

Overview of Foreign Resources

1.1 Overview of Foreign Resources – Ten Year Development Horizon and Official Development Assistance

Sri Lanka as an emerging middle income country has entered in to a new phase of economic expansion with the launching of the Mahinda Chintana: Vision for a New Sri Lanka A Ten Year Horizon Development Framework 2006 - 2016. While the economic growth has already reached 7 per cent from an average rate of 4.4 per cent during the two decades 1985 – 2004, the medium term development programme aims at accelerating the country's renewed growth momentum to around 8 per cent during 2008 – 2011 and raising it to a higher rate of around 10 per cent thereafter. External resources in the forms of both official and private foreign capital inflows play a major role in supplementing the domestic investments and raising the overall investment / GDP ratio to a desired level of about 35 – 38 percent over the next 10 years for the country to reach this goal.

The immediate setbacks experienced by the country consequent to tsunami in 2004 have been overcome demonstration the resilience of the economy recording a GDP growth rate of 6.2 per cent in 2005 and 7.7 per cent in 2006. The continuation of this momentum is expected in 2007 as well. Foreign assistance continues to be major component of external resources in this endeavor. The total foreign resources received in 2006 accounted for 60 per

cent of the public investments. Foreign resources are mobilized by Sri Lanka in the forms of grants-which are not repayable; concessional loans which are offered on soft terms including low interest rates and longer repayment periods and technical assistance. Being a middle income country, non-concessional loans are also mobilized for financing commercially viable projects to supplement domestic and these foreign resources subject to prudential limits as per the Fiscal Responsibility Act. It is imperative that as Sri Lanka elevates its position as middle income country, its access to concessional loans will gradually decline and therefore the country needs to be well prepared to make effective use of other source of funding as well. In this context, such commercial source of funding would include Export Credit Facilities and other forms of capital market borrowing to finance commercially viable projects.

The total foreign resource commitments made by donors to Sri Lanka, by signing necessary loan/grant agreements during the period from January to end September 2007 amounted to US\$ 949 mn. These commitments were made in the forms of project loans and grants. Of the total commitments, project loans and grants accounted for US\$ 852 mn and US\$ 97 mn respectively.

Maintaining its leading position as the largest bilateral development partner in Sri Lanka's infrastructure and poverty reduction, the Government of Japan committed a total of US\$ 370.73 mn during the period 1st January 2007 – 30th September 2007 of which US\$ 334.12 was given as loans and US\$ 36.61 was given as grants.

The Government of China too has emerged as a leading development partner in the country's infrastructure development. The Government of China has committed a total of US\$ 72.19 mn and these two loans were given as concessional loans. Loan Agreement with the Government of China to provide assistance of US \$ 307 million for Hambantota Port Development for Phase I of the project was executed on 30th October 2007.

ADB has committed a total of US\$ 313.50 mn as loans out of which US\$ 300 mn was given as a loan for the Colombo South Port Expansion Project. In addition, negotiations have been concluded with the ADB to obtain US\$ 130 mn for the Development of Education Sector and Small & Medium Enterprise Development Projects. The supplementary loan of US\$ 90 mn will be negotiated in November 2007 for the Southern Transport Development Project.

During this period, the World Bank has extended a loan of US\$ 32.87 mn for the Infrastructure and Housing Development Project in Puttalam. In addition, negotiations are underway to conclude four financing agreements with a total value of approximately US\$ 200 mn for the Renewable Energy Promotion, Legal and Judicial Infrastructure Development, Dam Safety & Water Resources Management and Public Financial Management.

The Governments of India and Korea also have agreed to provide assistance for the railway and road sectors respectively. The rehabilitation of Matara – Colombo railway line is expected to be undertaken with Indian assistance amounting to over US \$ 100 mn while Korea will provide funding for rehabilitation of Anuradapura - Padeniya road at an estimated cost of US\$ 44 mn.

The total recorded foreign aid disbursement by 30th September 2007 amounted to US\$ 717 mn on account of project loans and grants, which is 59.8 per cent of the amount forecasted at the beginning of 2007 amounting to US\$ 1,200 mn. Of the total disbursement, project loans accounted for US\$ 544 mn (75.8 per cent), and grants accounted for US\$ 173 mn (24.2 per cent).

1.2 Foreign Aid Commitments and Utilization

Foreign Aid Commitments and Utilization

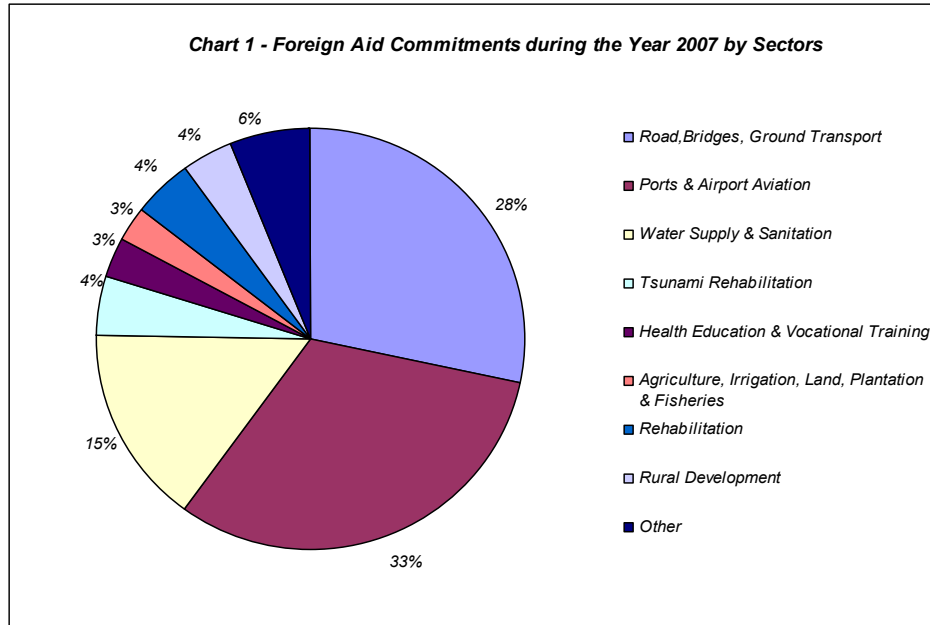
The total aid commitments made by the donors to Sri Lanka during the first nine months of 2007 amounted to US\$ 949 mn. Of this total commitments, project loans accounted for US\$ 852 mn and

grants accounted for US\$ 97 mn. The sector-wise and donor-wise classifications of the total commitment are given in the Table 1 and 2 respectively

Table 1
Classification of Foreign Aid Commitments by Sectors as of 30th September 2007
in US\$ mn

Sector	Loan	Grant	Total
Road, Bridges, Ground Transport	252.4	15.3	267.7
Ports & Airport Aviation	300.0	0.0	300.0
Water Supply & Sanitation	146.1	0.0	146.1
Tsunami Rehabilitation	30.5	10.2	40.7
Health Education & Vocational Training	17.6	11.8	29.4
Agriculture, Irrigation, Land, Plantation & Fisheries	23.1	5.0	28.0
Rehabilitation	32.9	9.2	42.1
Rural Development	34.8		34.8
Environment & Natural Resources	4.0	0.1	4.1
IT, Science & Technology, Institutional Development	2.0	8.3	10.3
Housing & Urban Development	8.9		8.9
Other		37.6	37.6
Market Borrowings	210	0.0	210.0
Total	1,062.2	97.5	1,159.7

Chart 1 - Foreign Aid Commitments during the Year 2007 by Sectors



The Government of Japan and Government of China committed US\$ 268 mn for the road and transport sector projects. Japan provided assistance for Greater Colombo Transport Development Project and Construction of Mannar Bridge & Improvement of Causeway Project amounting to US\$ 187 million and US\$ 15 mn respectively. The commitment of US\$ 66 mn from China will be utilized for the importation of 100 Railway Passenger Carriages and

15 Diesel Multiple Units. In addition, Japan has committed US\$ 113 mn for Water Sector Development Project and US\$ 35 mn for Pro-Poor Rural Development Project. The ADB has provided US\$ 300 mn for Colombo Port Expansion Project. The sector-wise details of all agreements signed up to 30 September 2007 are given in Annex 1.

Table 2 Commitment by Donor as of 30th September 2007 in US\$ mn

Donor	Loan	Grant	Total
China	65.76	13.63	79.39
Germany	0.00	17.32	17.32
Japan	334.12	36.85	370.97
Korea	16.04	0.00	16.04
Other Bilateral Donors	52.25	14.13	49.36
ADB	313.50	0.00	313.50
UN Agencies	23.09	15.61	38.70
World Bank	32.87	0.00	32.87
Other Multilateral Donors	1.88	0.00	1.88
Export Credit	12.70	0.00	29.72
Sub Total	852.21	97.54	949.75
Commercial Banks	210.00	0.00	210.00
Total	1,062.21	97.54	1,159.75

The Government of Japan, Asian Development Bank and the Government of China were the leading three donors who have made the highest commitments during the period from

January to end September 2007. These three donors have contributed US\$ 764 million or 80.4 percent of the total commitment.

Committed Un-disbursed Balance (CUB)

The total Committed Un-disbursed Balance (CUB) available for the government's development programmes as at end September 2007 was US\$ 4.56 billion. These commitments will be utilized for projects identified by the

Government over a period of 2 -5 years. Table 3 and Table 4 indicate the sector-wise and donor-wise classification of the committed un-disbursed balance respectively

Table 3 Committed Un-disbursed Balance of Foreign Aid by Sectors as of 30th September 2007

Sector	Amount US\$ mn	As a Percentage
Road, Bridges, Ground Transport, Ports & Airport Aviation	1,274.7	28.0
Tsunami Rehabilitation	868.3	19.0
Power & Energy	546.1	12.0
Water Supply & Sanitation	416.8	9.1
Health Education & Vocational Training	296.2	6.5
Agriculture, Irrigation, Land, Plantation & Fisheries	243.0	5.3
Trade, Tourism	28.5	0.6
Rehabilitation	158.6	3.5
Financial Management	132.5	2.9
Rural Development	99.6	2.2
Environment & Natural Resources	94.4	2.1
IT, Science & Technology, Institutional Development	82.0	1.8
Housing & Urban Development	64.4	1.4
Other	254.1	5.6
Total	4559.2	100.0

Table 4 Committed Un-disbursed Balance by Donors as of 30th September 2007

Donor	Amount US\$ mn	As a percentage
ADB	1270.6	27.9
Japan	1242.2	27.2
China	464.0	10.2
World Bank	413.2	9.1
Un Agencies	137.7	3.0
France	127.2	2.8
European Investment Bank	126.1	2.8
Germany	111.7	2.4
USA	62.6	1.4
Export Credit	151.4	3.3
Others	452.5	9.9
Total	4559.2	100.0

Source: Department of External Resources

Foreign Aid Disbursements

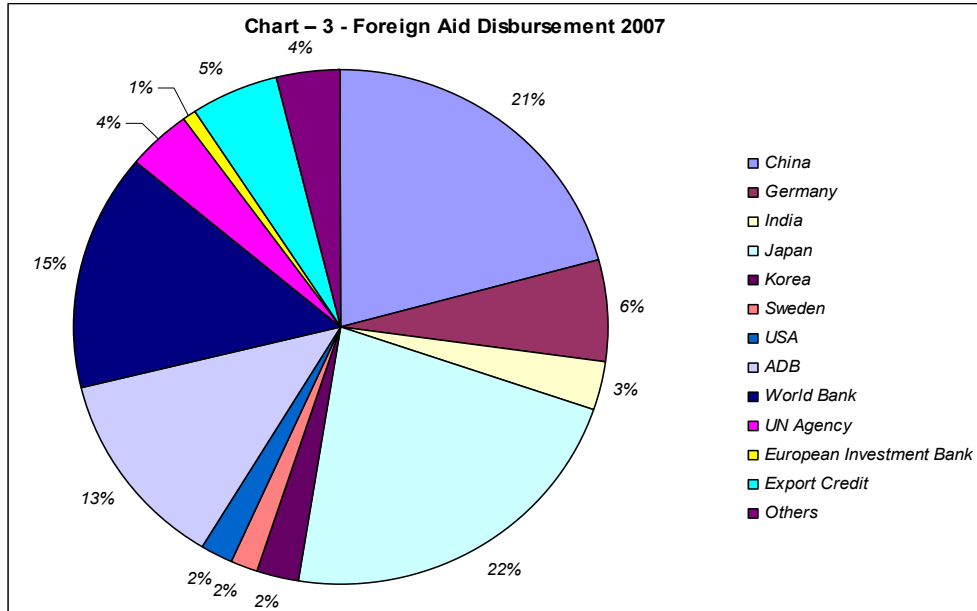
The expected disbursement of donor funds for 2007 is US\$ 1.2 billion. Out of which, US\$ 717 mn has been disbursed as of end September 2007. Of the total disbursement, project loans accounted for US\$ 544 mn (75.8 percent) and grants US\$ 173 mn (24.2 percent). The details of commitments and

disbursements by each donor in 2007 up to September 30th are given in Annex 2. Table 5 gives a comparison of the disbursement of funds by donor during between 2006 and 2007

Table 5 Foreign Aid Disbursement* 2006 and as of 30th September 2007

Donor	01.01.2007- 30.09.2007 (09 months)	01.01.2006- 30-09-2006 (09 months)	01.01.2006- 31.12.2006 (12 months)
China	149.6	6.1	9.9
Germany	45.1	78.4	108.3
India	12.8	8.8	21.5
Japan	158.6	198.8	301.2
Korea	17.8	10.9	19.8
Sweden	11.5	2.0	11.3
USA	14.5	8.7	28.6
ADB	90.5	138.0	201.6
World Bank	107.6	108.1	166.9
UN Agency	27.4	67.3	90.9
European Investment Bank	6.7	0.0	33.0
Export Credit	36.8	56.5	99.4
Others	38.3	23.4	44.4
Total	717.2	707.0	1136.8

Note: excluding borrowings from commercial banks



The Government of Japan, Government of China, Asian Development Bank and the World Bank disbursed US\$ 506 mn during this period. This is accounted for about 70.6 percent of the total disbursement. The Government of Japan disbursed US\$ 158.6 mn mainly for large infrastructure projects such as Southern Transport Development Project, Upper Kotmale Hydro Power Project and Pro-poor Rural Development Project. The Government of China recorded the second highest disbursement during this period by disbursing US\$ 149.6 mn of which US\$ 136.5 mn was for Puttlam Coal Power

Project. The disbursement made by the World Bank totaled at US\$ 107.6 mn, mainly for Road Sector Assistance Project, Renewable Energy for Rural Economic Development Project and “Gami Diriya” Project. The ADB disbursements amounting to US\$ 90.5 mn mainly for Road Network Improvement Project, Southern Transport Development Project, Power Sector Development and Tsunami-Affected Areas Rebuilding Project. The projects recorded over US\$ 10 mn disbursement in 2007 are given in Table 6

Table 6 Projects with Disbursements over US\$ 10 million as of 30th September 2007

Project Name	Donor	US\$ mn
Nuwara Eliya District Group Water Supply Project	Denmark	14.34
Indian Line of Credit	India	10.42
Southern Transport Development Project (Kottawa – Kurundugahahathekma)	Japan	21.06
Upper Kotmale Hydro Power Project	Japan	10.91
Small & Micro Industries Leader & Entrepreneur Promotion(SMI LE iii)	Japan	16.38
Sri Lanka Tsunami Affected Area Recovery and Take off (STAART) Project	Japan	12.14
Pro-Poor Rural Development Project	Japan	13.32
Puttalam Coal Power Project	China	136.50
Road Network Improvement Project	ADB	12.63
Southern Transport Development Project (Kurundugahahathekma – Matara)	ADB	13.12
Power Sector Development Project	ADB	10.13
Road Sector Assistance Project	World Bank	18.68
Community Development and Livelihood Improvement “Gami Diriya” Project	World Bank	14.12

US\$ 500 Million International Bond Issue by the Government

As Sri Lanka is an emerging middle income country, and given the need to supplement available domestic and other foreign resources to scale up investment in infrastructure throughout the country, it was felt essential for the country to make a successful initial inroad to the international capital market through bond issue, to broaden the country’s investor base.

The Government raised US\$ 500 mn, through the sale of bonds in the international capital markets on October 17, 2007. The net proceeds of the bond issue will be utilized by the Government

to supplement available concessional funds to develop infrastructure projects including in areas such as electricity generation, water supply, roads, port facilities and railways. Barclays Capital, HSBC and J.P. Morgan acted as Joint Lead Managers. Bank of Ceylon acted as Co-Manager.

After the road-shows in Singapore, Hong Kong, London, New York, Los Angeles and Boston, the order book was more than three times oversubscribed, and the debut international bond issue by the Government was successfully concluded, with pricing and allocation of

the bonds among the international investor community.

The bonds were sold at par with a coupon of 8.25 per cent and a maturity date of October 24, 2012.

While 136 investors participated in the transaction, 30 per cent of the

distribution was to investors in Asia, 30 per cent to investors in Europe and 40 per cent to investors in the USA. Of these investors, 53 per cent were Asset Managers, 25 per cent were Banks and 22 per cent were Insurance Funds, retail banks and other Funds.

Foreign Resources through Rupee Denominated Treasury Bonds

In addition to the above disbursements, the Government also issued US\$ 337 mn by opening up 5 percent of the rupee denominated Treasury Bond stock for

foreign participation in the maturities ranging 2 – 11 years. The average yield rate of these bonds was around 14 percent.

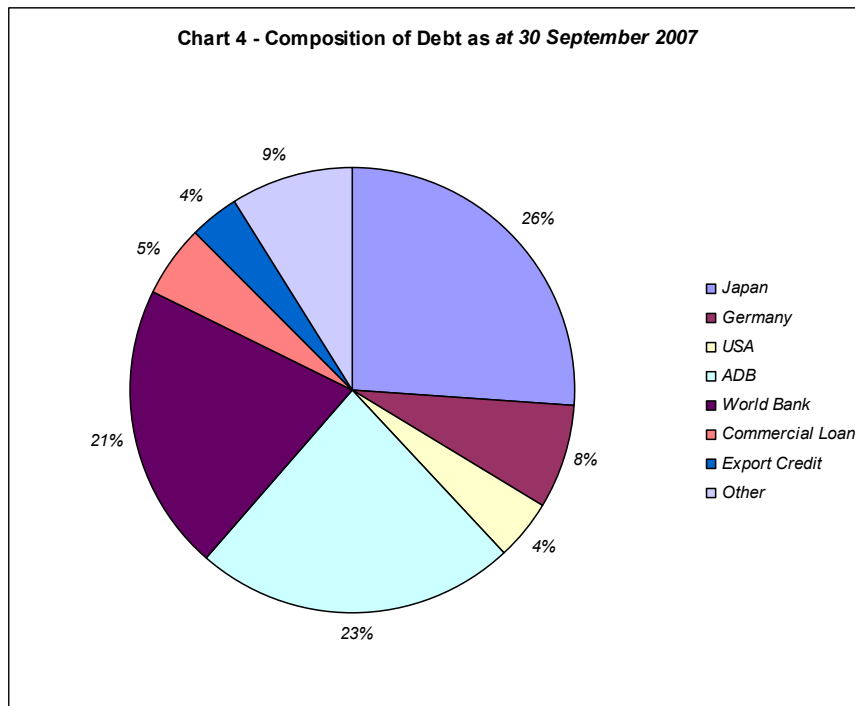
1.3 External debt

External Debt Stock

The external debt of the Government as at 30 September 2007 amounted to US\$ 11.28 billion. Of this, 45 percent is due to bilateral donors, 46 percent to multilateral donors, 5.4 percent to commercial banks and the balance 3.6

percent to the export credit agencies. A graphical representation of the composition of the external debt stock as of end September 2007 by the major donor category is demonstrated below

Chart 4 - Composition of Debt as at 30 September 2007



External Debt Service Payments

The total external debt service payment up to 30 September 2007 was US\$ 604.7 mn which consisted of US\$ 460.8 mn in principal repayments and US\$ 144 mn in interest payments. The estimated total

external debt service payment for 2007 is around US\$ 813 mn. Table 7 shows the composition total debt service payments based on the current debt stock for the period 2006 – 2010.

Table 7: Composition of Debt Service Payment* 2006 -2010 – US\$ mn

Year Type	Actual		Forecast			
	2006	2007 (30 Sep 07)	2007	2008	2009	2010
Total Outstanding Debt	10,633.1	11,284.0	11,115.5	11,914.4	11,964.0	11,934.6
Principal repayments	422.8	460.7	619.9	734.0	740.7	547.2
Interest payments	176.5	144.0	193.5	204.2	209.8	205.3
Total debt service payments	599.3	604.7	813.4	938.2	950.5	752.5

* Note: includes debt services of commercial loans

Table 8 illustrates the profile of external debt service payments based on the current debt stock for the period 2006 – 2010. The debt service payments to three

major donors, i.e. Japan, ADB and the World Bank accounted for 49.5 percent of the total debt service payment in 2007.

Table 8: Debt Service Payments Donor-wise- 2006 to 2010- in US\$ mn

Creditor	Actual		Forecast			
	2006	2007 (30/09/07)	2007	2008	2009	2010
Bilateral	342.7	272.3	402.5	446.6	457.2	380.0
Japan	215.8	185.8	254.1	272.2	272.4	221.7
USA	48.5	31.5	51.7	52.0	51.2	40.5
Germany	43.2	20.7	46.9	51.6	51.0	39.5
France	9.0	5.9	10.8	11.8	12.1	9.7
Netherlands	5.8	5.3	7.1	6.5	4.4	1.7
Canada	4.2	4.5	5.1	5.6	5.6	4.3
Kuwait	4.7	2.8	4.9	4.7	5.0	5.5
Korea	7.4	8.1	10.8	13.2	13.2	11.4
India	0	5.9	6.4	14.9	16.3	15.2
China	2.9	1.3	3.0	10.5	18.9	21.0
Other	1.2	0.5	1.7	3.6	7.1	9.5
Multilateral	146.9	119.9	162.7	203.6	240.3	263.5
ADB	76.1	61.0	86.0	117.6	146.0	165.0
World Bank	57.9	52.4	68.0	73.3	76.0	79.0
IFAD	8.2	2.0	2.4	3.2	3.8	3.8
Others	4.7	4.5	6.3	9.5	14.5	15.7
Commercial Bank	76.0	188.0	209.8	242.1	203.6	49.6
Export Credits	33.7	24.5	38.2	46.0	49.4	59.3
Grand Total	599.3	604.7	813.2	938.3	950.5	752.4
Exchange Rate US\$/Rs	107.7	113.5	113.5			

The net flow of foreign aid during the period from 2002 to 2007 is given in Table 9.

Table 9: Net Flow of Foreign Aid - 2002 to 30th September 2007- in US\$ mn

Creditor	Description	2002	2003	2004	2005	2006	2007 (30 Sep 07)
Multilateral ADB	Disbursements	153.5	217.9	187	216.8	201.6	90.5
	Interest Payments	14.8	17.8	20.2	24	28.2	22.8
	Principal Repayments	23.4	30.8	32	40.9	47.9	38.2
	Net Flow	115.3	169.3	134.8	151.9	125.5	29.5
WB	Disbursements	94.3	210.1	72.1	156.7	166.9	107.6
	Interest Payments	12.5	13.8	15.3	16.1	15.7	15.5
	Principal Repayments	33.8	37.9	38.4	39.6	42.2	36.9
	Net Flow	48.0	158.4	18.4	1010	109	55.2
IMF	Disbursements	123.5	82.1	0	0	0	0
	Interest Payments	2.1	0	5.7	0	0	0
	Principal Repayments	50.2	23.2	107.8	0	0	0
	Net Flow	71.2	58.9	-113.5	0	0	0
Bilateral Japan	Disbursements	183.1	250.8	276.5	235	301.2	158.6
	Interest Payments	53.8	60.6	65.7	6.6	57.4	48.1
	Principal Repayments	94.1	108.8	126.3	10.2	158.4	137.7
	Net Flow	35.2	81.4	84.5	218.2	85.4	-27.2
USA	Disbursements	2.0	11	8	17	28.6	14.5
	Interest Payments	18.3	17.9	17.3	3.7	16.7	10
	Principal Repayments	24.9	25.9	26.1	5.2	31.8	21.4
	Net Flow	-40.8	-32.7	-35.8	7.8	-19.9	-16.9
Germany	Disbursements	15.2	26.6	39.7	64	108.3	45.1
	Interest Payments	6.0	7.2	8	5.4	10.6	5.2
	Principal Repayments	12.9	14.8	14.8	10.4	32.6	15.5
	Net Flow	-3.7	4.6	16.9	48.2	65.1	24.4
Others*	Disbursements	131.3	308.1	200.9	528	580.2	510.9
	Interest Payments	12.6	14.1	18.7	19.9	47.8	42.4
	Principal Repayments	44.8	43.6	50.3	66.5	109.9	211.1
	Net Flow	73.9	250.4	131.9	441.6	422.5	257.4
Total	Disbursements	703.3	1106.7	783.8	1217.2	1386.8	927.2
	Interest Payments	120.1	131.4	150.9	75.7	176.4	144.0
	Principal Repayments	284.1	285	395.7	172.8	422.8	460.8
	Net Flow	299.1	690.3	237.2	968.7	787.6	322.4

Source: Department of External Resources

Note: Includes commercial borrowings

Net Flow = Disbursement – (Interest Payments + Principal Repayments)

1.4 New Initiatives taken to improve efficiency and effectiveness of Foreign Aid Utilization

Foreign Aid Utilization Rate

A comparison of foreign aid utilization rates for the first nine months of this year with that of corresponding nine

months in 2006, and also the previous twelve months is given in the Table 10.

Table 10 - Utilization Rates

Donor	Utilization Rates (%)		
	2007 (first 9 months)	2006 (first 9 months)	2006 (12 months)
Japan	11.81	13.51	20.47
ADB	8.59	12.42	19.12
World Bank	22.52	18.17	26.82
China	27.89	2.55	2.62
Germany	30.29	35.47	48.92
Others	15.14	23.55	31.79
Overall	15.4	16.02	23.47

Source: Department of External Resources

The utilization of committed aid is affected by several factors such as the amount of new commitments made by the donors during a given year delays of tender boards, land acquisition, inadequate capacity in project management units, insufficient supervision and attention to timely implementation, irregular release of domestic counterpart funds by the Treasury, procedural complexities,

rigidities and bureaucracy in donor agencies, changing conditions and applicability of the projects, cost escalations, governance weaknesses, changes in scopes and security situations. Therefore, the utilization rates need to be considered in the context of the type of assistance and the developments. These issues are being addressed at all levels.

Following measures have been taken by the Government to improve aid utilization:

- Regular and strengthen monitoring of progress at different levels including review of progress in respect of key projects at the highest level.
- Expediting the process of utilizing reimbursable foreign aid.
- Streamlining procurement systems and procedures through revision of guidelines and introduction of standard bidding documents. Harmonization of procurement guidelines of donors with our own guidelines has been recognized.
- Preparation of bidding documents at the project preparatory stage.
- Review of donor funded portfolio to reassess its relevance under present circumstances to make necessary changes to improve its quality and efficiency.
- Transferring funds from slow moving project activities to high moving activities.
- Completion of preliminary work such as setting up of project management offices with core staff well in advance of the signing of the credit agreements.
- Use of foreign funding to finance projects with shorter life span.