

2008

Performance Report

Department of External Resources

Ministry of Finance & Planning

Vision

“To be well equipped with knowledge and expertise required to mobilize and manage external finances for accelerated economic growth of Sri Lanka as the country elevates to higher-middle income status”

Mission

“Mobilize external financing at least possible cost in support of “Mahinda Chinthana: A Vision for a New Sri Lanka” while maintaining long term debt sustainability of the Country”

What We Do

Mobilize external resources on favorable terms and conditions with minimum cost and low risk to finance development projects identified in the Government’s Ten – Year Development Framework

Facilitate the effective and efficient utilization of external resources

Contribute to maintain long – term external debt sustainability of the country

Contribute to the human resource development in the public sector by effective utilization of foreign training opportunities

Continue to strengthen the capacity of the Department to fulfill the responsibilities in an effective and efficient manner

Our Values

Complying with the spirits and abide by all laws and regulations, adhering to the biggest standards of governance, transparency, disclosure and ethical conduct

Demand the highest standards of personal integrity, putting the Department's interest ahead of individuals

Create an environment of mutual respect and trust where the staff can demonstrate its performance and achieve the full potential

Promote long-term ethical relationships with the stakeholders through true and fair dealings

Empower the staff at all levels, minimize interferences, and require them to be accountable

The Department of External Resources

The External Resources Department of the Ministry of Finance and Planning is responsible for mobilizing and coordinating foreign aid to Sri Lanka. It facilitates achieving the development objectives of " Mahinda Chinthana " : A Ten year Horizon Development Framework 2006 – 2016 " by mobilizing necessary foreign resources for the development financing needs of the country and utilizing external resources effectively and efficiently.

Complying with the development targets identified in the Government Ten Year Development Framework 2006 – 2011, the Department of External Resources was able to divert the foreign financial assistance towards the improvement of infrastructure in the country paving the way to mitigate regional differences and generating nation wide economic benefits. The proportion for infrastructure development in the total foreign financing commitments has increased to 77 percent in 2008 from 70 percent in 2007, depicting the strong commitment of the Government to fill the infrastructure gap in the country.

The foreign financing to Sri Lanka comprised of concessionary Loans, Grants and Export Credits provided by 12 multilateral agencies, 21 bilateral donors and a number of export credit agencies. Major multilateral donors were Asian Development Bank, World Bank, European Investment Bank, Nordic Development Fund and UN Agencies. The bilateral donors were Japan, India, Korea, China, Saudi Arabia, Kuwait, USA, Germany, Netherlands, Spain, Australia, Denmark, Norway, and Sweden. Export credit providers to Sri Lanka were Denmark, Norway, Austria, France, Australia, Iran, Netherlands, Pakistan, Sweden, China, Korea and the United Kingdom.

In 2008, the total commitment made by multilateral and bilateral donors as well as export credit agencies was US\$ 2,067 million. The multilateral donor agencies provided 24 percent of the development assistance while bilateral donor agencies contributed for 37 percent. The balance 39 percent was provided by export credit agencies. The total

development aid from multilateral agencies was US\$ 495 million. Of which US\$ 385.9 million was loans and the balance US\$ 109.2 million was grants. The amount contributed by the bilateral donors was US\$ 761.3 million of which US\$ 634.1 million was loans and US\$ 127.2 million was grants. The total amount raised from the export credit agencies was US\$ 810.8 million

The total disbursement made in 2008 was US\$ 1,225.6 million. The disbursement from multilateral donors accounted for US\$ 593.8 million or 48.5 percent and the bilateral donors accounted for US\$ 477.3 million or 38.9 percent. The export credit agencies disbursed US\$ 154.5 million or 12.6 percent.

The total foreign aid commitments and disbursements in the year 2008 were the highest level recorded in the history. The total commitments increased to US\$ 2067 million in 2008 from US\$ 1,674 million 2007 showing of 23.4 percent improvement. The disbursements reached to US\$ 1226 million in 2008 recording an increase of 8.7 percent compared with the year 2007.

The Government borrowings from the capital market sources were limited to the US\$ 150 million loan obtained from the Standard Chartered Bank given the tight liquidity conditions in the international financial markets in the context of the global financial crisis.

The cumulative undisbursed balance of the commitments as at end of December 2008 stood at USD 5.7 billion. Based on the existing portfolio and the expected foreign financing of US\$ 4.6 billion for the period 2009-2010, the total foreign financing available for utilization in the medium term would be around US\$ 10.3 billion.

Organization Structure

The Department of External Resources (DER) is headed by a Director General who is assisted by 3 Additional Director Generals and 6 Directors in charge of the following Divisions.

1. Asian Development Bank Division
2. World Bank Division
3. Japan Division
4. Bi-lateral West Division
5. Bi-lateral East Division
6. Technical Assistance Division
7. Policy Division
8. Information Systems and Debt Management Division
9. UN Division
10. Administration and Finance Division

The cadre information of the Department of External Resources as at 31st December 2008 is given in the table 1 below;

Table 1 - Cadre Information as at 31st December 2008

Cadre	Approval Cadre	Actual Cadre	Vacancies
Staff Officers	44	30	14
Supporting Staff	69	49	20
Minor Staff	28	25	03
Total	141	104	37

Table I indicates that 26 percent of the approved carder was vacant at the end of the year 2008. This posed a great challenge to the Department in reaching the targets set out in the Annual Work Plan 2008. It is remarkable that the Department recorded both its highest disbursements and commitments during 2008 despite such a high number of vacancies. This achievement can mainly be attributed to the dedication of the staff. However, middle and senior level officers had to work under pressure and devote major part their time for day today operational functions with least time on policy and strategic matters. Hence, it

is imperative that filling of the vacancies is essential to enable the staff to deliver its functions effectively with adequate time to engage in policy related matters.

Staff Development and Training

In the year 2008, the Department has performed a significant role in development of human resources through the provision of local and foreign training opportunities for staff for capacity development and to enhance their efficiency. Local and foreign training opportunities provided are as follows.

Training Programme	Number of Staff Trained (Foreign/Local)
Contemporary Public financial Challenges in Developing Countries	14
Accounts and Financial Management	06
Economic Development	03
Positive Tomorrow	25
Improvement of Management Skills	04
Other	08

In order to carry out the administration of the Department efficiently the officers of the Management Assistance Service have been provided with training during the year 2008. Areas on which they were trained are as follows;

Subject of Training	Number of MAS Staff Trained
English Language	13
Information Technology	05
Tamil Language	03
Other Areas	05
Book Binding	02

Foreign Financing Commitments

The total foreign financing commitments made by the donors and lending agencies in 2008 was US\$ 2,067 million. Of this, loans accounted for US\$ 1,831 million and grants accounted for US\$ 236 million. The list of loan/grant agreement signed in 2008 is given in Annex 1.

The commitment made in 2008 is significant as it is the highest commitment reported so far. Total commitments increased by US\$ 393 million or 23.5 percent compared to 2007. Export credits increased 262 million or 48 percent. Commitments from bilateral donors have increased to US\$ 761 million in 2008 from US\$ 553 million in 2007. This is an increase of US\$ 209 million or 12 percent compared to 2007. However, commitments from multilateral donors in 2008 have slightly decreased by US\$ 77 million or 5 percent.

Government of Iran, as a new bilateral development partner, extended an export credit facility of US\$ 450 million for Uma Oya Hydro Electric and Irrigation Project. Iranian commitment represents 55.5 percent of the export credits and 22 percent of the total commitment in 2008. Iran, Japan and the World Bank were the three main donors who committed higher commitments in 2008. These three donors contributed US\$ 1,095 million or 53 percent of the total commitment.

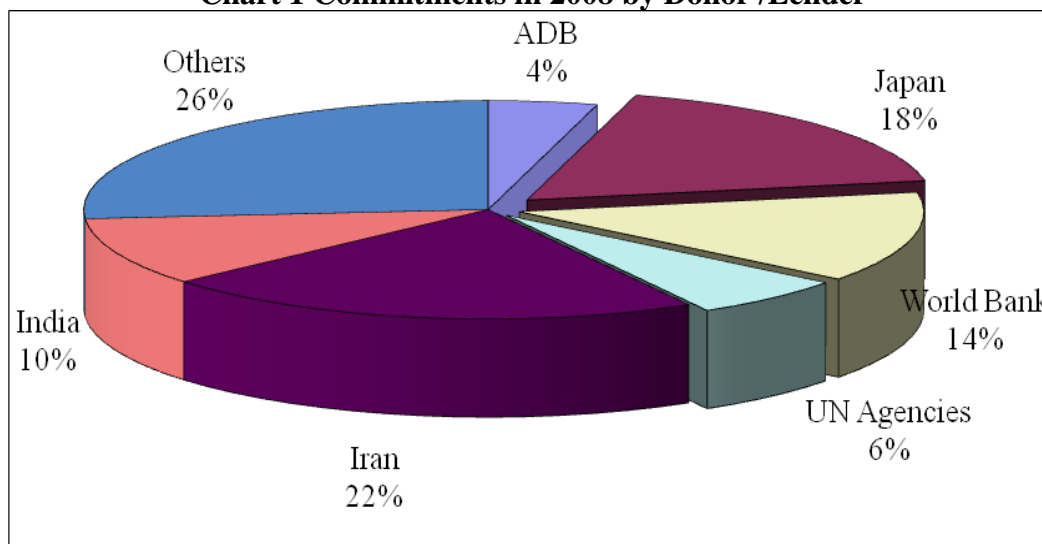
Table 2 Foreign Financing Commitments* by Donor 2008 (US\$ mn)

Donor	2008			2007
	Loan	Grant	Total	
Bilateral	634.1	127.2	761.3	552.7
China			0.0	79.4
France	23.6		23.6	22.3
Germany			0.0	17.3
India	200.0	9.2	209.2	
Japan	325.9	30.9	356.8	371.0
Korea	61.7	6.2	67.8	16.1
The Netherlands		63.6	63.6	
USA		16.2	16.2	4.3
Other Bilateral	23.0	1.2	24.2	42.3
Multilateral	385.9	109.2	495.1	572.5
Asian Development Bank	90.0		90.0	449.4
World Bank	275.2	1.9	277.1	47.3
UN Agencies	20.7	107.3	128.0	57.9

Other Multilateral			0.0	17.8
Export Credit	810.8		810.8	549.1
China				306.7
Sweden				91.9
Australia	16.1		16.1	
Austria	43.4		43.4	12.7
Denmark	155.2		155.2	
France	55.2		55.2	
Iran	450.0		450.0	
Japan	11.4		11.4	
The Netherlands	79.5		79.5	6.6
United Kingdom				127.2
Norway				4.0
Total	1,830.7	236.5	2,067.2	1674.3

* Note: Excluding Capital Market borrowing of US\$ 150 million

Chart 1 Commitments in 2008 by Donor /Lender



Of the new commitments, US\$ 1,587 million or 77 percent was for infrastructure development in roads bridges and transport, port development, water supply, power and energy and irrigation. The highest commitment of US\$ 623 million was for development of Agriculture, Fisheries and Irrigation which includes the Iranian commitment of US\$ 450 million for Uma Oya Hydro Electric and Irrigation Project. Government of Netherlands provided grant assistance of US\$ 26 million and an export credit facility of

US\$ 43 million for the construction of Dikowita Fishery Harbor. The World Bank committed US\$ 42 million for Dam Safety and Water Resources Planning Project.

Roads and transport sector recorded the second highest commitment by mobilizing US\$ 581 million. Government of Japan was the main donor in this sector and has committed US\$ 216 million for two projects. Of this, US\$ 163 million was for additional financing requirements of the Southern Expressway Project and the balance US\$ 53 million was for Greater Colombo Transport Development Project Phase II (Outer Circular Road). The commitment of US\$ 90 million from Asian Development Bank was also for additional financing requirements of the Southern Expressway Project. The Government of Korea provided US\$ 55 million for improvement of Padeniya – Anuradhapura road and the World Bank provided US\$ 93 million as additional financing for Road Sector Assistance Project.

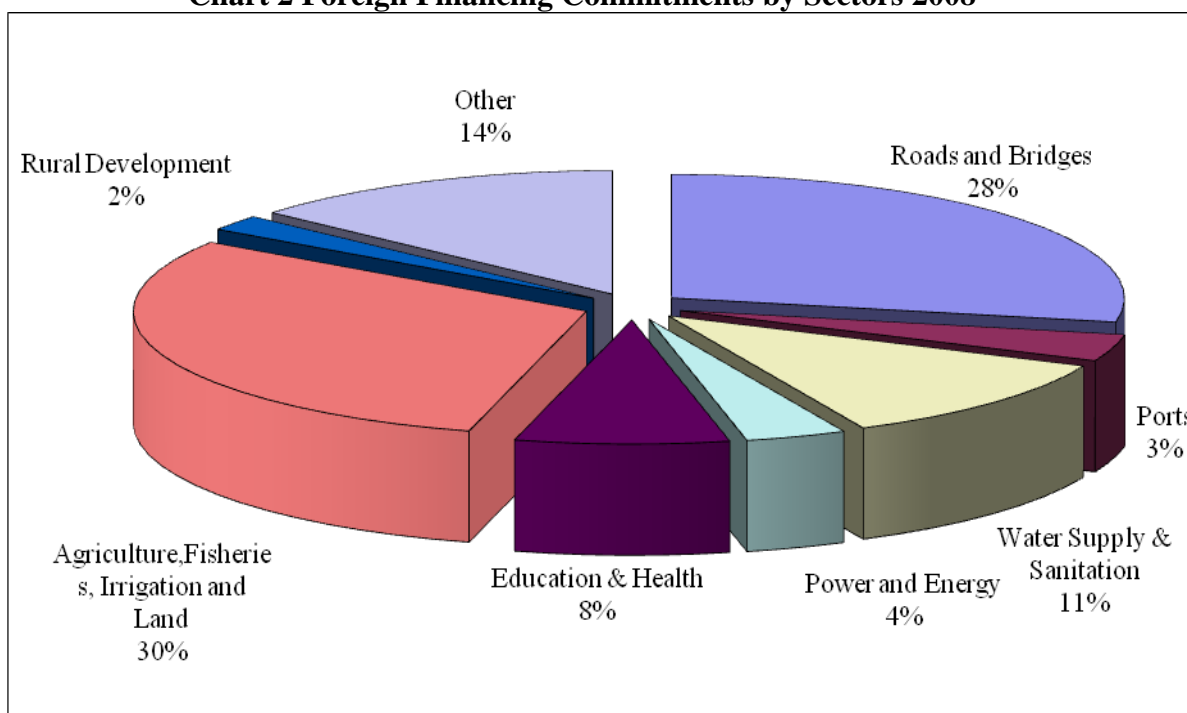
Water Supply and Sanitation sector recorded US\$ 233 million or 11 percent of the total commitment. Government of Denmark committed US\$ 83 million in export credit facility for Kelani Right Bank Water Treatment Project. The Government of Netherlands provided a grant facility of US\$ 31 million and an export credit facility of US\$ 26 million for the Negombo Water Supply Project. Austria committed US\$ 15 million export credit for Rehabilitation of Kirindi Oya Water Supply Project and Japan committed US \$ 78 million for the Water Sector Development Project Phase II.

Table 3 Foreign Financing Commitments by Sector 2008

Sector	US\$ Million			
	Loan	Grant	Total	% of Total
Roads and Transport	581.5	0.0	581.5	28.1
Ports	72.5	0.0	72.5	3.5
Water Supply & Sanitation	201.5	31.1	232.6	11.2
Tsunami Rehabilitation	20.7	0.5	21.2	1.0
Health, Education & Vocational Training	68.2	91.7	159.8	7.7
Power & Energy	74.2	0.0	74.2	3.6
Agriculture, Fisheries, Irrigation and Land	576.1	47.0	623.2	30.1
Conflict Affected Areas Rehabilitation	0.0	49.1	49.1	2.4
Rural Development	41.6	0.0	41.6	2.0

Environment & Natural Resources	0.0	5.5	5.5	0.3
IT, Science & Technology	6.7	0.0	6.7	0.3
Housing & Urban Development	41.1	0.0	41.1	2.0
Other	146.6	11.6	158.2	7.7
Total	1830.7	236.5	2067.2	100.0

Chart 2 Foreign Financing Commitments by Sectors 2008



Committed Un-disbursed Balance

The total Committed Un-disbursed Balance (CUB) of foreign financing available at the end of 2008 was US\$ 5.77 billion. These commitments will be utilized within 2 to 5 year period based on the duration of projects for which such funds were committed. Table 4 and 5 indicates sector-wise and donor-wise classification of committed undisbursed balance, respectively.

Table 4 Committed Un-disbursed Balance by Sector as at 31 Dec 2008

Sector	US\$ mn	% of Total
Roads, and Transport	1349.2	23.4

Ports	773.9	13.4
Water Supply & Sanitation	559.9	9.7
Tsunami Rehabilitation	358.3	6.2
Health, Education & Vocational Training	365.5	6.3
Power & Energy	756.0	13.1
Private Sector Development	112.8	2.0
Agriculture, Fisheries, Irrigation and Land	774.3	13.4
Conflict Affected Areas Rehabilitation	92.7	1.6
Rural Development	87.7	1.5
Environment & Natural Resources	68.4	1.2
IT, Science & Technology	46.6	0.8
Housing & Urban Development	71.2	1.2
Other	355.3	6.2
Total	5,771.7	

Table 5 Committed Un-disbursed Balance (CUB) by Donor

Donor	CUB as at 31 Dec 2008
Bilateral	2,656.4
Japan	1,582.0
China	372.4
Denmark	10.3
France	116.6
Germany	23.7
India	228.8
Korea	89.8
Kuwait	24.1
Netherlands	93.2
Saudi Fund	34.9
USA	30.4
Other Bilateral	50.2
Multilateral	1,841.8
ADB	1,091.4
World Bank	502.8
European Investment Bank	63.4
European Union	51.4
UN Agencies	126.1
Other Multilateral	6.6
Export Credit	1,273.5
Total	5,771.7

Disbursement of Foreign Financing

Total disbursements made during the year 2008 was US\$ 1,226 million. Of this amount loans accounted for US\$ 932 million (76 percent) and grants accounted for US\$ 294

million (24 percent). The disbursement in 2008 is remarkable as it is the highest disbursement reported so far in the history. Until 2008, the highest disbursement was US\$ 1146 million which was reported in 2006. Table 6 gives disbursement of funds by donors/creditors in 2008.

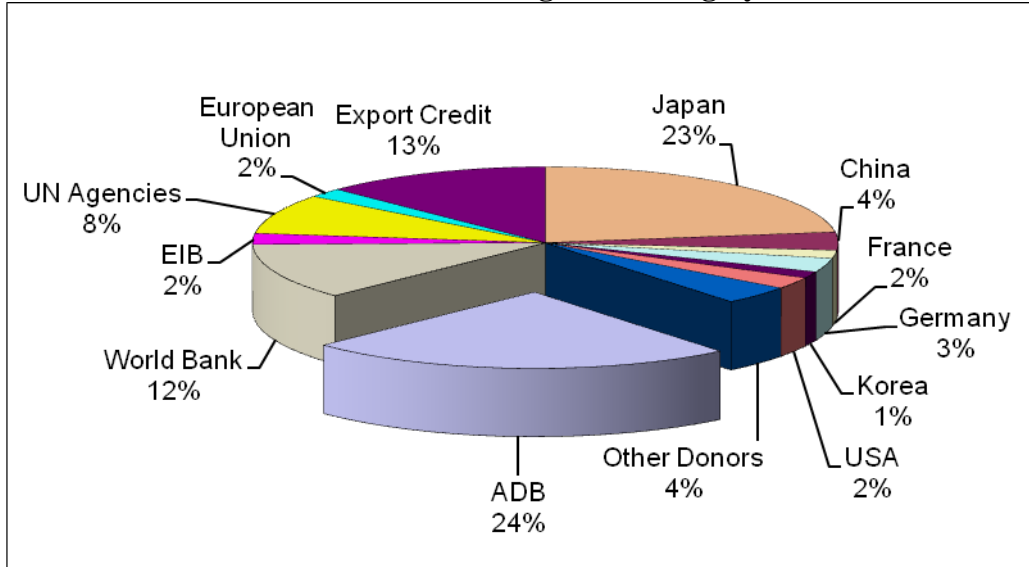
Table 6 Disbursement of Foreign Financing 2007 – 2008

Donor	2008			2007
	Loan	Grant	Total	
Bilateral	397.4	79.9	477.3	656.0
Japan	263.3	15.4	278.7	229.4
China	46.3	0.8	47.1	180.8
Denmark	9.2		9.2	20.8
France	20.9		20.9	11.2
Germany	8.7	27.9	36.6	79.9
India	0.5		0.5	14.7
Korea	14.2	2.8	17.0	38.8
Kuwait	8.2		8.2	4.6
Sweden	0.8	1.4	2.2	16.5
Spain	20.2		20.2	13.3
USA		30.6	30.6	32.2
Other Bilateral	5.1	1.0	6.1	13.8
Multilateral	380.1	213.7	593.8	392.3
ADB	248.2	41.7	289.9	173.6
World Bank	96.0	49.6	145.6	122.0
European Investment Bank	28.7		28.7	42.0
European Union		24.0	24.0	11.0
UN Agencies	5.3	98.4	103.7	36.3
Other Multilateral	1.9		1.9	7.4
Export Credit	154.5		154.5	79.6
Total	932.0	293.6	1,225.6	1,127.8

* Note: Excluding Capital Market borrowing of US\$ 150 million

Total disbursements in 2008 has increased by US\$ 98 million or 8.7 percent compared to 2007. Disbursements from the multilateral donors have increased by US\$ 202 million or 51 percent in 2008 whereas, disbursements from bilateral donors have decreased by US\$ 179 million or 27 percent. Utilization of funds from export credit agencies have increased sharply from US\$ 80 million to 155 million which represents an increase of 94 percent compared to the previous year.

Chart 3 Disbursement of Foreign Financing by Donor 2008



The Asian Development Bank, the Government of Japan and the World Bank were the three main donors reported higher disbursements in 2008. These donors disbursed US\$ 714 million or 58 percent of the total disbursements. The Asian Development Bank disbursed US\$ 290 million mainly for projects in roads, water supply, power and port sectors. Colombo Port Expansion Project, Secondary Towns Rural Community Water Supply/Sanitation Project and Southern Expressway Project were the main projects which reported higher disbursements in 2008. The Government of Japan disbursed US\$ 279 million mainly for Southern Expressway Project, Upper Kotmale Hydro Power Project, Provincial Road Improvement Project and Walawe Left Bank Irrigation Project. The World Bank disbursed US\$ 144 million mainly for Road Sector Assistance Project, Gami Diriya Project and North East Housing Reconstruction Project.

Table 7 Projects with Disbursement over US\$10 million in 2008

Project Name	Donor	US\$ mn
Southern Expressway Project	Japan	60.8
Upper Kotmale Hydro Power		57.1

Provincial Road Improvement Project		17.7
Walawe Left Bank Irrigation Project		17.0
Environmentally Friendly Solution Fund - II		12.1
Lunawa Environment Improvement and Community Dev. Project		11.9
Rural Development Project		11.5
Colombo Electricity Distribution Development Project		10.7
Kaluganga Water Supply Project		10.2
Colombo Port Expansion Project	ADB	43.0
Secondary Towns and Rural Community Water/Sanitation		35.0
Southern Expressway Project		31.3
Tsunami Affected Areas Rebuilding Project		31.2
Power Sector Development Project		21.4
Fiscal Management Programme		15.0
National Highway Sector Development Project		11.1
Road Sector Assistance Project		World Bank
“Gami Diriya” Project	15.6	
North East Housing Reconstruction Project	20.2	
Health Sector Development Project	10.5	
Education Sector Development Project	12.2	
Puttlam Coal Power Project	China	23.2
Supply of 15 Nos. Diesel Multiple Units		10.7
Tsunami Affected Areas Rebuilding Project	European Union	19.3
Reconstruction of Water Supply in Galle District	Germany	10.2
Setting up of two Water Treatment Plants at Galle and Negombo	Spain	13.5
Towns South of Kandy Water Supply Project	Denmark	14.1
Kelani Right Bank Water Treatment Plant		12.8
Tsunami Recovery and Reconstruction Support	USA	23.3
DFCC Global Loan II	European Inv. Bank	15.1
Trincomalee integrated Infrastructure Development Project	France	10.8
Regional Bridge Project	United Kingdom	49.7
Ratmalana & Ja-Ela Water Treatment Facilities	Sweden	17.7
Assistance to Vulnerable Groups for Peace Building in Conflict Affected Areas	World Food Programme	68.5
UNICEF Country Programme 2008 -2012	UNICEF	21.5

Foreign Aid Utilization Rate

Foreign aid utilization rate (or foreign aid disbursement ratio) defined as the ratio of total disbursements to total committed undisbursed balance, indicates the efficiency of utilization of foreign aid committed by the donor agencies. Foreign aid utilization ratio depends on the average project/loan portfolio life. For instance, if the average portfolio life is five years, one fifth of the loan should be disbursed annually and therefore, the utilization ratio should be around 20 percent. About 90 percent of the projects in the aid portfolio have life spans between 4 to 5 years and hence, the satisfactory levels of the overall utilization ratio should be between 20 percent and 25 percent.

Table 8 Utilization Rates

Donor	2008	2007
Japan	22.6	16.9
ADB	21.1	12.8
WB	29.0	24.6
China	22.9	28.5
Germany	33.5	53.7
France	13.6	1.8
Netherlands	0.3	0.5
Sweden	4.9	28.7
Korea	31.0	44.4
U.S.A.	58.9	40.3
Spain	63.0	32.4
Export Credit	11.8	43.1
FAO	15.0	60.3
IFAD	6.4	7.1
NDF	15.3	48.0
India	0.4	34.3
Kuwait	23.7	7.0
Denmark	32.0	69.1
Norway	0.2	3.1
Switzerland	21.1	45.1
Saudi Fund	10.0	21.7
EIB	30.5	33.9
OPEC	27.3	38.1
WFP	69.7	23.5
Other UN Agencies	22.0	14.7
Other donors	21.2	2.0
Overall	20.6	21.3

External Debt Stock

External debt of the Government as at 31st December 2008 stood at US\$ 12.31 billion as against the US\$ 11.33 billion at end 2007. This was an increase of 8.7 percent compared to 2007. However, External Debt/GDP ratio declined to 32.8 percent from 37.1 percent in 2007. Of the total debt stock, 45 percent was due to bilateral donors, 44 percent to multilateral, 5 percent to export credit agencies and the balance 6 percent to commercial banks. The composition of the debt stock as at end December 2008, by major donor category, is given in Chart 4.

Chart 4 Composition of Debt Stock as at 31 December 2008

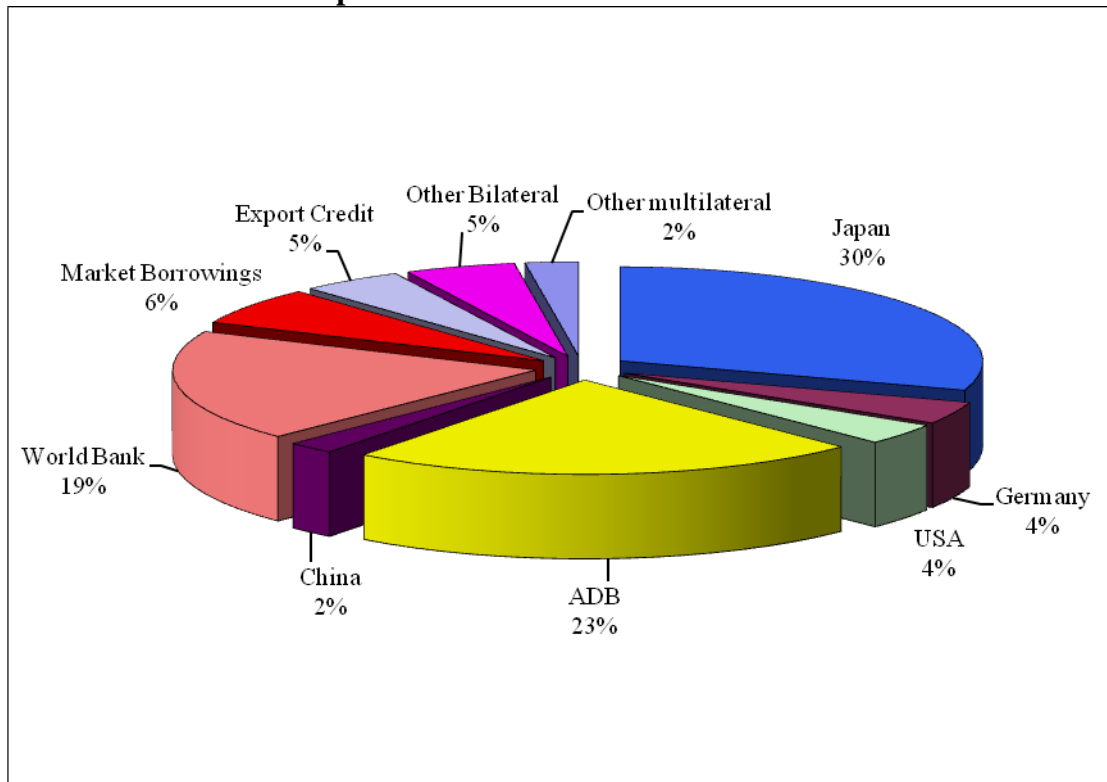
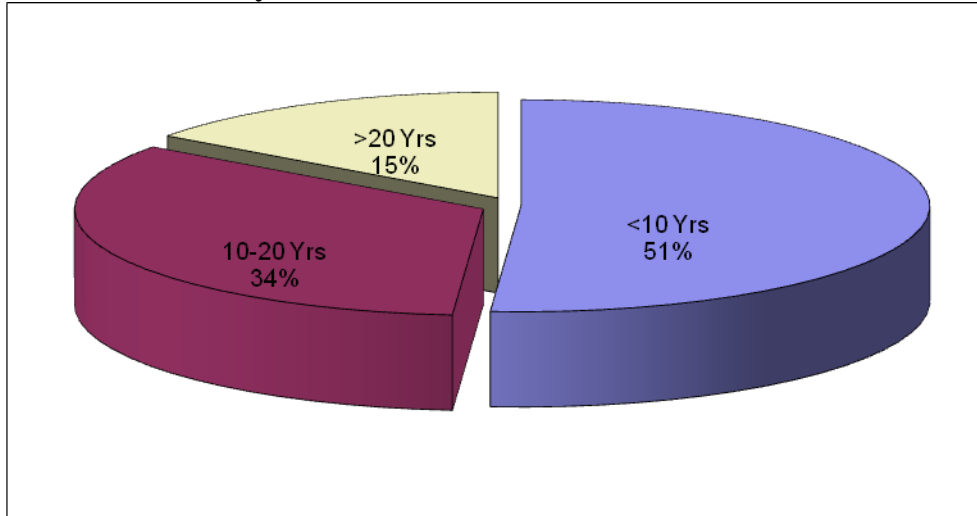


Chart 5 Maturity Profile of the Debt Stock as at 31st December 2008



External Debt Service Payments

The total external debt service payments during 2008 was US\$ 812 million of which principal payments accounted for US\$ 582 million and the interest payment accounted for US\$ 230 million. The higher level of debt service payments is expected in 2012 due to the scheduled retirement of US\$ 500 million international bonds issued in 2007. Table 9 gives a summary of the debt service payment from 2008 to 2013 while Table 10 gives breakdown of the debt service from 2007 – 2013 by major donors.

Table 9 Debt Service Payments 2008-2013

Item	(in US\$ million)					
	Actual	Forecast				
	2008	2009	2010	2011	2012	2013
Total Outstanding Debt	12,318.6	11,673.0	11,120.4	10,366.9	9,233.3	8,582.4
Principal repayments	581.5	645.6	552.6	753.5	1,133.6	650.9
Interest payments	230.2	250.4	234.7	222.3	208.9	154.4
Total debt service payments	811.7	896.0	787.3	975.8	1,342.5	805.3

Table 10 Debt Service Payment Forecast on Existing Portfolio

(in US\$ million)							
Donor/Creditor	Actual		Forecast				
	2007	2008	2009	2010	2011	2012	2013
Bilateral	358.5	383.6	470.6	443.0	454.9	447.6	449.1
Japan	210.7	230.2	308.2	306.4	311.5	313.2	316.0
Canada	5.3	5.1	5.0	3.9	3.9	3.9	3.9
Denmark	1.2	4.2	6.0	5.6	5.6	5.6	5.6
France	11.4	11.9	11.7	9.0	8.4	7.7	7.5
India	6.4	7.1	14.8	14.3	13.0	11.3	11.2
Kuwait	5.2	4.7	4.5	4.7	4.8	4.8	4.7
Korea	11.2	9.1	8.4	6.9	6.6	7.8	7.8
Netherlands	6.5	5.5	4.4	1.7	0.9		
Germany	43.1	45.1	44.1	37.8	33.9	29.1	29.0
China	3.6	7.1	10.6	9.5	23.8	22.3	22.0
USA	53.0	52.1	51.3	40.5	39.8	39.2	38.0
Saudi Fund	0.9	1.4	1.0	1.2	1.2	1.2	1.2
Other Bilateral		0.1	0.6	1.5	1.5	1.5	2.2
Multilateral	165.0	196.7	225.5	238.8	263.2	274.9	280.5
ADB	87.7	110.9	130.8	141.5	153.5	158.8	161.5
World Bank	66.5	72.2	77.5	80.2	88.0	91.1	94.5
IFAD	3.0	3.1	3.0	3.5	3.5	3.5	3.4
European Investment Bank	5.1	7.4	10.9	10.2	14.8	18.2	17.8
Nordic Development Fund	0.3	0.4	0.6	0.7	0.8	0.8	0.8
OPEC Fund	2.4	2.7	2.7	2.7	2.6	2.5	2.5
Market Borrowings	97.1	188.0	159.8	53.8	200.5	547.3	4.8
Export Credits	36.4	43.4	40.1	51.7	57.2	72.7	70.9
Grand Total	657.0	811.7	896.0	787.3	975.8	1,342.5	805.3

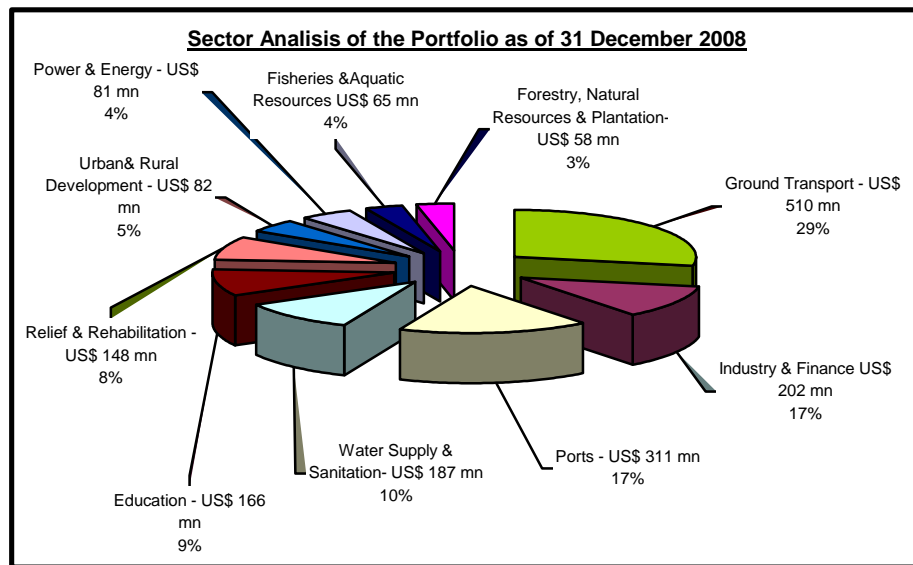
Note

Exchange rate as at 31st December 2008 (Rs 113.1398 = 1 US\$) has been used for the calculation of future debt services.

Asian Development Bank Division

The Asian Development Bank Division is responsible for the mobilization of development assistance from the Asian Development Bank for the implementation of development projects. The ADB Country Partnership Strategy has been prepared for 2009- 2011 period in line with the Government priorities identified in “ Mahinda Chinthana : Vision for a New Sri Lanka – A Ten Year Horizon Development Framework 2006-2016”. The Country strategy focuses on investments in large–scale infrastructure development, provincial road rehabilitation especially in the Eastern Province and Financial Sector development.

The Asian Development Bank’s current active portfolio in Sri Lanka includes 40 loans, totaling to US\$ 1.78 billion in Infrastructure Development, Education, Rehabilitation, Finance and Environment and Natural resources sectors. In addition, grant assistance totaling to US\$ 179 million was provided by ADB to cover the reconstruction and rehabilitation of Tsunami and conflict affected areas and the improvement of education sector.



During the year, the Government was able to disburse an amount of US\$ 291 million from the ADB, of which US\$ 248 million from loans and US\$ 42.4 million from grants. The disbursement ratio was at 20% given that the targeted disbursement was US\$ 210

million, this is an achievement by the Division resulting from closer monitoring of the portfolio with Line Ministries, Project Units and the ADB Resident Mission in Sri Lanka.

During the year 2008, loan of US\$ 300 million for Colombo Port Expansion Project, US\$ 80 million for the Education for Knowledge Society Project and US\$ 50 million for the Development of SME Sector were made effective and project activities were commenced. In addition, a new agreement was signed for obtaining US\$ 90 million supplementary loan for the construction of Southern Expressway.

The projects identified in the pipeline for 2008 were appraised during the period and the Government agreed to finalize the Clean Energy and Access Improvement project for US\$ 160 million and Dry Zone Urban Water and Sanitation Project for US\$ 85 million. Preparatory activities of these two projects were commenced in 2008. The fact findings for the Eastern & North Central Provincial Roads project designed to improve transport connectivity in Eastern and North Central Provinces were completed. The project will cover 225 km of 35 roads in the Eastern Province and 280 km of 24 roads in the North Central Province.

Several discussions and meetings were held to finalize the implementation mechanism of the proposed Greater Colombo Waste Water Project which is in the pipeline for the 2009. The preparatory activities of the loan of US\$ 40 million for the Fiscal Management Reform Project II were finalized in 2008. Due to the security situation the planned activities of the Jaffna Water Supply and Sanitation project have been further postponed.

Initiatives were made to obtain a US\$ 140 million supplementary financing facility with an ADB guarantee for the completion of 30 km section of the Southern Expressway from Pinnaduwa to Godagam, Matara.

In transforming its functions, the ADB Division facilitated more than 100 missions fielded by the ADB to review the ongoing portfolio and finalize the future projects and the development of the Country Assistance Strategy.

Projects Completed in 2008 by sector

Roads Sector

1. Road Network Improvement Project (US \$ 94 million)
2. Road sector Development Project (US \$ 63 million)

Environment and Natural Resources Sector

3. Coastal Resources Management Project (US \$ 41 million)
4. Protected Areas Management and Wildlife Conservation Project (US \$ 13.5 million)

Urban Development Sector

5. Third Water Supply and Sanitation Project (USD 80 million)
6. North East Community Restoration and Development Project(US\$ 28 million)

Outcome of some of the completed projects are given below;

Road network Improvement Project (US\$ 94 million) (RNIP) & Road Sector Development project (US\$ 63 million)

The Road Network Improvement Project provided financing to improve 189 Km of class A and B roads with strengthening pavements of about 156 km and rehabilitation or widening of 47 bridge structures of the above category roads. Katugastota – Kurunegala, Panadura - Ingiriya, Weerawila - Kataragama and Ambatale – Kaduwela sections were among the national roads rehabilitated under the project.

In addition, the project facilitated the RDA to strengthen its construction supervision and improve technical and financing capability. Capacity building of the other stakeholders of the road construction industry was also a part of the project.

Under the Road sector development project, approximately 980 Km of provincial roads and bridges were rehabilitated. In addition, 40 km of community access roads were also rehabilitated.

Coastal Resources Management project (CRMP) (US\$ 41 million) & Protected Areas Management and Wild Life Conservation project

The project supported the establishment of 3 fishery harbours at Hambanthota, Chilaw and Ambalangoda and renovated fish selling center at Negombo. Various Coast line stabilization measures were taken for sea erosion control at the degraded sites of western coastal belt of the Island. To sustain the coastal eco systems as well as to promote eco tourism capability in the areas of Maduganga, Kalametitya, Kalpitiya, and Negombo, visitor/community centers were also established..

The Department of Coast Conservation was further strengthened by then CRMP by providing necessary office buildings for the regional CCD offices.

Protected Areas Management and Wildlife Conservations project

Facilities were upgraded at the national wildlife parks of Udawalawe, Kaudulla, Horton Plains, Ritigala, Minneriya, Bundala and Wasgamuwa with reforms initiated by the project. Visitor centers, viewing platforms, camping grounds, elephant safaris and paddle boating in the reservoirs of the National Parks are introduced as new facilities of the national parks.

7 Ecological (Bio Diversity) Surveys have been conducted in the protected areas. Machinery and heavy equipment were also provided to the Department of Wildlife Conservations for proper maintenance of the park roads and to sustain water sources during the drought seasons.

Special event took place in 2008

1. Mr. Kunio Senga, Director General of the South Asia Department of the ADB visited Sri Lanka to participate in the High Level Portfolio Review Mission - March 2008
2. Dr. P.B. Jayasundera Secretary to the Treasury Visited ADB Head Quarters to review the Sri Lanka's current aid portfolio- September 2008.
3. Mr. Kyung – Hoh Kim, Executive Director of the ADB visited Sri Lanka - October 2008
4. Mr. Xiaoyu Zhao, Vice President of the ADB visited Sri Lanka to meet the HE President and undertook a field visit to see the progress of the Southern Expressway- October 2008.
5. ADB Community of Practice – Managing for Development Results (COP-MfDR) Annual Meeting held in Colombo – November 2008
6. ADB South Asia Department (SARD) Economists' conference held in Colombo – November 2008
7. Country Portfolio Review and High Level Consultation Mission of the ADB conducted in Colombo – December 2008

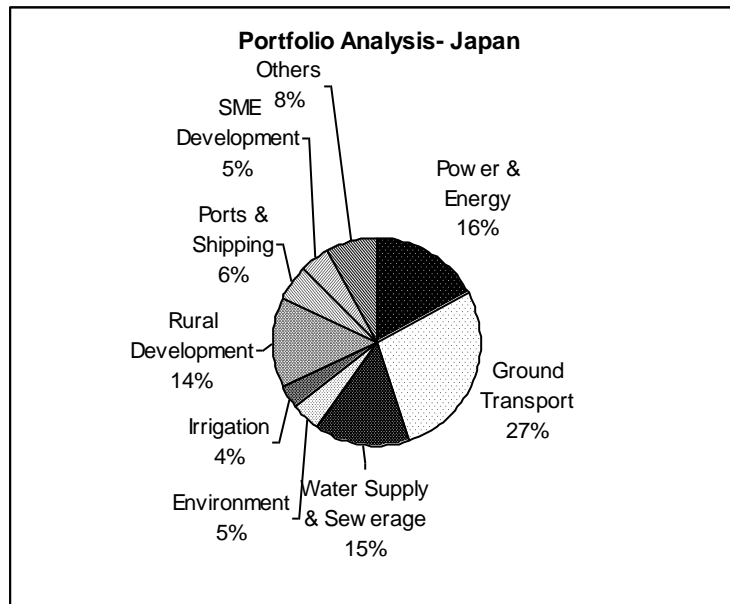
Japan Division

The Japan Division is responsible for the mobilization, development assistance from the Government of Japan.

The Japan Division current portfolio consists of 36 projects amounting to Japanese yen 2,685 billion (US\$ 2,806 million). Of the portfolio total 26 are loan projects amounting to US\$ 2,648 million and 10 are grants projects amounting to US\$ 158 million. In addition, there are 3 development studies and 5 technical cooperation projects currently on going.

About 80% of the Japanese assistance is provided in the form of soft loans, covering a wide spectrum of sectors such as ground transport, power, water supply, environment and credit facilities for small and medium enterprises. During the period from 2004 to 2008

the annual average disbursement was about US\$ 260 million which accounted for around 20% of the total aid disbursement. US \$ 278.7 million has been disbursed in year 2008.



The Government of Japan provided Japanese Yen 35 billion (US\$ 337 million) under the 39th Yen Loan Package for five projects and Japanese Yen 3.2 billion as grant assistance for two projects in 2008. In addition, Japanese Government provided assistance for no technical cooperation projects and no development studies.

Loan Projects under 39th Yen Loan Package:

1. Greater Colombo Urban Transport Development Project (Phase 2) (I)

JPY 5,718million (aprox.US\$ 53million) has been provided for construction of 7.9 km road section from Kaduwela to Kadawatha of the Outer Circular Highway (OCH). A loan amounting to JPY 21,917 million has already been provided in 2007 to construct 12 km road section from Kottawa to Kaduwela of OCH. As the estimated construction cost of the Kaduwela to Kadawata section is around Rs 38,000 million, a new loan of approximately Rs 20,000 million will be provided by Japan in the future. The road is scheduled to commence in 2010.

2. Southern Expressway Construction Project (II)

JPY 17,499 million (approximately US\$ 163 million) has been provided to meet the additional funding requirement of the road section from Kottawa to Kurundugahahetekma of the Southern Expressway. A loan of JPY 18,770 million was extended by the Government of Japan in 2001. The new loan is to meet the additional funding requirement for widening of 34 km road section from Dodangoda to Kurundugahahetekma from 2 lanes to 4 lanes and price escalation of existing works. In addition a toll system and operation and maintenance facilities will be installed for the entire road.

3. Water Sector Development Project (II)

JPY 8,388 million (approximately US\$ 78 million) has been provided to expand the water supply systems established under the stage 1 to meet the high demand for pipe borne water in the areas of Kesbewa, Boralasgamuwa, Gonapola, Kahapola, Polgasowita, Ingiriya, Handapangoda, Diyagala, Piliyandala, Panadura East and Magamma. Further, it is expected to rehabilitate the water distribution network in the greater Colombo area by replacing distribution pipes with diameter less than 150mm.

4. Poverty Alleviation Micro Finance Project (phase II)

JPY 2,575 million (approximately US\$ 23.9 million) has been provided for the implementation of this project. Credit facilities will be provided to micro industrialists in lagging regions namely all the districts of Northern and Eastern Provinces, Puttlam, Anuradhapura, Polonnaruwa, Ratnapura, Badulla and Monaragala Districts. Under this scheme, micro industrialists whose monthly income is less than Rs 12,000 can borrow up to Rs 50,000 at an interest rate between 12.5% to 15.5%.

5. Energy Diversification Enhancement Project

JPY 820 million (approximately US\$ 7.7 million) has been provided to undertake detail engineering designs for the proposed project for construction of LNG receiving facilities since the CEB is planning to convert its thermal power plants from diesel and naphtha to liquid natural gas with a view to reduce operational at cost of the thermal power plants significantly.

Grant Projects:

1. Improvement of curative healthcare services at Anuradhapura Teaching Hospital JPY 1,907million (US\$ 18 million)

New three storied building with a floor area around 7500 square meters will be constructed under the project to house the obstetric Gynecology Operation Theatre, Pediatric Unit (intensive care unit) and Outdoor Patients Department (OPD) with all necessary equipment.

2. Non –Project Grant Aid - JPY1300 million (US\$ 12.5 million)

The grant will be used to import goods and materials necessary for implementation of development projects which will lead to promote economic development efforts through balance of payment support and poverty reduction initiatives. This year grant funds have been used to purchase fertilizer to distribute among the farmers under the fertilizer subsidy scheme.

Completed Projects

The following projects were completed during the year.

1. Improvement of National Blood Transfusion Services Project
2. Walawe Left Bank Irrigation and Extension Project II
3. Kalu Ganga Water Supply Project for Greater Colombo

4. Small Scale Infrastructure Rehabilitation and Upgrading (SIRUP II)
5. Sri Lanka Tsunami Affected Area Recovery and Take-off Project (STAART)
6. Kandy Water Supply Project

In order to implement priority projects within a short period of time, initiatives have been taken to obtain export credit facilities from the Japan Bank for International Cooperation. Under this scheme, the first Credit Agreement signed with the Japan Bank for International Cooperation (JBIC) for rehabilitation of the Ukuwela Power Station. The loan agreement for the project was signed in February 2008.

Future Projects

The preliminary screening of project proposals received from the line agencies for Japanese assistance was carried out in consultation with the Department of National Planning. After obtaining approval, 6 project proposals were submitted for the funding under 40th Yen Loan Package, 4 under Grant Aid Programme, 4 under Development Study Programme, 10 under Technical Cooperation Programme and 1 under Grant Aid Programme for Community Empowerment to the Government of Japan.

Proposed Projects for 40th Yen Loan Package

1. Moragahakanda Development Project (US\$ 167 mn)
2. Development of Bandaranaike International Airport - Phase II (US\$ 350 mn)
3. Rehabilitation of Infrastructure Facilities in the Eastern Province (SIRUP Type) (US\$ 75 mn)
4. Provincial Road Improvement Project – Balance Financing (US\$ 61.5 mn)
5. Power Sector Development Project (US\$ 92 mn)
 - a. Colombo City Electricity Distribution Project – Balance Financing (US\$ 50)
 - b. Distribution System Loss Reduction Programme (US\$ 42 mn)
 - c. Upper Kotmale Hydro Power Project (Balance Financing) (US\$ 70 mn)
6. Galle Port Development Project – Balance Financing (US\$ 70 mn)

Missions

There were several project related missions commissioned by the Government of Japan during year 2008. In November and December 2008 three pre-fact finding missions and four fact finding mission visited Sri Lanka to gather information on projects proposed under the 40th Yen Loan Package.

Special Events

From 1st October 2008 the Japan Bank of International Cooperation (JBIC) and Japan International Cooperation Agency (JICA) has merged and now operating as JICA. Therefore, all the Yen loans, grant and technical cooperation projects will be handled by new JICA. New JBIC will provide export credit financing facilities for development projects.

Bilateral West Division

The Bilateral West Division is responsible for the mobilization of development assistance from countries in the western hemisphere. The major donors handled by the Division are; Germany, The Netherlands, Norway, Sweden, European Union, USA, France, Spain, Austria, Denmark, Nordic Investment Bank and European Investment Bank.

The total amount committed by the Bilateral West Donors in 2008 was US\$ 437.8 million. Of this US\$ 81.0 million was in Grants and US\$ 356.8 million was in concessionary loans and export credit. There were 91 on going projects in the Division portfolio in 2008 with a total commitment US\$ 1428.5 million of which US\$ 274.6 million in grants and US\$ 1153.9 million in loans. Bilateral West Division has disbursed US\$ 255 million for development projects in 2008. The details of the Loan / Grant Agreements signed in the year 2008 are as follows.

1. The Netherlands

The Government of Netherlands committed US \$ 143.0 million in 2008. These commitments were made through the following Agreements signed in 2008.

Grant Agreements

	Amount (US\$ mn)
Conservation & Restoration of the old Duch Naval Commissioner's House in Trincomalee	0.5
Negombo Water Supply Project	31.0
Dikkowita Fishery Harbour – Construction	26.1
Dikkowita Fishery Harbour – Consultancy Services	0.6
Enhancement and Upgrading of Technical Education Project (SLIATE)	5.3
Total	63.5

Loan Agreements

Enhancement and Upgrading of Technical Education Project (SLIATE)	10.3
Negombo Water Supply Project	25.9
Dikkowita Fishery Harbour	43.3
Total	79.5

Negombo Water Supply Project

The total cost of the project is US\$ 56.9 million. Of this US\$ 31.0 million was in grants under the ORET Programme of the Netherlands Government and US\$ 25.9 million was in an export credit facility. The project is expected to construct a 12,000 cubic meter per day water treatment plant, two ground reservoirs each with capacity of 3000 and 1500 cubic meter, laying of 15.5 km long transmission mains, new distribution system to Kochchikade and Duwapitipana, improving existing distribution system, supply and installation of pumps and equipment. The project is implemented by the National Water Supply & Drainage Board.

Dikkowita Fishery Harbour

The Dikkowita Fishery Harbour will have a 13 ha of harbour area enclosed by 1,100 meters of rubble mound breakwaters with berthing facility for 490 fishing boats of different sizes with maximum draft of 2.3 meters and 1150 meters of berthing length for parking of boats. It will also have the facilities such as buildings for catch receiving, fish cleaning and auctioning, cold stores, freezing facilities and ice plants, other buildings related to fishery activities, slipways for ship repairs and utilities.

2. Denmark

Denmark assistance is mainly on mixed credit facilities under which the interest cost and the credit insurance guarantee is subsidized by the Government of Denmark. The Government of Denmark committed US \$ 155.2 million through the following two loan agreements signed in 2008.

Kelani Right Bank Water Treatment Plant

The Government of Denmark provided an interest free loan of US\$ 82.7 million for the construction of the Kelani Right Bank Water Treatment Plant under the Danish Mixed Credit programme. The project is proposed to improve the water supply to Colombo City and the towns north of the Colombo City. It will develop head works of the 40 MGD Water Treatment Plant in Gampaha District and serve 350,000 population with existing connections presently experiencing inadequate water supply.

Oluvil Port Development Project

The Government of Denmark provided US\$ 72.5 million interest free loan to construct the Oluvil Port. The project is proposed to improve the capability to cater to large ships with in-built tanks exceeding the eight meter depth level mark. The main harbour is expected to be spread over 16 hectares and during stage two the depth is to be increased to 11 meter enabling to cater to large vessels weighing over 16,000 tons.

3. France

The Government of France committed US \$ 78.8 million through the following two loan agreements.

Trincomalee Integrated Infrastructures Project (TIIP)	US \$ 23.6 million
Rehabilitation of Wimalasurendra and New Laxapana Power Station	US \$ 55.2 million
Total	US \$ 78.8 million

Rehabilitation of Wimalasurendra and New Laxapana Power Station

The Government of France provided a loan of US\$ 55.2 million to rehabilitate the New Laxapana and Wimalasurendra Power Stations. These two power stations were constructed in 1974 and 1965 respectively. Most of the mechanical and electrical equipment in these power stations are very old and have exceeded their life span. Under this project, it is expected to increase power generation of the two power stations by 25 percent after refurbishment. It will also reduce the number of failures and shut down time due to such failures.

4. Austria

The Government of Austria assistance is mainly on export credit facilities with interest cost and Credit Insurance Guarantee are subsidized by the Austrian Government. The Government of Austria committed US \$ 43.4 million through the following loan agreements signed in 2008.

Supply of Modern Medical Equipments for Teaching Hospital in Kurunegala

The Government of Austria provided an interest free Credit Facility of US\$ 11.5 million to supply medical equipment for the Teaching Hospital in Kurunegala and other essential Government Hospitals in Sri Lanka. The Kurunegala Teaching Hospital is being developed under a Master Plan prepared by the Ministry of Healthcare and Nutrition to enhance the capacity of patients care in cardiology, oncology and maternity.

Kirindiya Oya Water Supply Project

The Government of Austria provided an interest free loan of US\$ 14.80 million for the rehabilitation and augmentation of Kirindiya Oya Water Supply Project. The project was designed for the improvements in the water resources from Veheragala Scheme. The main components of the project are to increase the capacity of the water treatment plant by 6500m³/day and to extend the water supply system to Lunugamvehera, Weerawila, Pannegamuwa, Bandagiriya and Beralihela areas.

The two other projects financed by Austria are,

Railway Bridges to Extend Rail Tracks	US \$ 3.3 million
Enhancement and Up-grading of Technical Education (SLIATE)	US \$ 13.8 million

5. United States of America (USA)

USA committed US\$ 16.2 million of the total commitment in 2008. These commitments were made through 3 grant agreements signed for the following projects.

Increased Competitiveness in the Global Market Place	US \$ 8.7 million
Improved Integration of Targeted Disadvantaged Groups into the Community	US \$ 1.3 million
Peace Process Supported	US \$ 6.2 million

6. Norway

The Royal Norwegian Government continued their grant assistance by providing US\$ 1.2 million for the project for Delimitation of the Outer Edge of the Continental Margin of Sri Lanka in 2008.

Major Events Took Place During The Year

1. 17th Session of EU Sri Lanka Joint Commission meeting was held on June 2008 in Colombo

2. French Government Mission to assure project proposed for financing under the Emerging Economies scheme visited Sri Lanka on 22nd October 2008.

Bilateral East Division

The Bilateral East Division mobilizes development assistance from Asian and Middle Eastern countries such as China, India, Pakistan, Australia, Korea, Malaysia, Thailand, Iran, Kuwait, Saudi Arabia, and OPEC Fund. Development assistances from bilateral donors are obtained in the form of grant, concessionary loans and buyer's credits. The total commitment from Asian and Middle Eastern countries during the year 2008 was USD 760 million and disbursement during the same period was USD 80.6 million.

The following projects were committed during the year 2008.

Development of Health Facilities in Colombo

Saudi Fund for Development (SFD) provided a supplementary loan in a sum of Saudi Riyal 11 million (approximately US\$ 3 million) for the construction of the Neuro Trauma Unit at the Colombo General Hospital. Originally SFD provided a loan in a sum of Saudi Riyal 45 million (US\$ 12 million) to for this project in 2001 and the proposed supplementary loan is to meet the shortfall in the funding of the project.

Establishment of an Epilepsy Hospital

The objective of the project is to establish an epilepsy hospital with a capacity of 242 beds and required facilities. The Saudi Fund for Development (SFD) has provided Saudi Riyal 75 million (approximately US\$ 20 million) for the implementation of the project. The assistance from the Saudi Fund for Development is used to construct a new eight storied building with a total floor area of 11,000 square meters and purchase all modern equipment. The proposed building consists of operation theatres, intensive care unit, high dependency unit, male ward, female ward, pediatric ward, Radiology Department,

Radio Surgery Unit, and Electro Physiology Lab etc. The project commenced in 2008 and scheduled to be completed in 2009.

Sustainable Water Assistance Management Project Phase II

Phase I of the Sustainable Water Assistance Management project commenced in 2005 and completed in 2007 with assistance provided by Australia. The total cost of Phase I was US\$ 16.1million. Under Phase I, solar powered drip irrigation units were imported and distributed among selected 5000 farmers in the dry zone on an interest free credit scheme to improve their livelihood. Phase 2 of the project commenced in 2008 based on the progress of Phase 1. Under Phase 2, it is proposed to import the balance 5000 solar powered drip irrigation units and distribute among selected 5000 farmers in the dry zone. The total cost of the project is US\$ 16.1 million of which US\$ 14.1 million is provided by Australia. The project is scheduled to be completed in 2009

The project is very beneficial to poor farmers in the dry zone, who face immense hardships due to the difficulty in obtaining an assured water supply for the cultivation of food crops. The implementation of this project will increase the number of crop rotations from 2 to 3 per year and water use efficiency by 90% compared to the conventional farming practices. When compared to the fuel or electric water pumps, operational cost is very minimal and maintenance is easy.

Improvement of Padeniya-Anuradhapura Road

The objective of the project is to improve the existing Padeniya Anuradhapura road to provide high mobility road from Padeniya to Anuradhapura. The project includes widening and improvement of 80.8 km long Padeniya Anuradhapura road with 2 lane facility and 4 lane facilities at town section. The total cost of the project is US\$ 70 million of which the Government of Korea will provide US\$ 55 million on concessional terms.

The implementation of this project will shorten the travel time, reduce the vehicle operating costs and decrease the traffic accidents and thereby improve the quality of public transportation services between Padeniya and Anuradhapura. It also provides basic framework for regional economic growth by facilitating the movement of passengers and freight between the regions.

Lanka Government Network Project Stage II

In November, 2002, the Government of Sri Lanka launched “e-Sri Lanka” as a national development initiative, with the objective of using information and communication technology to foster social integration, peace, economic growth and poverty reduction. Accordingly, the Lanka Government Network Project Stage I commenced in 2004 and completed in 2008. The Government of Korea provided US\$ 15 million for implementation of Re-engineering Government Component of the Lanka Government Network Project Stage I. Under the Stage I of the project, 325 Government Organizations were connected to the Lanka Government Hub.

The objective of the Lanka Government Network Project Stage II is to expand the Lanka Government Network by connecting additional 150 Governmental Organizations of which 5 are District Secretariats, 94 are Divisional Secretariats, 35 are Ministries in Provincial Councils and 16 are Departments in Provincial Councils. It is also proposed to establish a disaster recovery center to avoid the risk of breakage of service delivery due to any damage to the primary data centers of the networks developed under the project. The Government of Korea will provide US\$ 7million for this project.

US\$ 100 million Indian line of Credit for the Reconstruction of the Southern Railway

The Government of India has agreed to provide assistance for implementation of the Upgradation of Southern Railway Line from Colombo – Matara under the funds pledged for Tsunami recovery activities. The total cost of the project is estimated at US\$ 212.4 million of which US\$ 167.4 million is expected from foreign sources and the balance

US\$ 45 million will be financed by the Government of Sri Lanka. The Government of India has agreed to initially provide a credit line of US\$ 100 million through the Export–Import Bank of India for this project and consider providing the balance US\$ 67.4 million during project implementation.

The project will upgrade the track from Colombo to Matara to the standard allowing a maximum speed of 100 kmph. It will increase the average operating speed from 40 kmph at present to 80 kmph allowing a passenger express train to cover the Colombo – Galle distance approximately within 2 hours. Further, 20 Diesel Multiple Units (DMU's) and 3 units of locomotives will be purchased under the project. They will alleviate the existing capacity constraints of trains and prolong the life of the existing fleet by reducing the pressure on it. The DMUs will be designed for long distance and intercity travel and they will improve the long distance and intercity train service. The project will also provide rolling stock maintenance facilities at Alutgama, Galle and Colombo.

Uma Oya Hydro Electric and Irrigation Project

The loan agreement for the project was signed on 28th April 2008 with the presence of the President of Iran.

The objective of the project is to provide 100-150 MW hydro power and irrigated water for 4000-5000 hectares of dry lands and drinking water for Hambantota and Monaragala Districts. The project includes construction of 2 dams at Puhulpola and Dyraba in Welimada, a 23 km long transbasin tunnel, an underground power house with an annual power output in the range of 312 GWH. The Government of Iran has agreed to provide a loan not exceeding US\$ 450 million through the Export Development Bank of Iran (EDBI) to finance the Uma Oya Hydro Electric and Irrigation project. The total cost of the project is US\$ 529 million. The Iranian loan will cover 85% of the project cost and the Government of Sri Lanka will finance the balance 15%. The project will commence in 2009.

Framework Arrangement between the Government of the Republic of Korea and the Government of the Democratic Socialist Republic of Sri Lanka Concerning Loans from the Economic Development Cooperation Fund (EDCF)

The Government of the Republic of Korea has agreed to provide loans through the Economic Development Cooperation Fund (EDCF) up to an aggregate commitment amount in Korean Won not exceeding the equivalent of US\$ 140.0 million for the year 2008 to finance loan projects mutually agreed by the Governments of Korea and Sri Lanka

Housing Project

Iranian Government has agreed to provide US 1.5 million on grant basis for construction of housing. A MOU in this connection was signed between the Governments of Sri Lanka and Iran on 28th April 2008. It was proposed to construct houses for public servants under the project

Completed Projects

The following projects were completed during 2008.

1. Greater Galle Water Supply Project Phase II
2. Rehabilitation of Balangoda Bandarawela Road Project
3. Procurement of 100 Carriages for Sri Lanka Railways
4. Rural Electrification VII

World Bank Division

The World Bank Division is responsible for mobilizing of development assistance from the World Bank in the form of grants and concessionary loans. The loans and grants are extended from the International Development Association (IDA) - the soft loan window - of the World Bank. Some of the IFRC and IFAD grants which are administered by the World Bank are also handled by this Division.

Sri Lanka graduated to “IDA Gap Country” category since the year 2006 as GNI per capita of Sri Lanka has exceeded the cut off for IDA eligibility , i.e US\$ 1,025. The terms of IDA assistance to Sri Lanka are; a 20 year maturity inclusive of a 10 year grace period, with the principal repayable in 20 installments. IDA credits are interest free but subject to a maximum Commitment Charge of one - half of one percent (1/2 of 1%) per annum payable on the un - withdrawn financing balance and a Service Charge of three - fourths of one percent (¾ of 1%) per annum payable on the withdrawn credit balance.

The World Bank Country Assistance Strategy for years 2009-2012 has been prepared taking in to consideration the Mahinda Chinthana - Vision for a New Sri Lanka – A Ten Year Horizon Development Frame Work.

The primary areas of the World Bank support to Sri Lanka are towards;

- A. Supporting Growth and Poverty Reduction through the Strategic objectives of expanding economic Opportunities in lagging regions
- B. Addressing the Causes and Consequences of conflict
- C. Strengthening transparency and accountability

The World Bank current portfolio comprises of 16 projects with an average project implementation period of four years. The total value of the resource envelope is approximately US\$ 987.5 million of which US\$ 727.5 million in loan and US\$ 260 million in grant. Total disbursement during the year 2008 was US\$ 144 million.

Credit and Grant Agreements signed in 2008

- i. Renewable Energy for Rural Economic Development project – Additional Financing (US\$ 40 million)
- ii. Dam Safety and Water Resources Planning Project (US\$ 65.3 million)
- iii. North East Housing Reconstruction Project - Additional Financing (US\$ 43 million)
- iv. Road Sector Assistance Project – Additional Financing (US\$ 98 million)
- v. Education Sector Development Project – Additional Financing (US\$ 10 million)
- vi. Public Sector Capacity Building Project (US\$ 22.65 million)

vii. Strengthening Parliamentary Oversight Committees Project (Grant of US\$ 0.49 million)

Renewable Energy for Rural Economic Development – RERED – Additional Financing

Renewable Energy for Rural Economic Development (RERED) Project is being implemented with the World Bank assistance of US\$ 75 million and Global Environment Facility grant of US\$ 8 million since 2002. The main target of the project was to provide 85 MW of grid-connected hydro capacity and also to facilitate electrification of 100,000 rural off-grid households. After having achieved the targets of the project, GOSL has extended the Project Period by another three years with the infusion of an additional US\$ 40 million of credit funding by the World Bank in 2008. The target of the current project is to provide further 50MW of grid-connected hydro capacity and also facilitate electrification of 60,000 rural off-grid households by 2011.

Dam Safety and Water Resources Planning Project

The World Bank has provided US\$ 65.3 million for this project. It focuses on the dam safety and operational efficiency improvement, upgrading and modernization of hydro-meteorological information system and multi sectoral water resources planning. Project activities commenced in 2008 and is expected to complete in 2012. Under the project 32 large dams of the country which have been identified as high risk to the public safety will be rehabilitated and 80 large dams will be provided basic safety facilities.

North East Housing Reconstruction Project (NEHR) - Additional Financing

The World Bank has provided US\$ 75 million for the implementation of this project in February 2005. European Commission has also subsequently provided Euros 15.68 million in parallel – financing. The project is expected to reconstruct 39,784 houses in the North and East.

In 2008, Additional Financing of US\$ 43 million has been provided for the reconstruction of another 13,615 houses in the North and East. Accordingly, the number of total families benefited from this project was increased and the financial assistance be given to reconstruct their damaged houses by themselves in order to have the improved and affordable houses. Housing support cash grant will be paid in installments to reconstruct the houses. In addition, the technical assistance which will be provided under the program will help to meet the long term housing needs in the North and East through improved construction standards, enhanced community involvement in housing construction and simplified mechanism to resolve property disputes.

Public Sector Capacity Building Project

Objective of this project is to enhance the efficiency, effectiveness and productivity of the Department of Census & Statistics and the Auditor General's Department. The World Bank has extended US\$ 22.65 million for institutional strengthening, capacity building, information management, communication improvements, physical and information technology infrastructure, and Information and Communication Technology (ICT) support of these two institutions.

Road Sector Assistance Project – Additional Financing

The Road Sector Assistance project was implemented with a loan of US\$ 100 million from the World Bank in 2006 for maintenance and rehabilitation of 620km of national roads and 160km of rural roads in Southern, Uva and North Central Provinces. The project is expected to be completed in September 2011.

Since the Maintenance and Rehabilitation of national roads have experienced significant cost overrun estimated at US\$ 98.1 million which is 59.2% of the project cost mainly due to unprecedented oil price increment in the world market and its impact on the price of bitumen which has increased sharply by 433%, the World Bank has provided a loan of

US\$ 98 million as an Additional Financing to meet the entire cost escalation of the project.

Education Sector Development Project – Additional Financing

The main project commenced in 2006 with a grant of US\$ 60 million to promote equitable access to education, improving learning outcomes, enhance economic efficiency and strengthen the delivery of education services. The additional US\$ 10 million will focus in improving the education performance of lagging regions and to promote social cohesion between different communities and social groups.

Strengthening Parliamentary Oversight Committees Project

The World Bank has provided the grant assistance of US\$ 494,000 in 2008 to implement this project. It is expected to strengthen the effectiveness of the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) by enhancing the capacity of the committee secretariat to maximize the efficiency and effectiveness of committee meetings; enhancing the capacity of the committee members to attend and conduct more substantive committee meetings; and enhancing public access to information about Parliamentary oversight committees.

Special Events

* The World Bank Country Assistance Strategy for Sri Lanka which has been designed for the period of 2009-2012 was published in 2008 after a long and extensive consultation process with the Ministry of Finance & Planning and other public and private organizations. Total value of the resource envelope of the World Bank for this four year period is US\$ 900 million.

* The World Bank's new Vice President for South Asia, Isabel Guerrero visited Sri Lanka in September 2008.

Completed Projects

The following projects with the World Bank financing were completed in 2008.

- i. Tsunami Emergency Recovery Project (TERP)
- ii. Economic Reform TA Project
- iii. Empowering Poor Women & Girls Project

Tsunami Emergency Recovery Programme

The project objective was to support the effort of the government of Sri Lanka to reduce the immediate suffering resulting from the effects of the tsunami and restore livelihoods destroyed by the tsunami, restore basic services to the affected population and start the recovery and reconstruction processes.

The project was implemented as two phases namely TERP I and TERP II. World Bank has provided USD 150 million for the both phases (USD 75 million for each phases). The project commenced on 25th April, 2005 and completed on 30th September, 2008. There were five components of the project. They are livelihood cash grant, housing reconstruction, road rehabilitation, health sector recovery and education assistance.

Under this program, 45,000 tsunami damaged houses had been reconstructed and 114 km damaged roads had been rehabilitated. Further, almost 100,000 tsunami affected families received livelihood support. Out of the total project assistance, US\$ 137.5 million has been disbursed at the end of the project period.

UN Division

The UN Division mobilizes development assistance from UN agencies such as United Nations Development Programme (UNDP), United Nations Population Fund (UNFPA), World Food Programme (WFP), United Nations Children's Fund (UNICEF), Food and Agriculture Organization (FAO) and International Fund for Agricultural Development (IFAD).

The United Nations Development Assistance Framework (UNDAF) was signed between UN agencies and the Government of Sri Lanka for 2008-2012 providing assistance to development priorities of the Government in September 2007. Under this Agreement, the UN will raise US\$ 365 million over five year period starting from 2008 in support of Sri Lanka's development priorities. UNDAF draws heavily on the Government's commitment to the Millennium Development Goals and Sri Lanka's 10 year Development Framework which focuses on reducing poverty and regional disparities, and addressing the needs of the vulnerable and marginalized communities such as the plantation sector.

In line with the UNDAF, the following Country Program Action Plans (CPAP) were signed between the Government and UN agencies for the period 2008 -2012.

1. UNDP- GOSL CPAP (September 2007)
2. UNICEF –GOSL CPAP (March 2008)
3. UNFPA –GOSL CPAP (October 2008)

UNDP

UNDP has agreed to provide grant assistance of US\$ 13.1 million from its regular resources and raise US\$ 56.9 million from other resources for the execution of the CPAP. There are several new projects to be implemented during the period from 2008 – 2012. They are; Support to National Action Plan for Human Rights Commission/ UN Joint Programme, Support to National Action Plan for Plantation Community, Support to Implement the Official Language Policy, Support to Formulation of Internally Displaced Persons Policy, Modernization of Parliament, Equal Access to Justice, Support to Local Governance, National Human Development Report, Livelihood and Enterprise Development in Uva Wellassa Dry Zone, and Strengthening of Plan Implementation.

The following projects were completed during the year 2008.

- Modernization of Parliament Phase I
- Equal Access to Justice Phase I

- Poverty Reduction in Dry Zone
- Strengthening of Plan Implementation-Phase 1
- Sustaining Tsunami Recovery by Organising Networking at the Grassroots Level through Promoting Local Accountability & Capacity Enhancement System (STRONG PLACES)
- Capacity Development for Tsunami (DAD)

In addition, UNDP has signed the project documents providing US\$ 0.5 million to implement the Support Efforts and Action Against Corruption Project in Sri Lanka and US\$ 47 million for the Transition Recovery Program in the year 2008.

UNICEF

UNICEF has agreed to provide grant assistance of US\$ 4 million from its regular resources and raise US\$ 35 million from other resources to implement the education, healthcare and nutrition, water and sanitation, and child protection programs under the CPAP for the period 2008 -2012. UNICEF has disbursed US\$ 2.4 million for the year 2008.

UNFPA

UNFPA has agreed to provide grant assistance of US\$ 9 million from its regular resources and raise US\$ 9 million from other resources to implement the Health, Gender and Population related programs for the period 2008 -2012. Although the CPAP was signed in October 2008, UNFPA has implemented gender and health programs spending US\$ 0.9 million for the year 2008.

International Fund for Agriculture Development (IFAD)

Currently four projects with a total portfolio value of US\$ 80 million are implemented with IFAD funding. They are; the Dry Zone Livelihood Support and Participatory

Programme (US\$ 22.5 million), the Coastal Rehabilitation & Resource Management Programme(US\$ 13.5 million), the Post Tsunami Dry Zone Livelihood Support and Partnership Programme (US\$ 2.5 million), and the Small Holder Plantations Entrepreneurship Development Programme (US\$ 22.5 million). Two Loan Agreements were signed between the Government and IFAD on 18th April 2008 providing additional funding of US\$16.5 million for the Coastal Rehabilitation & Resource Management Programme and US\$ 2.4 million for the Post Tsunami Dry Zone Livelihood Support and Partnership Programme.

World Food Programme (WFP)

Protracted Relief & Recovery Operation for Conflict Affected People in Sri Lanka

The Letter of Understanding (LOU) was signed on 1st March 2005 between GOSL and WFP providing food assistance to vulnerable groups for peace building in conflict and tsunami affected areas. In agreement with the Government, WFP has extended the project activities until end of December 2008 due to the following reasons.

- Increase in the WFP food contribution up to US\$ 92.5 million
- Increase in the GOSL contribution up to US\$35 million
- Increase in the estimated conflict related beneficiaries by 100,000 to cover 50,000 vulnerable people in 2008

It is expected to sign the Implementation of WFP Food Aid Assistance for the Conflict Affected People in Sri Lanka Project for the period 2009 to 2010 with a total portfolio value of US\$ 82 million.

Food & Agriculture Organization (FAO)

FAO has executed several programs related to the agriculture and fisheries sector programmes with a value of US\$ 3.1million for the year 2008. They are: the Capacity

Enhancement of the National Aquatic Resources Research and Development Agency (NARA) for Marine Resources Surveys and Stock Assessments in Selected Fisheries/Resources in the Coastal Waters of Sri Lanka; Minimum Standards for Fish Handling and Reduced Post-harvest Losses in Selected Tsunami-Affected Communities; Restoration and Improvement of Fish Handling Centres with Stakeholder Participation in Management; Formulation of a National Agricultural Biotechnology Research and Development (R&D) Programme and Investment Plan; Strengthening National Capacity for Hybrid Rice Development and Use for Food Security and Poverty Alleviation; Immediate Agricultural Assistance in Support of Household Returnees to Batticaloa West and Eachchalampattu, Trincomalee; Urgent Food Security Assistance to Vulnerable IDPs, Host Families and other Economically-affected Families in the Conflict-affected Districts of Kilinochchi/Mullaithivu, Vavuniya, Mannar and Jaffna; and the Emergency Assistance to Improve the Food Security and Agriculture Livelihood of the Conflict-affected Households in the North and East Provinces of Sri Lanka.

In addition, FAO has provided US\$ 0.16 million under the Technical Cooperation Program for the Preparation of a Fisheries Sector Master Plan to the Ministry of Fisheries and Aquatic Resources.

Information System and Debt Management Division

Information System and Debt Management Division is responsible for developing and maintaining efficient and effective information technology system and providing management information on foreign aid such as, aid commitments, disbursements, debt stock and debt service payments. The Department uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to facilitate requirements of various uses of debt information/data including, the Central Bank of Sri Lanka, Department of Treasury Operations, Department of State Accounts and foreign aid financed projects

The following were among the main activities of the division during the period under review.

- Servicing of 625 live loans in respect of US\$ 12.3 billion debt stock.
- Recording disbursements from 142 ongoing loans and 112 grants
- Updating records in CS-DRMS and generate reports for ERD and other agencies including, the World Bank.
- Maintaining and updating the Departmental intranet and internet to disseminate information on external debt, donor-funded projects and highlights of the Department activities.
- Recording of debt moratorium granted as a
- Maintaining hardware and software services and providing user support.

The Technical Assistance Division

The Technical Assistance Division of the External Resources Department (ERD) is responsible for the administering of foreign training opportunities offered by the multilateral and bi-lateral donors under their technical cooperation programmes. In addition, the Technical Assistance Division coordinates the placement of foreign experts and volunteers to line Ministries, Departments and other Government Institutions.

The Government of Sri Lanka received 721 foreign training awards by way of long-term (8 months or over) and short-term training opportunities. Out of the total, 672 training awards were on short-term. 80 % of total programmes were offered by major donors such as the Government of Japan, the Government of the Republic of Korea, the Government of Thailand, Government of India, Government of China, Government of Malaysia, Government of Singapore, and Commonwealth Fund for Technical Cooperation (CFTC). The other donors offered relatively low numbers of training opportunities.

The Government of Japan as the main provider of training opportunities to Sri Lanka offered approximately 200 awards in 2008. The list of training opportunities received during the period from 1st January to 31st December 2008 is shown in the following table.

Table 11
Training Opportunities Received during the Year 2008

Donor	Number of Awards
The Government of Japan	201
Government of Thailand	92
Government of China	72
Government of the Republic of Korea	71
Government of Singapore	48
Government of India (ITEC – Colombo Plan)	89
Government of Malaysia	48
Commonwealth Fund for Technical Cooperation	38
Government of Sweden	18
Colombo Plan	11
SAARC	8
Asian Development Bank	7
Government of Australia	6
Government of Indonesia	6
Government of Federal Republic of Germany	5
Government of Norway	1

The External Resources Department as National Point of Contact identifies suitable candidates for foreign training opportunities from the relevant line ministries, departments and institutions by coordinating with donors. For smooth functioning of this task, External Resources Department maintains a data base to record all information in

relation to the foreign training opportunities and the selection of candidates. A demand survey to identify the ministries, department or institution for foreign training is carried out at the beginning every year. The data collected from this demand survey is fed into the database and subsequently, it is match with the training offers made by the donor to identify a best suitable candidate.

The long term-training opportunities are offered for middle and junior level officers who can improve their academic and professional skills for their future career development. The Government by granting foreign training opportunities expects the recipient to enhance their knowledge, ability and competency which is required for career development. The short-term training opportunities are provided for the senior, middle and junior level public officers to enhance their competency. Thus, training opportunities provided by the Development Partners through their Development Cooperation Programmes make an important and valuable contribution towards the human resources development in the public sector.

In addition to the individual training programmes, development Partners provide group training, workshops and study visits for the public sector employees. The following group training opportunities were offered for the year 2008;

JICA

1. Training programme for Young Leaders for 27 participants (2nd December to 19th December 2008).
2. Laboratory Methodology and the Management System for Blood Bank for 9 participants (Oct to Nov 2008 - two weeks).
3. Third Country Training Programme in e-Learning Technology from 7th July to 15th August 2008- 16 participants from 16 countries.

KOICA

1. Vocational Training for trainers for 21 participants in September to December (24 Days).
2. Economic Development Policy for 15 participants (Jan to Feb 2008 (3 weeks)

Apart from the training opportunities, technical assistance division coordinates the programmes of services of foreign experts and volunteers with the donors and line ministries. Based on the requests made by line ministries, suitable experts / volunteers are identified and necessary steps are taken to recruit them. During the year 2008, the Government of Sri Lanka received 60 volunteers and 6 experts from the donors such as Japan, Korea, Canada and UN agencies in the field of Health, Social, Community Development, Sports, Education, Language, Textile, IT, Automobile and HRD.

Financial Review

The External Resources Department is not collecting revenue to the Government and therefore, it is not identified as a revenue collecting agency. Financial information on expenditure against provision on Personnel Emoluments, Other Recurrent Expenditure, Capital Expenditure and Advance Accounts Operations of the Department under Budget Head No. 239 in the year 2008 is given in Table 12, 13 14 and 15.

Table 12. Personnel Emoluments

	RS.
Original Provision	35,500,000
Add:	
Transfers under FR.66 and Supplementary Provision	NIL
Less:	
Transfers under FR.66 and Supplementary Provision	1,642,350
Total Provision	33,857,650
Expenditure during the year	31,363,181

Table 13. Other Recurrent Expenditure

	RS.
Original Provision	305,915,000
Add:	
Transfers under FR.66 and Supplementary Provision	1,204,000
Less:	
Transfers under FR.66 and Provision Frozen	4,589,000
Total Provision	302,530,000
Expenditure during the year	288,793,865

Table 14. Capital Expenditure

Object Code	Object title	Provision Rs.	Expenditure Rs
2001	Buildings	4,000,000	1,885,847
2002	Improvements to plant, machinery & Equipment	50,000	42,574
2003	Improvements to vehicles	900,000	527,582
2102	Acquisition of furniture and office equipment	6,000,000	751,990
2202	Capital Transfers – Sweden Consultancy Assistance	3,500,000	1,518,848
2401	Training and Capacity Building	1,226,350	286,539
2502	Reimbursement of Taxes of Residence Missions	3,912,000	3,910,161

Advance Account

This Department has one Advance Account for granting loans to public officers. During the year, the Department has complied with the stipulated limits of the Advance Account. The operations of the Advance Account are given in the Table 15.

Table 15

Maximum limit of expenditure	Rs. 10,000,000
Actual expenditure	Rs. 9,999,999
Minimum limit of receipts	Rs. 2,600,000
Actual receipt	Rs. 3,067,656
Maximum limit of debit balance	Rs. 28,000,000
Actual balance	Rs. 21,908,004

Auditor General's Queries

During the year, 6 audit queries were received and all the queries were answered. Queries were raised on utilization of foreign aids, Appropriation Account and Public Officers Advance Account of 2007.

Appropriation Account 2008

The Appropriation Account for the year 2008 was submitted to the Auditor General on 31st March 2009.