

DONOR SUPPORT, PLEDGES, COMMITMENTS AND EXPENDITURE - THE PROCESS –

*Mrs. Sujatha Cooray
Director General, External Resources Department
Ministry of Finance & Planning*

Introduction

This paper provides a brief account of the donor support, pledges, commitments and expenditure made for Sri Lanka by development partners during the last year together with the expected foreign aid for the year 2005. In addition, it reviews the Tsunami emergency assistance extended by all donor agencies and the International NGOs for Post- Tsunami recovery activities for discussion at the Development Forum at which the main theme would be on Post- Tsunami recovery and reconstruction process and the medium term development strategies of Sri Lanka.

For Sri Lanka, 2004 has been a difficult year particularly in terms of natural disasters and other exogenous shocks. During the second quarter of the last year, the economy was struck by adverse shocks including the oil price hike and a severe drought. In addition, floods affected the country in May and again in December, and above all the effects of the tsunami waves have been extremely severe on the country. The oil shock cost over US\$ 400 million. The assets loss alone was US\$ 900 million due to Tsunami. Drought cost of electricity and output was 0.5 percent loss in GDP growth. The Tsunami, which destroyed most infrastructure including human inhabits along the coastal belts of the North, the East, West and the South has displaced over one million Sri Lankans. The Tsunami would impact adversely on the attainment of the development goals in Sri Lanka as it is the poorer sections of the population that have been hit hardest by it.

On a positive note, it should be mentioned that the international community has extended unprecedented levels of support and assistance for relief, reconstruction and rehabilitation activities in the tsunami affected areas.

The part one of this paper provides an overview of foreign aid pledges, commitments and utilization during the last year. Part two presents the financial requirements for the post -Tsunami activities, donor pledges as well as NGO pledges, commitments and debt relief moratorium extended by donors.

1. Overview of Foreign aid Pledges, commitments and utilization

In 2004, the development partners committed US\$ 1,180 million for Sri Lanka. Of the total commitment, US\$ 961 million were in loans and US\$ 219 million in grants. Approximately, US\$ 392 million were provided by bilateral donors, US\$ 678 million by Multilateral donors and the balance US\$110 million by export credit agencies.

The total foreign aid disbursement in 2004 was US\$ 805 million. This is slightly higher than the targeted amount of US\$ 750 million. Of the total disbursement, the bilateral donors accounted for US\$ 410 and multilateral donors for US\$ 309 million. The balance US\$ 86 million was disbursed by export credit agencies. Special emphasis has been made to improve government mechanisms for foreign aid utilization, monitoring of foreign aid funded projects and strengthen necessary institutional arrangements for improving the efficiency of project implementation.

In the pre-tsunami scenario the government estimated that a donor commitment of US\$ 1,300 million would be available for 2005. Of this amount, US\$ 256 million has already been committed during the first quarter of the year for development projects. The forecasted disbursement for the year 2005 would be US\$ 956 million. The total value of the pre-tsunami project portfolio is US\$ 3.5 billion.

2. Donor Assistance for Post-Tsunami Recovery Activities

Following the Tsunami disaster the donor response to the government request for immediate relief has been overwhelmingly positive. Many bilateral donors and international agencies including Non Governmental Organizations provided immediate relief such as food, medicine, clothing, drinking water, temporary shelters as well as assistance in the form of services of medical personnel and rescue teams.

The Government initiated an immediate damage assessment within one week of the disaster. A Needs Assessment was undertaken by the National Planning Department and the Task Force for Rebuilding the Nation (TAFREN) in association with Line Ministries, Provincial Councils and District Secretariats to develop a reconstruction and rehabilitation strategy for the Tsunami stricken areas. The Government Needs Assessment identified two phases, the first being the immediate relief and rehabilitation phase addressing basic needs of about 100,000 displaced families. The overall funding requirement of this phase has been estimated at about US \$ 200mn. The second phase which is the reconstruction and rebuilding of damaged assets which may involve a 3 – 5 year period and costing of about US \$ 1.8 billion. One of the important factors that has been taken into consideration by the government in designing the Tsunami recovery and reconstruction strategy is that the Tsunami affected areas represent the least developed and the worst poverty

stricken areas in the country. The North and the East Provinces suffered from the long drawn civil war and some of the areas which were rehabilitated were again damaged by the Tsunami. These areas reflect a high level of unemployment and poor infrastructure. In the circumstances, firstly the reconstruction strategy should aim at developing modern infrastructure in the affected areas as a means of overcoming poverty.

Secondly, the reconstruction should not be merely based on replacement cost but should be on the cost for providing infrastructure to support accelerated development.

Thirdly, the Tsunami recovery and reconstruction programme should not in anyway affect the normal development programme planned for the country in the Budget 2005. Under the planned programme for 2005, the Government expects to disburse about US \$ 956 million.

Financial Support from Donor Community

Approximately US\$ 1590 million have been pledged by the development partners for Tsunami recovery activities. Of this amount, around US\$ 1375 million has been committed up to date. It includes US\$ 745 mn from bilateral donors and US\$ 630 million from multilateral donors.

Table 1. Donor Assistance for Post-Tsunami Rehabilitation and Reconstruction Activities

(US\$ mn)

Donor Countries & Agencies	Expected donor assistance	Remarks
a. Bilateral Donors	745	
Canada	84	Negotiations underway
China	18	MOU signed.
Denmark	8	Agreement signed.
France	104	Agreements will be concluded in July
Germany	81	Agreements will be concluded in July
India	23	Negotiations underway to allocate US\$ 100 mn for modernisation of Southern Railway line.
Italy	69	Three MOUs signed to use these funds
Japan	181	Grant Aid Agreements signed for US\$ 81 mn. Minutes of Discussions were signed for the balance US\$ 100 mn
Korea	35	Project Proposals have been submitted.
Netherlands	11	Negotiations underway
Norway	19	Negotiations underway
Spain	25	Negotiations underway
Sweden	05	Negotiations underway
Switzerland	12	Two MOUs signed to use US\$ 10.5 mn.
USA	65	Agreements signed for US\$ 39 million
Others	05	Negotiations underway
b. Multilateral Agencies	631	
ADB	157	Agreements signed
EIB	90	Negotiations underway
EU	75	US\$ 40 million will be concluded in June. Negotiations underway for using the balance funds
IFAD	35	Negotiations will be held in June.
OPEC Fund	09	Negotiations underway
UN agencies	69	US\$ 6 million has been committed for Strengthening of National to rural level capacities for Relief and Recovery. Proposals are being prepared to utilise the balance funds.
UNICEF	21	Agreement signed.
WFP	25	Agreement signed.
World Bank	150	Agreements signed
Sub Total (a+b)	1376	
c. NGO & INGOs	853	These are Pledges made in the proposals. Remittances up to now amounts to US\$ 125 million.
*Grand Total (a+b+c)	2229	

* Emergency relief not included

In terms of the Agreements concluded with the bilateral and multilateral donors up to now around US\$ 500 mn has been provided for the North and East Tsunami recovery activities. The donor commitment for Tsunami recovery and reconstruction by sectors are given in the attached Table.

Disbursement of Tsunami assistance

Total disbursement made up to end of April 2005 is about US\$ 138 million. This amount consists of US\$ 15 mn from World Bank, US\$ 21.7 mn from UNICEF and, US\$ 1 million from Japanese cash grant. . In addition US\$ 157.5 mn has been extended by the IMF as emergency assistance. Another US\$ 55 million will be added from Japanese Non Project Grant Aid program (US\$ 35 mn) and loan funds (US\$ 20 mn) in next month

NGO Contribution for Post-Tsunami Activities

A large number of Non-Governmental Organizations (NGOs) both national and international, had been on the ground dispensing food, water purification tablets, shelter materials, and basic medical supplies etc. to victims after the Tsunami. Most of them have mobilized resources for the reconstruction of damaged assets and rebuilding the livelihood of people with long term plans.

In order to facilitate delivery of their assistance and participation in the tsunami rehabilitation activities, the Government has set up a unit, Centre for Non Governmental Sector(CNGS) under the Ministry of Finance and Planning in February 2005. The government wishes to engage all NGO's in a consultative process, which would be consistent with international best practices, good governance, transparency, accountability and eliminates wastage and duplication.

CNGS has reported that approximately US\$ 853 million have been pledged by both INGOs and NGOs as of end March 2005. Total commitment so far made is about US\$ 57 million.

Debt Relief and Moratorium

The Paris Club offered one year moratorium of debt effective for 2005. The total amount involved would be US \$ 338 mn. Italy and China cancelled the debt and the United Kingdom has agreed to share 10% of the debt service payment to IDA for 10 years. Canada is also considering to share 4% of the debt service payment to IDA

for a period of 10 years. India has agreed to a Debt Moratorium for 3 years. Details of the Debt Relief and moratorium are given below.

Table: Debt Relief and Moratorium for 2005

Debt Relief/Moratorium	Total Amount US\$ mn	Donor/Amount
Relief/ Moratorium received up to now	42.5	Italy-US\$ 9.8 mn China-US\$ 4.3mn UK -for IDA US\$ 6mn Canada-US\$ 3.6 mn, Germany-US\$ 18 mn Denmark US\$ 0.8 mn
Debt moratorium expected in 2005 from bi-lateral donors	295	Japan =US\$ 220 mn USA= US\$ 44mn France =US\$ 8.5mn Netherlands= US\$ 5 mn Korea= US\$ 6 mn Kuwait=US\$ 4 mn India=US\$ 7 mn Saudi Fund=US\$ 1 mn

Aid commitments on sector basis

Housing and Township Development Sector - Around 194 donors including INGOs have pledged for the construction of 90,000 houses. Agreements/MOU were signed for construction of 27,000 houses. The World Bank and Switzerland have committed US\$ 40 mn and US\$ 7 million respectively for the Government cash grant programme for reconstruction of damaged houses located outside the buffer zone. Total donor commitment for this sector is US\$ 163 mn. NGO sector has also pledged US\$ 320 mn for the construction of houses in these areas.

Education Sector, 182 schools were damaged and Donor commitments were received for reconstruction of 177 schools. Agreements were signed for 163 schools. Funding arrangements for other damaged academic institutions are being negotiated with donor agencies. The total cost estimated for the rehabilitation activities in the education sector is US\$ 169 mn.

Livelihood and Micro Financing Sector - Estimated loss of employment is 275,000 numbers. Two loan schemes are being implemented to help them for re-building their livelihood with the assistance of JBIC and GTZ. In addition, another US\$ 7 million has been provided by ADB in support of micro finance.

Health Sector – 72 number of hospitals were damaged. The total cost of the projects in the action plan is US\$ 100 mn. Approximately 95 % of the construction of damaged institution are covered by the donor agencies and international organizations.

Tourism Sector- Tourism sector needs US\$ 58 mn for re-investment in order to recover the damages. US\$ 18 mn of investment this sector are needed to rebuild the Telecommunication sector.

Water Supply and Sanitation Sector - Total estimated cost to recover the damages is US\$ 205 million. Most of Donors and INGOs have expressed their willingness to contribute for re-investments in this sector.

Fisheries Sector - Fisheries equipments and materials such as nets, engine, boats are provided by INGOs and NGOs. The financial requirement of this sector is US\$ 200 million . Approximately US\$ 100 million has already been committed by Japan, China, USA and France.

Power sector- Estimated cost for rebuilding of electricity in the tsunami affected areas is US\$ 115 million. Major bi-lateral donors like Japan and Germany have agreed to provide funds for rebuilding of electricity in the tsunami affected areas.

Railway Sector- US\$ 22 million has pledged by India to rehabilitate the damaged railway tracks. In addition, India has also indicated their willingness to provide around US\$ 100 million to modernize the Southern Railway line following the destruction caused by Tsunami disaster.

Roads and Bridges Sector - The funds required to rehabilitate the damaged roads is US\$ 353 million. Donor agencies comprising World Bank, ADB, JBIC, USAID, EU and France have pledged US\$ 270 million to rehabilitate all damaged roads and bridges in the island.

