these projects.

Sri Lanka has obtained technical assistance from the Commonwealth Secretariat to strengthen Sri Lanka's public sector human resources management in specific areas. Accordingly, discussion is going on to obtain an international advisor to the Sri Lanka Institute of Development Administration (SLIDA) to contribute to the goal of advancing good governance in Sri Lanka by assisting the Government to build public service capacity, strengthen public institutions and improve service delivery. Also, the Commonwealth Secretariat has agreed to provide an International expert to the Presidential Secretariat to build the capacity of the new strategy and policy unit to strengthen the evidence base and analytical capacity of high level policy making. In addition, a project proposal to obtain technical assistance to develop competitiveness in the leather and footwear sector in Sri Lanka submitted by the Industrial Development Board has been approved by the Commonwealth Secretariat. It will support situation analysis in the sector, design sector policy, and strategy and an action plan, and design and deliver a capacity building programme for business development service providers in the sector.

Volunteer Service

Sri Lanka currently shares skills and knowledge of Sri Lankan expertise with other regional countries in areas of construction, relief and rehabilitation and vocational and technical training as volunteers. Construction of national roads in Maldives, helping victims affected by Tsunami in Japan in 2011 and setting up of a vocational training centre in Uganda are some of the examples where Sri

JICA Volunteer Helps for The Introduction of Technology for a More Productive Paddy Harvest

Mr. Shigeo Zamma is an Agriculture Engineer who has over 37 years experience related to design, development, use and evaluation of sophisticated agricultural machinery. He has been assigned as a Senior Volunteer to the Farm Mechanization Training Centre (FMTC), in Anuradhpura by JICA in 2011 in order to transfer technical knowledge and skills to the staff, farmers, and agriculture extension officers etc.), of FMTC about farm machinery; especially the relationship between specific machinery and their applications in the field. Mr. Zamma identified the need for Sri Lankan farmers to use modern means of paddy cultivation which can benefit them in many ways. This led to him contacting the agricultural equipment company he previously worked for in Japan, and getting it to provide some paddy transplanters, weeders and several other pieces of equipment, free of charge, under the company's Corporate Social Responsibility (CSR) Programme.

This equipment is being utilized by Mr. Zamma to carry out several experiments which had already shown positive results in other countries. For example, one experiment involved direct seeding (sowing) in a field using traditional methods, while at the same time; paddy transplanting was carried out in a similar extent of land using the new equipment. After two months, the difference was clearly evident. The paddy field where the transplanting was done produced plants that had a much bigger potential yield, when compared with plants in the field where direct seeding was carried out. Moreover, the plants that were transplanted did not require pesticides because a weeding machine was used for weeding. Initial observations also indicated that this system should enable farmers to use less seed paddy, and utilize farm land more efficiently. Another benefit in utilizing paddy transplanters is that the plants produced are much stronger than those produced using traditional methods, and therefore, are ideal for mechanized harvesting. FMTC, together with Mr Zamma are planning to continue their testing further, and would also be doing a detailed cost analysis in order to quantify benefits. These research activities are carried out in collaboration with the Rice Research and Development Institute. In the light of the reducing number of people taking to agriculture nowadays, smaller profit margins of farmers, and health problems caused by pesticides, Mr Zamma's findings could prove to be of great value to local farmers.

Lanka experts have extended their support voluntarily to other friendly countries. This cooperation can be extended to other countries as well through South-South Cooperation and the Commonwealth Secretariat. Skilled people can be deployed as volunteers for development work in other countries with the financial support from the Government to strengthen the political, economical and technical cooperation between Sri Lanka and other countries.

Similarly, the Government of Sri Lanka has received support from the development partners to obtain the services of volunteers such as computer instructors, web design engineers, language instructors, sports coaches, community development specialists, vocational training instructors, and other experts as part of regular technical cooperation. The Government of Sri Lanka has also obtained services of Australian volunteers during past few decades but it was temporary suspended in 2006 due to the turbulent situation in Sri Lanka. Recently, the Government of Australia has indicated their willingness to provide services of Australian volunteers to work with local people and the local authorities to enhance their skills and strengthen the local organizations, communities and networks. Government plans to obtain the services of Australian Volunteers mainly to enhance the English knowledge of public officials. Since the Sri Lanka Institute of Development Administration is the focal point to train newly recruited officials from all island services, it is expected to obtain the services of Australian volunteers to this agency at the initial stage of this programme and expand the programme into other training institutes subsequently.

Creation of Threewheeler Automative Workshop in Bandarawela by a KOICA Volunteer

Mr. Cheon Sung- Woo was dispatched to the Technical College in Bandarawela as a junior automotive training instructor under the KOICA Volunteer programme in 2009. When he started the work he realized that the region lacked qualified three – wheeler mechanics and garages even though there were more than 5,000 three- wheelers in the area.

After a series of discussions with officials of the college and the area's urban council, and in recognition of the high demand for repairs and maintenance of three – wheelers, he identified a small scale project for the establishment of a three – wheeler auto mechanic workshop' for local three- wheelers under the KOICA's Volunteers Assistance Programme.

Based on success of the automotive training programmes, he introduced a Self-Employment Programme initiative which is run by the Department of Technical Education and Training to graduates who wished to obtain funds at low interest rates to support their own ventures.

After the first batch of students graduated from the training course, one of the students started his own garage and four other students are planning to open their own garages. A further four students were employed by TVS's head office and Bajaj's repair centre, both large companies that produce motorbikes and three - wheelers in Colombo.

In addition, 40 students in the same region have applied for the next training programme. TVS's and Bajaj have promised to hire his students after the completion of his course and Bajaj donated SLR 100,000 worth of material for the course.

Thus, Mr Cheon designed a 'Rental Services Program' in March 2011 through the Technical College to enable his graduates to obtain equipment such as air compressors and car washing machines to enable his graduates to become self sufficient and provide better garage services for customers. Now this programme is well run and he hopes that his graduates can buy their own equipment and can establish themselves in the business as a result of the programme.

Abbreviations

AASL	Airport and Aviation Services (Sri Lanka) Ltd
ADB	Asian Development Bank
ADF	Asian Development Fund
AFD	Agency Francaise de Development (of Finance)
ATI	Advanced Technological Institution
AUD	Australian Dollar
AUSAID	Australian Agency for International Development
BBA	British Banker's Association
BIA	Bandaranayike International Airport
BLIBOR	London Inter-Bank Offered Rate
BRT	Bus Rapid Transit
CAD	Canadian Dollar
CAS	Country Assistance Strategy
CBSL	Central Bank of Sri Lanka
CDB	China Development Bank
CEB	Ceylon Electricity Board
CHF	Swiss Franc
CKE	Colombo Katunayake Expressway
CPAP	Country Programme Action Plans
CPEP	Colombo Port Expansion Project
CPS	Country Partnership Strategy
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSR	Company's Social Responsibility
DKK	Danish Krone
DLI	Disbursement Linked Indicators
DMU	Diesel Multiple Units
DRNP	Disaster Response Network Project
DVB	DFCC Vardhana Bank
ECB	European Central Bank
ECF	Export Credit Fund
EDBI	Export Development Bank of Iran
EDCF	Economic Development Cooperation Fund
EFIC	Export finance Insurance Cooperation of Australia
EIRR	Economic Internal Rate of Return
EKSP	Education for Knowledge Society Project
ERW	Explosive Remnants of War
EU	European Union
EUR	Euro

EURIBOR	Euro Inter-Bank Offered Rate
Exim Bank of China	Export Import Bank of China
Exim Bank of India	Export Import Bank of India
Exim Bank of Korea	Export Import Bank of Korea
Exim Bank of Malaysia	Export and Import Bank of Malaysia
FAO	Food and Agriculture Organization
FMTC	Farm Mechanization Training Centre
GBP	British pound Sterling
GDP	Gross Domestic Product
GIZ	German International Cooperation (Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) Gmbh)
GNI	Gross National Income
GNP	Gross National Product
GOSL	Government of Sri Lanka
HIV/AIDS	Human Immunodeficiency Virus infection/ Acquired Immunodeficiency Syndrome
HSBC	Hongkong & Shanghi Banking Corporation Plc
IBR	International Bank for Reconstruction and Development
ICASL	Institute of Charted Accountants in Sri Lanka
ICBC	Industrial and Commercial Bank of China
ICT	Information and Communication Technology
IDA	International Development Association
IDP	Internally Displaced Peoples
IELTS	International English Language Testing System
IFAD	International Fund for Agricultural Development
IFAD	Investment Fund Account
IFC	International Finance Cooperation
ILO	International Labour Organization
IMT	International Monitory Fund
INGO	International Non Government Organization
INHCR	United Nations High Commissioner for Refugees
IRDP	Integrated Rural Development Programme
ITS	Intelligent Transport System
ITS	Information Technology
JBIC	Japan Bank for International Cooperation
JDS	Japan Development Scholarship
JICA	Japan International Cooperation Agency
JICE	Japan International Cooperation Centre

Abbreviations

JPY	Japanese Yen
KFAED	Kuwait fund for Arab Economic Development
KFW	Kerditanstalt Fur Weideraufbau
KKS	Kankasnthurai
KOICA	Korea International Cooperation Agency
KSP	Knowledge Sharing Programme
LBL	LIBOR- Based Loans
LRT	Light Rail Transit
MOU	Memorandum of Understanding
MRT	Mass Rapid Transit
MTFF	Multi-tranche Financing Facility
NARA	National Aquatic Research and Development Agency
NCD	Non Communicable Diseases
NCP	North Central Province
NDB	National Development Bank
NGO	Non Government Organization
NHSL	National Hospital of Sri Lanka
NHSP	National Highway Sector Project
NLDB	National Livestock Development Board
NP	Northern Province
NPV	Net Present Value
NRW	Non Revenue Water
NTPC	National Termol Power Company
NUICEF	United Nations Children Fund
NWSDB	National Water Supply and Drainage Board
NZD	New Zealand Dollar
O & M	Operation and Maintenance
OCH	Outer Circular Highway
OCR	Ordinary Capital Resources
ODA	Official Development Association
OFID	OPEC Fund for International Development
OPD	Outdoor Patients Department
OPEC	Organization of Petroleum Exporting Countries
ORET	Development Related Export Transaction Programme
PMU	Project Management Units
PPP	Public- Private Partnership
PRRO	Protracted Relief and Recovery Operation
RDA	Road Development Authority

RMB	Renminbi
ROD	Record of Discussions
RPE	Reserve Pays Emergents
RSSO	Registered Stock and Securities Ordinance
SASP	South Asia Scholarship Programme
SCARC	Standing Cabinet Appointed Review Committee
SDR	Special Drawing Rights
SEK	Swedish Krone
SFD	The Saudi Fund for Development
SIDA	Sweden International Development Agency
SIRUP	Small Scale Infrastructure Rehabilitation and Upgrading Project
SLIATE	Sri Lanka Institute of Advanced Technological Education
SLIDA	Sri Lanka Institute for Development administration
SLPA	Sri Lanka Port Authority
SME	Small and Medium Enterprises
SMILE	Small & Micro Industries Leader of Entrepreneur Promotion Project
SOBE	State Owned Business Enterprises
SOE	State Owned Enterprises
SPMC	State Pharmaceutical Manufacturing Cooperation
TEU	Twenty Feet Equivalent Units
TRC	Telecommunication Regulatory Commission
TSEP	Transforming the School Education Programme
UKHP	Upper Kotmale Hydropower Project
UKHP	United Kingdom
UN Agencies	United Nations Agencies
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USA	United States of America
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VOC	Vehicle Operating Cost
WFP	World Food Programme
WHO	World health Organization
YLP	Yen Loan Package