3

ECONOMIC AND SOCIAL INFRASTRUCTURE

3.1 Overview

The improvement of economic and social infrastructure continued to be a priority area in the national development agenda to support the economic growth process while facilitating the economic transition from resource-driven growth to productivity-driven growth. As Sri Lanka is in the process of adopting proactive measures to avoid the 'middle income trap', continued investment in infrastructure and improving productivity is absolutely vital. Accordingly, in line with the government's development agenda, many key infrastructure projects including the Mattala Rajapaksa International Airport, South Container Terminal of the Colombo Harbour Development Project and Colombo – Katunayake Expressway commenced commercial operations during the year. Further, the Godagama – Pinnaduwa section of the Southern Expressway and the Kottawa – Kaduwela section of the Outer Circular Highway (OCH) were opened for traffic in March 2014, improving the efficiency in road transportation and connectivity between cities. The construction work relating to other mega infrastructure projects such as phase II of the Norochcholai Coal Power Plant, phase II of the Magam Ruhunupura Mahinda Rajapaksa Port, the Northern Railway Project, phase II of the Colombo South Port Project, phase II of the OCH also progressed well during the year. Several urban development initiatives were also carried out in all major cities with the aim of meeting the needs of citizens and to emerge as centres attractive for investment. Meanwhile, many small scale infrastructure development projects such as the 'Maga Neguma' rural road development programme, rural electrification projects, irrigation projects and community based water supply projects continued facilitating regional development. The public investment on economic and social infrastructure development programmes amounted to Rs. 447.0 billion (5.2 per cent of GDP) in 2013.

Sri Lanka has made significant progress in social indicators and has comfortably surpassed the Millennium Development Goal (MDG) targets set for 2015, in the areas of universal net primary education enrolment, gender equality, poverty, infant and maternal mortality. The health and education endowment of individuals has been identified as vital components of human capital which directly impacts productivity, standard of living and the ability to

Table 3.1 Government Investment in Infrastructure

Year	Economic Services		Social Services		Total	
	Rs. billion	% of GDP (a)	Rs. billion	% of GDP (a)	Rs. billion	% of GDP (a)
2004	61.3	2.9	29.0	1.4	90.3	4.3
2005	77.5	3.2	60.4(b)	2.5	137.9	5.7
2006	106.8	3.6	48.4	1.6	155.2	5.3
2007	141.2	3.9	55.0	1.5	196.2	5.5
2008	168.9	3.8	60.2	1.4	229.1	5.2
2009	256.4	5.3	53.9	1.1	310.3	6.4
2010	278.8	5.0	56.2	1.0	335.0	6.0
2011	326.0	3.8	63.4	0.7	389.4	4.5
2012	343.8	4.5	71.2	0.9	415.0	5.5
2013(c)	369.4	4.3	77.6	0.9	447.0	5.2

(a) Data based on GDP estimates compiled by the Department of Census and Statistics
(b) Inclusive of Tsunami related capital expenditure
(c) Provisional

Sources: Ministry of Finance and Planning
Central Bank of Sri Lanka
Department of Census and Statistics

effectively contribute to the growth process of the country. Sri Lanka's current drive to become a leading hub in South Asia, while avoiding the middle income trap calls for a pragmatic approach to improve education and health sectors, largely focusing on qualitative improvements. As such, the government has initiated a series of measures to reduce regional disparities in education, strengthen service delivery and improve the relevance of the educational curricula, particularly the alignment of the tertiary level curricula with domestic and international demand for higher skills in the labour force. Further, an endogenous innovative model needs to be developed to create new institutions to address deficiencies in the tertiary education sector while existing institutions are reformed to enhance qualitative relevance and competitiveness. Meanwhile, continued investment in the health sector has helped constant improvement in the health status of the people thereby raising productivity of the workforce. Current steps to create new modes of integrated care by strengthening the primary care institutions and improving coordination with specialist hospital care is expected to create improved outcomes through focused and efficient service delivery. Measures are also in place to promote the efficient use of pharmaceuticals by improving access to affordable and effective medicines while ensuring high quality standards.

Immense potential exists for the private sector to involve in the development of infrastructure through Public-Private Partnerships (PPPs) mainly in sectors such as energy, transportation, housing, education, and health. Traditionally, infrastructure had been an exclusive priority of the public sector due to its natural monopoly features that discourage market competition, and its social and environmental externalities that result in social benefits exceeding private benefits. However, in line with global developments, population growth, urbanisation and income growth, the demand for modern infrastructure is growing rapidly resulting in a wider

Table 3.2 Major Ongoing and Recently Completed Infrastructure Development Projects

Project Name	Year	
	Completed	To be Completed
Power Projects		
Norochcholai Coal Power Plant		
Phase I	2011	
Phase II : Unit 2		2014
Phase II : Unit 3		2014
Uma Oya Hydropower Plant		2015
Sampur Coal Power Plant		2017
Road Development Projects		
Southern Expressway		
Phase I	2011	
Phase II	2014	
Colombo-Katunayake Expressway	2013	
Outer Circular Highway		
Phase I	2014	
Phase II		2015
Phase III		2017
Railway Development Projects		
Northern Railway Line Reconstruction Project		
Medawachchiya - Madu	2013	
Madu - Thaleimannar		2014
Omanthai - Pallai	2014	
Pallai - Kankasenthurai		2014
Signalling and Telecommunication System		2015
Matara-Kataragama Railway Line Project		
Phase I : Matara-Beliatta		2016
Port Development Projects		
Colombo South Harbour Project		
South Container Terminal	2013	
East Container Terminal		2014
Magam Ruhunupura Mahinda Rajapaksa Port		
Phase I	2010	
Phase II		2015
Oluvil Port Development Project	2013	
Airport Development Projects		
Mattala Rajapaksa International Airport		
Phase I	2013	
Bandaranaike International Airport Expansion Project		2017

gap between demand and supply. The private sector can play a greater role in bridging this gap mainly through providing capital, management and undertaking maintenance. Further, PPPs provide opportunities to harness the expertise and efficiencies of the private sector ensuring a cross-transfer of skills and knowledge that can create innovation and efficiency. At the same time, such ventures will reduce the burden on government finances helping overall macroeconomic management and stability.

3.2 Economic Infrastructure Policies, Institutional Framework and Performance

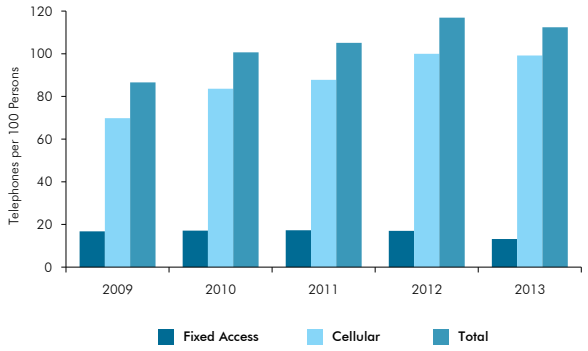
Communication Services

A commendable usage of communication and information technology (IT) services in economic activities was seen in recent years. During 2013, IT and communication services were increasingly utilised by financial institutions to improve effectiveness and efficiency of economic activities through services such as e-banking, mobile banking, mobile point of sales and common automated teller machine switch. However, it is essential to explore more innovative bank-based models through advanced communication services while reducing operational costs through infrastructure sharing, IT platforms and automated systems. Meanwhile, the rapid growth in the IT and Business Process Outsourcing (BPO) industry in the country supported Sri Lanka to rank among the top 25 countries in world rankings. Low cost and skillful labour, improving working ethic, benign doing business environment and favourable time zone have helped the country to achieve the current rankings. However, communication service providers have still more to do to develop infrastructure, thereby facilitating the expansion in the IT/BPO industry and the Knowledge Process Outsourcing (KPO) industry in order to raise Sri Lanka's position further among the best outsourcing countries in the world. The earnings from IT/BPO services in Sri Lanka is expected to reach US dollars 1 billion by 2015.

The sharp growth in internet services was the key highlight in the telecommunications sector in 2013. Total internet connections grew by 47 per cent during 2013 increasing internet penetration (connections per 100 persons) to 9.8 per cent. This was largely supported by the accelerated growth in mobile internet connections, followed by the fixed internet connections. Actual internet penetration and access to internet may be much higher than the above estimates, as these do not include those who are connected to internet via mobile phones without having a proper data package. Further in the above estimates, common access points such as workplaces, Nenasala Centres, private internet cafes and household fixed line internet connections have been considered as single connections, despite having accessibility for multiple users. Considering the rapid expansion in the coverage of Third Generation (3G), Fourth Generation (4G) and fixed line internet services by mobile and fixed line operators, it is expected that the growth momentum in internet penetration will continue in the upcoming years. Moreover, low entry costs, competitive pricing and promotional schemes from operators are expected to facilitate this trend. According to a report published by the International Telecommunication Union in May 2013, Sri Lanka ranks first in the world for the lowest entry level fixed broadband charges.

The demand for basic voice services appears to be reaching saturation point consequent to the continued rapid growth in recent years. In early 2013, the Telecommunications Regulatory Commission (TRC) revised its criteria relevant to classification of active fixed wireless and mobile lines which resulted in a reduction in fixed wireless connections and mobile connections. Meanwhile,

Chart 3.1 Telephone Penetration



the fixed wireless telephone connections continued its declining trend recording a drop in fixed access telephone penetration to 13.2 per cent in 2013 from 17.0 per cent in 2012. Although the impact of the base effect due to the revision in criteria by the TRC caused the number of mobile telephone connections to decline marginally during 2013, the mobile penetration stood at 99.2 per cent as at end 2013 indicating that on average, every Sri Lankan possesses a mobile connection.

The TRC continued to actively facilitate the development of the telecommunications industry. The TRC released the frequency spectrum for 4G mobile broadband to support the expansion of modern mobile broadband technology and 4G services were commercially launched in 2013. Recognising the importance of continued provisioning of telecommunication services at affordable prices, the TRC has initiated several measures to promote shared resources among service providers to reduce the cost of infrastructure expansion so that tariffs can be further reduced. As proposed in the government budget in 2014, the TRC increased the telecommunication levy on voice calls from 20 per cent to 25 per cent from January 2014. However, the levy on internet services had been kept unchanged at 10 per cent. Meanwhile, the TRC actively engaged in activities to improve awareness among fixed and mobile phone users regarding the quality of internet facilities provided by different service providers with a vision to stimulate quality-oriented competition among service providers. The TRC is also in the process of establishing regulations for quality of fixed and mobile voice services. Meanwhile, the construction of the Colombo Lotus Tower, which will facilitate the transmission of signals of 50 television channels and over 35 radio stations while providing numerous commercial and entertainment amenities, is expected to be completed by 2015.

The Information and Communication Technology Agency (ICTA) has been consistently enabling accessibility to information and communication services while improving efficiency, effectiveness, and quality of services in government organisations. In 2013, 54 new Nenasala Centres were established island wide, increasing the total number of Nenasala Centres to 741, enabling the rural community to have better access to Information and Communication Technology (ICT) based services. Out of those, 41 new Nenasala Centres were established in the Northern Province to support rapid development in conflict affected areas. During the year, 74 government organisations

Table 3.3 Telecommunication Sector Performance

Item			Growth Rate (%)	
	2012	2013(a)	2012	2013(a)
1. Fixed Access Services (No.) ('000)	3,449	2,707	-4.4	-21.5
Wireline Telephones in Service	999	1,062	6.1	6.3
Wireless Local Loop Telephones	2,450	1,645(b)	-8.1	-40.2
2. Cellular Phones (No.) ('000)	20,324	20,315(b)	10.9	0.0
3. Other Services				
Public Pay Phones (No.)	6,983	6,788	8.1	-2.8
Internet (No.) ('000) (c)	1,366	2,012	61.7	47.3
4. Telephone Penetration (d)	117.0	112.4	11.2	-3.8
Fixed Telephones	17.0	13.2	-1.7	-22.4
Cellular Phones	100.0	99.2	13.9	-0.8
5. Internet Penetration	6.7	9.8	67.5	46.3

(a) Provisional
(b) Connections declined in 2013 due to a revision in the classification of active subscribers in January 2013.
(c) Including mobile internet services
(d) Defined as connections per 100 persons

Sources: Telecommunications Regulatory Commission of Sri Lanka
Department of Census and Statistics

were connected to the Lanka Government Network (LGN), which provides remote services to citizens through secure electronic communications. As of end 2013, around 550 central and provincial government organisations have been connected to the LGN. ICTA has also focused on the skills development of government officers, students and the general public through various training and diploma programmes and Nenasala Centres. Such training programmes have facilitated the development of a trained pool of professionals in government service with ICT leadership, and technical skills and capacity, including relevant eGovernment competencies. Meanwhile, in the Networked Readiness Index (NRI), compiled by the World Economic Forum (WEF), Sri Lanka has improved its ranking to 69 in 2013 from the 71 position in 2012. This improvement reflects Sri Lanka's strength in the ICT sector, indicating the potential of the country to utilise ICT and other related technologies in socio-economic development.

The Department of Posts (DOP) was able to contain its operating losses in 2013. The operating loss of the DOP decreased by 13.5 per cent to Rs. 2.9 billion in 2013, compared to a loss of Rs. 3.3 billion in 2012. This was the outcome of an increase in total revenue by 19.3 per cent to Rs. 5.9 billion and increase in operating expenditure by 6.2 per cent to Rs. 8.8 billion. By the end of the year, the postal service comprised of 651 main post offices, 3,375 sub post offices, 497 agency post offices, 101 rural agency post offices and 4 estate post offices. During the year, the DOP remodeled the speed post courier service as a pilot project to provide a faster island wide courier service. Meanwhile, the telegram service, after about 150 years of service, came to an end in the country from October 2013 due to low usage and high cost of service delivery.

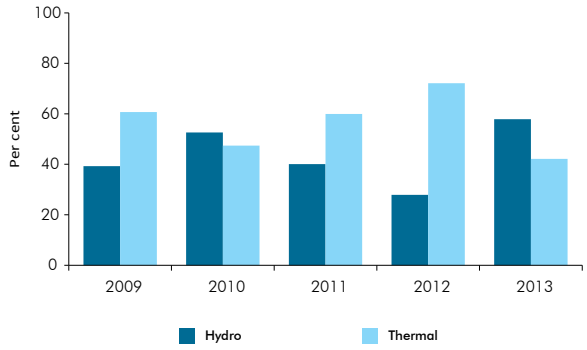
Energy

Sri Lanka's energy sector performance remained satisfactory in 2013 supported by stable oil prices in the international market and favourable weather conditions which led to a lower level of thermal power generation. The financial performance of the Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC) also improved substantially in 2013. The expenditure on procurement of oil remained stable due to the relatively low oil prices in the international market and due to the stability in the rupee exchange rate against the US dollar. However, sanctions on Iran continued to impact the performance of the refinery. Further, supply interruptions at some power plants occurred in 2013 due to various revamping activities. At the same time, the many measures that have already been taken helped to diversify the generation mix by increasing power generation through coal, hydro and other sources of energy. However, the adverse weather conditions that limited the hydropower generation during the first few months of 2014 reflected the need for further action to improve the readiness of the power sector for such shocks, in the medium to long term. Hence, adequate attention needs to be paid on harnessing the potential of renewable energy sources while ensuring such energy is available at competitive and affordable prices. It is also important to encourage energy conservation practices to improve the efficiency of energy usage while combating issues relating to the cost of energy.

Electricity

The total electricity generation in 2013 increased moderately by 1.3 per cent to 11,954 GWh compared to 11,801 GWh in 2012. Favourable weather conditions that prevailed during the year helped to boost the share of hydropower generation. As a result, total electricity

Chart 3.2 Hydro : Thermal Ratio of Electricity Generation



generation through hydro sources increased by 110.1 per cent to 6,918 GWh while total thermal power generation reduced by 42.8 per cent to 4,772 GWh. The electricity generation from coal power, that constitute part of total thermal power generation, increased by 4.6 per cent to 1,469 GWh. Meanwhile, the generation of power through Non-Conventional Renewable Energy (NCRE) sources, including mini-hydro generation increased by 59.3 per cent to 1,171 GWh. The overall system loss as a percentage of total generation has been maintained at 11 per cent in 2013 despite expansion of electricity supply to remote areas. The share of power generated by CEB, in relation to total power generation increased to 74 per cent in 2013 compared to 52 per cent in 2012.

Electricity sales increased by 1.4 per cent to 10,625 GWh in 2013 in comparison to 10,475 GWh in 2012 reflecting the expansion in economic activities. Electricity consumption in the 'Domestic' sector decreased by 1.0 per cent despite the increase in the number of consumers by 4.5 per cent, largely reflecting enhanced energy conservation practices implemented in response to increased electricity tariffs. Sales to 'Hotel' and 'General Purposes' categories increased by 5.0 per cent and 5.2 per cent respectively, reflecting the continuous growth in the tourism industry and other business activities. Meanwhile, electricity consumption in the 'Industrial' sector increased moderately by 1.9 per cent.

The electricity tariff was revised upwards in April 2013 to reflect the cost of power generation. Under the revision, the tariff applicable to domestic consumers who consume less than 60 units was kept unchanged to safeguard low income consumers. However, energy charges for consumers who consume more than 60 units were increased on different scales. The energy charge applicable to 'Industrial', 'General Purpose' and 'Hotel' sectors during peak hours was revised upwards while the energy charge applicable during off-peak hours was reduced to encourage 'Industrial' and 'General Purpose' sectors to utilise energy during off-peak hours with a view to smoothening electricity demand. Further, a time based tariff structure was introduced for the 'General Purpose' category.

The financial position of the CEB improved significantly during the year. According to the unaudited provisional financial data, CEB recorded an operating profit of Rs. 24.6 billion in 2013 in

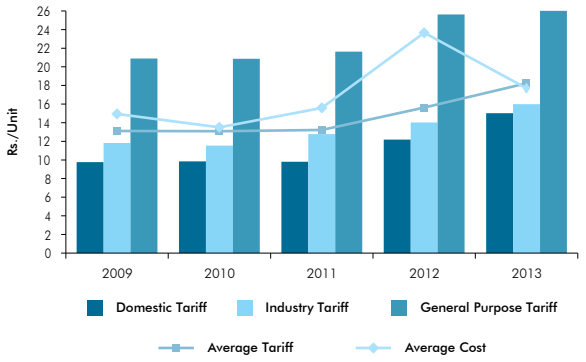
Table 3.4 Electricity Sector Performance

Item	2012	2013(a)	Growth Rate (%) 2012	Growth Rate (%) 2013(a)
Installed Capacity (MW)	3,312	3,371	5.2	1.8
Hydro	1,584	1,623	13.1	2.5
Thermal (b)	1,638	1,649	-3.4	0.7
Other	90	99	76.5	10.0
Units Generated (GWh)	11,801	11,954	2.4	1.3
Hydro	3,292	6,918	-28.7	110.1
Thermal (b)	8,339	4,772	22.9	-42.8
Other	170	262	36.9	54.1
Total Sales by CEB (GWh)	10,475	10,625	4.5	1.4
Domestic and Religious	3,577	3,546	4.3	-0.9
Industrial	3,285	3,347	4.9	1.9
General Purpose and Hotel	2,202	2,316	5.5	5.2
Bulk Sales to LECO	1,302	1,308	2.8	0.5
Street Lighting	109	108	0.0	-0.9
LECO Sales (GWh)	1,216	1,283	2.7	5.5
Domestic and Religious	538	555	2.9	3.2
Industrial	237	244	2.2	3.0
General Purpose and Hotel	412	421	1.0	2.2
Street Lighting	28	63	33.3	125.0
Overall System Loss of CEB (%)	11.2	11.1	-4.3	-0.9
Number of Consumers ('000) (c)	5,477	5,717	5.2	4.4
o/w Domestic and Religious	4,842	5,047	5.0	4.2
Industrial	54	56	5.9	3.7
General Purpose and Hotel	576	607	6.3	5.4

(a) Provisional
(b) Inclusive of Independent Power Producers (IPPs)
(c) Inclusive of LECO consumers

Sources: Ceylon Electricity Board (CEB)
Lanka Electricity Company (Pvt.) Ltd (LECO)

Chart 3.3 Average Tariff and Cost of Electricity



contrast to an operating loss of Rs. 62.1 billion in 2012. The improvement in performance was mainly driven by the higher utilisation of hydro sources for electricity generation during the year and additional revenue of around Rs. 2.5 billion per month received from the tariff revision. Despite the price increase of fuel oil used for power generation by Rs. 25 per litre from April, the lower thermal power generation helped to reduce the fuel bill by 30.8 per cent to Rs. 29.4 billion in 2013. Considering all cost components, CEB's average unit cost at selling point stood at Rs. 17.70 per unit while the overall average tariff was Rs. 18.23 per unit, reflecting a profit margin of Rs. 0.53 per unit at selling point. Meanwhile, CEB's short-term borrowings from banks and other short-term liabilities to CPC and Independent Power Producers (IPPs) decreased by Rs. 47.2 billion to Rs. 90.1 billion as at end 2013 while long-term outstanding liabilities stood at Rs. 482.8 billion at end 2013 compared to Rs. 406.4 billion at end 2012.

The tariff revision was an essential move towards adopting a rational and cost reflective pricing policy to improve the financial performance of CEB and reducing its exposure to bank borrowings. In recent years, the losses made by the CEB have had a significant impact on the banking sector as credit levels remained at excessively high levels leading to crowding out of private sector investments thereby hindering the efficient channeling of funds to more productive investments. This had adversely affected the capital formation of the country while creating spillover effect on macroeconomic variables such as interest rates, employment, exchange rate and more importantly, fiscal management and inflation. All economic stakeholders have now adjusted to the new tariff structure while adopting efficient power usage and conservation, overshadowing the one-off impact on inflation due to the tariff revision. This has been reflected in the growing trend of electricity sales in 'Industry', 'Hotel' and 'General Purpose' categories.

Construction work of several major power projects was in progress during the year. The Uthuru Janani Thermal Power Plant added 24 MW to the National Grid in February 2013. Unit 2 and Unit 3 of the second phase of the Norochcholai Coal power plant are expected to be added formally to the National Grid in April and July 2014, respectively. The addition of 600 MW by these two units will help reduce dependency on expensive thermal power generation, much of which is currently purchased from IPPs. The Uma Oya Hydropower plant, which is in the initial stages of construction, is also expected to add another 120 MW to the national grid by 2015. The agreement was signed for the construction of the Sampur coal power plant with 500 MW capacity and is expected to be added to the national grid by end 2017. The addition of these new power plants to the national grid will help increase the total installed capacity of the country by around 36 per cent to 4,591 MW by end 2017. Even though the progress in developing low-cost power generation projects is commendable, it is vital to have in place appropriate technical capacity for maintenance of these plants ensuring uninterrupted operations and power supply. Meanwhile, CEB's continuous efforts have helped to complete 799 rural electrification projects

during 2013 increasing the electrification level of the country to 96 per cent by end 2013 compared to 94 per cent by end 2012.

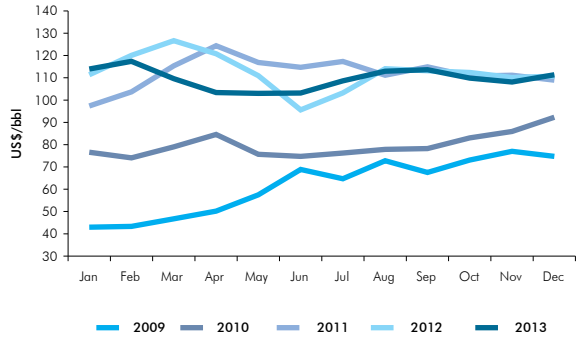
The Sri Lanka Sustainable Energy Authority (SLSEA) continued to actively promote the increased adoption and sustainable use of all forms of renewable energy in the country through development and conservation of indigenous energy sources while facilitating the exploration and research activities. The increase in share of NCRE generation to 10 per cent in 2013 from 6 per cent in 2012, highlights the potential of achieving the target of 20 per cent by end 2020 as envisaged under 'Mahinda Chintana' and as mentioned by SLSEA. 22 mini hydropower projects and one wind and dendro power project each have been commissioned during 2013 which would collectively add approximately 45 MW to the national grid. By the end of 2013, there were 262 MW of mini-hydropower, 81 MW of wind power, 11 MW of biomass power, 6 MW of dendro power and 1 MW of solar power connected to the national grid. Although the country is keen on including more renewable energy to its total generation plan due to its sustainable and renewable nature, the current tariff of NCRE sources keep rising compared to other conventional energy sources. Hence, the acquisition of advanced technology to improve cost effectiveness is important to ensure that the public is not burdened by rising tariff of NCRE. Further, with the introduction of Net Metering platform to promote in-house solar power generation, households have ventured into the installation of solar panels for domestic power requirements. Considering the long lifespan of solar systems, it will be attractive to introduce long-term refinancing schemes where the savings on the consumer's monthly electricity bill would be more than sufficient to offset the monthly loan installment. This will create long-term benefits to both consumers as well as the energy sector.

Petroleum

International crude oil prices remained low in 2013 compared to the previous year. The average international crude oil price (Brent) stood at US dollars 109.56 per barrel in 2013, compared to US dollars 112.41 per barrel in 2012. Although the average crude oil price peaked to US dollars 117.39 per barrel in February 2013, crude oil prices reduced to US dollars 103.20 per barrel during the second quarter of 2013 and fluctuated within the range of US dollars 108 – 114 per barrel during the second half of 2013. Price fluctuations during the year were largely driven by geopolitical concerns in Egypt and Syria, other supply side concerns fuelled by output disruptions in Iraq and Libya, and the slow pace of economic recovery in the United States, China and the Eurozone. In line with international price trends, the average price of crude oil imported by CPC declined by 3.6 per cent to US dollars 109.84 per barrel in 2013 from US dollars 114.00 per barrel in 2012.

Domestic retail prices of petroleum products were increased in 2013. The level of international oil prices that was reached during 2012 and 2013, warranted a price revision in order to mitigate the financial losses incurred by the CPC. Accordingly, the domestic retail prices of petrol and diesel were increased by Rs. 3 per litre

Chart 3.4 International Crude Oil (Brent) Prices (Monthly Average)



and Rs. 6 per litre, respectively with effect from February, 2013. Further, in view of containing the losses incurred by CPC on the sale of fuel oil to CEB and considering the improved profitability of CEB following the increase in electricity tariffs, the prices of fuel oil used for power generation were also increased in a cost-reflective manner, with effect from April 01, 2013. The prices of both high sulfur fuel oil and low sulfur fuel oil were increased by Rs. 25 per litre, to Rs. 90 per litre and Rs. 100 per litre, respectively.

The consumption of petroleum products which dipped slightly during the middle of 2013 as a result of the upward price revisions, reverted back to the normal levels towards the end of the year. During the year, the local sales of petrol grew moderately by 2.9 per cent while that of diesel had declined significantly by 16.3 per cent. The decline in sales of diesel was a result of the lower thermal power generation. Meanwhile, the increase in the level of electrification of households in the country has resulted in a fall in kerosene sales by 11.9 per cent during the year.

CPC's financial position improved in 2013 compared to the previous year. As per the unaudited financial statements, the CPC reported an operational loss of Rs. 7.7 billion in 2013 compared to Rs. 89.6 billion in 2012. The main contributory factors for the improvement in the financial position of the CPC were the price revisions on diesel, petrol and fuel oil provided to the power generation sector and the lower demand for fuel oil due to favourable weather conditions prevailed during the year. However, the very high level of international oil prices that prevailed during the first few months of 2013, provision of fuel oil at a highly subsidised rate to CEB and IPPs prior to the price revision, the falling refinery margins due to the change in sources of crude oil due to US sanctions on Iran, and the hedging settlement had a negative impact on the profitability of the CPC. Meanwhile, improved debt collection methods helped the CPC to reduce outstanding trade receivables from government entities to Rs. 75.1 billion. However, net borrowing from the banking sector increased by Rs. 22.1 billion to Rs. 223.4 billion during the year, increasing the CPC's exposure to the banking sector.

Table 3.5 Petroleum Sector Performance

Item		2012	2013(a)	Growth Rate (%) 2012	Growth Rate (%) 2013(a)
Quantity Imported (MT '000)					
Crude Oil		1,486	1,743	-28.2	17.3
Refined Products (b)		3,961	3,201	13.1	-19.2
Coal		930	1,469	18.9	58.0
L.P. Gas		199	197	10.6	-1.0
Domestic L.P. Gas Production (MT '000)		17	22	-29.2	29.4
Value of Imports (C&F)					
Crude Oil	(Rs. million)	157,758	182,064	-13.8	15.4
	(US$ million)	1,248	1,413	-24.5	13.2
Refined Products	(Rs. million)	467,058	352,984	39.3	-24.4
	(US$ million)	3,674	2,734	21.1	-25.6
Coal	(Rs. million)	15,381	20,882	27.0	35.8
	(US$ million)	123	161	12.8	30.9
L.P. Gas	(Rs. million)	27,939	26,915	39.0	-3.7
	(US$ million)	219	208	20.3	-5.0
Average Price of Crude Oil (C&F)					
	(Rs./barrel)	14,416	14,151	19.9	-1.8
	(US$/barrel)	114.00	109.84	5.0	-3.6
Quantity of Exports (MT '000)		504	511	-14.4	1.4
Value of Exports	(Rs. million)	58,902	55,128	-3.7	-6.4
	(US$ million)	463	428	-16.3	-7.6
Local Sales - Refined Products (MT '000)		4,811	3,981	4.4	-17.5
o/w Petrol (90 Octane)		726	733	7.4	1.0
Petrol (95 Octane)		40	55	14.3	37.5
Auto Diesel		2,054	1,705	3.5	-17.0
Super Diesel		42	50	180.0	19.0
Kerosene		143	126	-15.4	-11.9
Furnace Oil		1,322	826	8.2	-37.5
Avtur		327	360	3.8	10.1
Naphtha		62	72	-27.1	16.1
Local Sales - L.P. Gas (MT '000)		228	239	0.0	4.8
Local Price (End Period) (Rs./litre)					
Petrol (90 Octane)		159.00	162.00	16.1	1.9
Petrol (95 Octane)		167.00	170.00	7.7	1.8
Auto Diesel		115.00	121.00	36.9	5.2
Super Diesel		142.00	145.00	33.6	2.1
Kerosene		106.00	106.00	49.3	0.0
Furnace Oil					
800 Seconds		92.20	92.20	76.6	0.0
1,500 Seconds		90.00	90.00	80.0	0.0
3,500 Seconds		90.00	90.00	80.0	0.0
L.P. Gas (Rs./kg)					
Litro Gas		179.68	191.68	9.8	6.7
Laugfs Gas		179.68	191.68	9.8	6.7

(a) Provisional
(b) Imports by Ceylon Petroleum Corporation, Lanka IOC PLC and Lanka Marine Services (Pvt.) Ltd

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Lanka Marine Services (Pvt.) Ltd
Litro Gas Lanka Ltd
Laugfs Gas PLC
Sri Lanka Customs

Expediting the Sapugaskanda Oil Refinery Expansion and Modernisation (SOREM) Project can immensely improve the supply of petroleum products in a cost effective manner while providing financial benefits to the CPC. The imposition of sanctions against Iran by the U.S. has caused CPC to shift away from the purchase of Iranian Light crude oil to other crude oil types from different destinations. The volume of crude oil refined by CPC increased in 2013 to 1.8 million MT compared to 1.7 million MT in 2012, though processing levels did not reach the pre-sanction levels of 2.1 million MT seen in 2011. Although the yield of high end products was low during the first half of 2013, some improvement was seen during the second half, due to CPC's identification of crude blends that are better suited to the Sapugaskanda refinery. The lower refinery yields and subsequent operational failures associated with the delays in modernisation and lack of expansion of the refinery has negatively affected the financial performance of the CPC. This reiterates the need to prioritise the SOREM project. The land for the SOREM project has been acquired and the Environmental Impact Assessment (EIA) has also been completed. Based on the feasibility report of the project, several proposals have been received for implementing the project under an 'Engineer, Procurement and Construction' (EPC) basis. The proposals received have been evaluated by a technical team appointed by the CPC and shortlisted for further evaluation and selection. Currently, a technical study is underway to assess the potential for modernisation of the existing refinery without capacity expansion.

Oil Exploration

Petroleum exploration activities continued in 2013. Consequent to the two Mannar basin gas and condensate discoveries made by Cairn Lanka in late 2011, Sri Lanka's second international offshore exploration licensing round was held by the Petroleum Resources Development Secretariat (PRDS) in early 2013. A total of thirteen blocks in both the Mannar and Cauvery basins were offered to the prospective investors and bids for three blocks have been received. A preliminary review of the bids indicates a very robust work commitment, denoting a significant amount of both 2D and 3D seismic assessments on number of commitment wells. In addition to these blocks, 6 offshore ultra-deep-water blocks have been demarcated around Sri Lanka from the South West towards the North East to be offered on a Joint Study basis. These would be jointly prospected by oil companies and the government for the purpose of determining their hydrocarbon potential, but would not carry any production sharing commitment. In July, the PRDS held 'Sri Lanka Upstream 2013' in Colombo, the country's first ever exploration and production conference. This conference served the principal purpose of introducing the oil and gas companies to key government officials, private sector business leaders, and the Sri Lankan industry's potential, to generally get a feel for doing business in Sri Lanka. In parallel with efforts to market the available blocks, the government engaged in discussions with Cairn Lanka Limited on the potential commercialisation of their discoveries. The ongoing oil exploration activities are expected to have both backward and forward linkages. There is immense potential for economic diversification through the identification of services and industries which may be developed locally to provide not only inputs to these activities but also to market and distribute the final output. Consequently this is expected to make a significant contribution to the economic growth of the country while creating numerous direct and indirect employment opportunities.

Transportation

Sri Lanka's transportation sector progressed satisfactorily during 2013. It is envisaged that a sustainable transportation system will provide a high quality urban environment and a better quality of life for people in the country. During the year, the transportation system in the Northern Province was

rehabilitated, with the restoration of the railway line to Pallai. Road development activities of Northern Province also continued under different projects. These developments have helped the economic and social integration process through improved accessibility and connectivity. With the economic expansion, it is essential to focus on the alleviation of traffic congestion in urban areas and to mitigate the resultant socioeconomic losses. The current pace of economic expansion will also result in an increase in employment opportunities causing higher demand for transportation. Meanwhile, despite the gradual increase in number of buses and trains in service, the service delivery has not been developed up to the level expected by commuters due to higher standards of living led by the increase in per capita income. Accordingly, Ministry of Transport has initiated the 'Urban Transport System Development Project for the Colombo Metropolitan Region and Suburbs' with a view to finding a solution for the transport issues in the Colombo metropolitan area and suburbs. The project has recognised, through a series of studies, that a transit oriented development is the key to shape the sustainable future of the area. This will not only reduce congestion but will also minimise transportation cost.

Road Development

An improved road network and enhanced accessibility on land will provide forward and backward linkages to the development process. The construction of new roads and the rehabilitation of existing roads continued to be one of the policy priorities of the government in 2013 as well. This policy is envisaged to revamp the road infrastructure of the country which was in a dilapidated state for several decades, hindering economic progress. However, the road infrastructure was revitalised through rehabilitation and new construction, to meet up the rapid increase in traffic volumes, particularly seen during the last few years with the swift expansion in economic activities. The National Road Master Plan (2007-2017) was drawn up to overcome the challenges encountered by the country's road sector and to adopt proactive measures to meet the growing demand for road infrastructure. This will not only help in improving the productivity of the work force in Sri Lanka but also would support in bringing up Sri Lanka's ranking in the 'Ease of Doing Business' index while helping build the image of the country. Construction of highways and expressways under the 'Randora' infrastructure development programme of the government, and rural road development under the 'Maga Neguma' programme were actively pursued by the government keeping road development in line with its Master Plan for the year.

Major highway projects and roads and bridge development projects continued to be a priority in the government's infrastructure development agenda during 2013. The much awaited Colombo - Katunayake Expressway (CKE) (25.8 km) was completed and opened for traffic in October 2013. CKE is a 4 lane, dual carriage, user-fee levying expressway with a designed speed of 100 kmph. The construction of phase II of the Southern Expressway (SE) from Pinnaduwa to Godagama (34.6 km) was opened for traffic in March 2014. The average daily toll collection of SE in 2013 was Rs. 3.4 million with an average of 8,700 vehicles plying the road on a daily basis. Phase II of SE that has already been extended up to Matara, will eventually be extended to Hambantota. The Outer Circular Highway (OCH), the ring road around Colombo was designed to connect all major expressways with the objective of reducing traffic congestion within the city. Phase I of the OCH from Kottawa to Kaduwela (11 km) that links with the SE at Kottawa was opened for traffic in March 2014. The physical progress of phase II of OCH from Kaduwela to Kadawatha (8.9 km) was 42 per

cent as at end February 2014. The land acquisition and construction of internal roads of the phase III of OCH from Kadawatha to Kerawalapitiya (9.3 km) was in progress. As the final stage, OCH will be connected to the CKE at Kerawalapitiya. Meanwhile, the total length of National Highways (A and B class roads), maintained by Road Development Authority (RDA) was approximately 12,169 km in 2013. The rehabilitated Padeniya - Anuradhapura road was opened for traffic in April 2013. Several other road development projects in the island such as the Road Sector Assistance project (phase II), Rehabilitation and Improvement of Priority Roads projects I and II, Government Guaranteed Local Banks Funded Road Rehabilitation project, Road Network Development project, and Colombo District Road Development project progressed well while rehabilitation of bridges also continued in 2013. In addition, the Veyangoda flyover bypassing the railway crossing was declared open in January 2014. The rehabilitation of rural roads in several districts under the 'Maga Naguma Rural Roads Development Programme' also continued during 2013 at a cost of Rs. 4.5 billion. The extent of roads rehabilitated under this programme in 2013 was 639 km while 30 rural bridges, 26 causeways and 178 culverts have also been completed. The expenditure incurred by RDA for road development recorded Rs. 116 billion in 2013.

The government programme for advancement of the road network in conflict affected provinces was implemented under the Northern Road Rehabilitation Project (NRRP), Conflict Affected Region Emergency Project (CAREP) and Northern Road Connectivity Project (NRCP). Under the NRRP, which covers rehabilitation of 512 km of roads and reconstruction of bridges and culverts in the Northern Province, the Kandy - Jaffna road and Mulativu - Pulmoddai road were declared open in 2013, while Oddusudan - Nedunkerny road was completed in early 2014. Under the CAREP, the government continued to significantly expand and strengthen essential infrastructure services to expedite the recovery of the conflict affected regions. Under this project the Paranthan - Poonaryn road was completed during 2013. The rehabilitation of 170 km of National Highways in the Northern and North Central provinces under the NRCP also continued. Accordingly, the roads between Dambulla - Galkulama, Navatkuli - Karaitivu Jetty, Vallai-Araly and Mankulam - Mulativu was completed in 2013.

Road Passenger Transportation

The public passenger transportation sector recorded a significant progress in 2013 supported by the addition of new buses to its fleet. Sri Lanka Transport Board's (SLTB) operated kilometreage increased by 1.8 per cent while the passenger kilometreage increased by 2.5 per cent during 2013. The total number of buses owned by SLTB decreased in 2013 to 7,607 from 7,756 recorded in 2012, though the average number of buses operated had improved to 4,373 in 2013 compared to 4,314 in 2012. Refurbishment of 1,641 buses and purchase of 281 new buses including 17 luxury buses had helped increase the operative bus fleet. In addition, 50 more luxury buses imported for the Commonwealth Heads of State Meeting have been handed over to the SLTB to operate on expressways. The number of buses owned by private bus operators decreased by 4.0 per cent to 19,651 buses while the operated average bus fleet decreased by 0.4 per cent to 17,067 in 2013. However, the total passenger kilometreage of private buses, increased by 2.7 per cent to 44,479 million km. The financial position of SLTB continued to endure losses though the revenue position has improved compared to 2012. During 2013, the total revenue of the SLTB had increased by 14.7 per cent to Rs. 30.2 billion. However, operating expenditure also increased by 11.9 per cent to

Rs. 33.7 billion, resulting in an operational loss of Rs. 3.5 billion in the year compared to a loss of Rs. 3.8 billion in 2012. The losses of SLTB is mainly attributable to the lack of efficiency in provision of services compared to the private sector. Therefore, it is urged to draw a plan to reduce the inefficiencies associated with the sector while the government could continue to involve in the services which are less profitable but are of socioeconomic importance.

The National Transport Commission (NTC) continued to take progressive steps in improving the efficiency of the bus service in 2013. The 'Nisi Sariya' programme, which provides bus services during night time and early morning, when private buses are reluctant to operate, continued its operations in 2013. Provision of bus services to commuters on uneconomical routes in rural areas under the 'Gami Sariya' programme also continued. Provision of bus services to school children under the 'Sisu Sariya' programme continued with 1,117 buses in 2013. The subsidy payment by the government on account of 'Sisu Sariya' amounted to Rs. 331 million. Moreover, there are 1,100 SLTB buses that carry school children across the country outside the 'Sisu Sariya' programme. Furthermore, SLTB introduced 13 buses with lower floor level to have easier accessibility to disabled commuters in accordance with the 'Mahinda Chintana' programme. Meanwhile, the NTC initiated a project to construct new bus terminals, under which the Vavuniya and Thalawakelle bus terminals are currently being constructed. Fares of bus services were revised upwards with effect from November 01, 2013 due to an increase of 6.4 per cent in the cost index since February 2012 when the last revision took place. Accordingly, the first fare band was kept unchanged while the bus fares above the first band and below Rs. 32 were revised by less than 7 per cent. The rest of the fares were revised upward by approximately 7 per cent.

Many facets of state owned bus services improved in 2013 resulting in greater efficiency. Installation of electronic ticketing machines in SLTB buses, which are automatically connected with the main system continued during 2013 as well. Under this initiative, almost all SLTB buses in the Western Province have been connected while action has also been taken to initiate installation of machines in the Southern, North Western, and Sabaragmuwa provinces. In addition, passenger transportation has been further augmented with the deployment of 25 super luxury buses by SLTB in the Southern Expressway and other long distance services. Meanwhile, the NTC has taken several steps to regularise private sector operators that account for a major portion of road passenger transportation. Accordingly, NTC has commenced a project to form private bus companies instead of having individually operated buses to make the service more systematic and productive. Under this project, 16 companies have already been established. In addition, a new bus tracking, monitoring and controlling system has been installed in around 2,000 buses to regulate operations. Training programmes for private bus drivers and conductors were also conducted by NTC.

Rate of registration of new motor vehicles decreased during 2013. The number of new vehicles registered during 2013 decreased by 18 per cent to 326,651 following a decrease of 24 per cent in the previous year. The number of cars registered decreased by 10.0 per cent while registration of buses and three wheelers declined by 41.7 per cent and 15.3 per cent respectively, during 2013. This reflects reverting back of vehicle registrations to pre - 2011 levels after recording a significant growth in 2011 due to low import duties and granting of permits to public servants for importation of vehicles at concessionary rates.

Rail Transportation

The operations of Sri Lanka Railways (SLR) showed satisfactory progress in 2013 supported by the introduction of new power sets. Rail passenger kilometreage increased by 24.2 per cent to 6,257 million km in 2013 compared to 5,039 million km recorded in 2012 reflecting the greater usage of railway services. However, the goods kilometreage declined by 10.5 per cent. The total revenue of the SLR increased by 11.8 per cent to Rs 5.4 billion while the recurrent expenditure also increased by 22.4 per cent to Rs. 10.6 billion, leading to an increase in operating losses to Rs 5.2 billion in 2013 compared to a loss of Rs. 3.8 billion recorded in 2012. Currently the railway charges remain very low compared to other modes of public transportation, making the railway operations unsustainable. Therefore, steps are warranted to establish a cost reflective pricing formula for rail transportation, at least in the instances commuters travel considerable distances by rail.

SLR continued to upgrade its fleet as well as other infrastructure facilities related to railways to create qualitative improvements in service provisioning. Railway wagon re-construction programme continued and a new set of railway engines were purchased for the rehabilitation of existing locomotives during the year. Accordingly, SLR was able to add 15 passenger carriages and 3 engines to the fleet after rehabilitation while 3 new engines were purchased under the Northern Railway Line construction project during 2013. 13 new power sets imported from China were introduced specifically to the up-country train service. A new luxury intercity train service was introduced between Colombo Fort and Kandy while a new train service was commenced between Mirigama and Colombo Fort. Meanwhile, steps have also been taken to improve the passenger facilities such as installation of Automated Teller Machines (ATM) and CCTV camera systems at certain railway stations.

Reconstruction and development activities of railway lines and associated infrastructure were carried out during the year. Accordingly, reconstruction work up to Pallai in the Northern railway line and reconstruction work from Madawachchi to Madhu in the Thalaimannar railway line were completed and opened for train operations. Further, opening up of the third line from Colombo to Ragama for operations and double tracking from Ja-Ela to Seeduwa were completed. Meanwhile, reconstruction work has commenced in the railway line from Pallai to Kankesanthurai (56 km) and is expected to be completed by the end of 2014. Signaling and telecommunication system of the railway around the country had been strengthened during the year. Further, a substantial portion of the installation work of a signal system from Anuradhapura to Thalaimannar and on the Northern railway line was completed in 2013.

SLR has great potential to enhance its services in passenger and goods transportation in the country. SLR's share in the total passenger transportation of the country continues to be low at 6 per cent while that of goods transportation has been as low as 2 per cent. Accordingly, an effective modernisation of the rail transportation with enhanced efficiency and reliability is important to serve the rising demand for passenger and goods transportation of the growing economy. In addition, it is important and timely for Sri Lanka to take steps to develop a modern railway system such as a Monorail system in urban areas to mitigate the road congestion. A steering committee consisting of members from relevant Government organisations has already been set up by the Ministry of Transport in this regard. Although the cost of implementation of such rail system may be high, the return in terms of direct and indirect benefits is likely to comfortably outweigh the cost. Private investments could also be raised for such developments through PPP arrangements. Therefore, every step needs to be taken to expedite

Table 3.6 Salient Features of the Transport Sector

Item	2012	2013(a)	Growth Rate (%) 2012	2013(a)
1.New Registrations of Motor Vehicles (No.)	397,295	326,651	-24.4	-17.8
Buses	3,095	1,805	-27.1	-41.7
Private Cars	31,546	28,380	-45.5	-10.0
Three Wheelers	98,815	83,673	-28.6	-15.3
Dual Purpose Vehicles	37,397	24,603	11.6	-34.2
Motor Cycles	192,284	169,280	-24.1	-12.0
Goods Transport Vehicles	12,266	5,872	-17.2	-52.1
Land Vehicles	21,892	13,038	-5.6	-40.4
2.Sri Lanka Railways				
Operated Kilometres ('000)	10,600	10,940 (b)	5.7	3.2
Passenger Kilometres (million)	5,039	6,257	10.2	24.2
Freight Ton Kilometres (million)	143	128 (b)	-7.1	-10.5
Total Revenue (Rs. million)	4,852	5,423	14.6	11.8
Operating Expenditure (Rs. million)	8,648	10,586	4.3	22.4
Operating Loss (Rs. million)	3,796	5,163	-6.5	36.0
3.Sri Lanka Transport Board				
Operated Kilometres (million)	338	344	-0.9	1.8
Passenger Kilometres (million)	11,909	12,201	0.0	2.5
Total Revenue (Rs. million)	26,313	30,191	25.2	14.7
Operating Expenditure (Rs. million)	30,122	33,703	23.8	11.9
Operating Loss (Rs. million)	3,809	3,511	15.2	-7.8
4.SriLankan Airlines				
Hours Flown	93,922	95,238	25.4	1.4
Passenger Kilometres Flown (million)	12,790	12,988	19.8	1.5
Passenger Load Factor (%)	81	82	3.8	1.2
Weight Load Factor (%)	53	52	-3.6	-1.9
Freight (MT '000)	98	100	8.9	2.0
Employment (No.)	6,159	6,548	12.2	6.3

(a) Provisional
(b) Estimates

Sources: Department of Motor Traffic
Sri Lanka Railways
Sri Lanka Transport Board
Civil Aviation Authority of Sri Lanka
SriLankan Airlines

the various rail development projects to establish a modern and efficient railway system supporting the envisaged economic expansion.

Civil Aviation

The civil aviation sector recorded a considerable growth in 2013. The Bandaranaike International Airport (BIA) handled 7.3 million passengers, including transit passengers during 2013, recording an increase of 3.3 per cent compared to 2012. The total number of passenger aircraft movements handled by the BIA increased to 50,802 aircrafts indicating a growth of 5 per cent. Total air cargo handling also increased by 3.9 per cent during 2013. Meanwhile, the newly opened Mattala Rajapaksa International Airport (MRIA) handled 36,137 passengers and 1,362 aircrafts. Further, the passenger load factor1[1] of SriLankan Airlines (SLA) increased to 82 per cent in 2013. During the year, British Airways, Korean Airlines, Air Asia X and Turkish Airlines commenced operations to Sri Lanka from London, Seoul, Kuala Lumpur and Istanbul, respectively, helping to enhance the performance in the tourism sector.

The financial performance of the aviation sector remained weak in 2013. As per unaudited provisional financial statements, SLA recorded an operational loss of Rs. 28.6 billion in 2013 compared to an operational loss of Rs. 27.0 billion recorded in 2012. This was the outcome of an increase in total revenue by 4.9 per cent to Rs. 109.5 billion and 5.1 per cent increase in operating expenditure to Rs. 138.1 billion. The widened loss was mainly caused by high fuel costs, less than satisfactory yields due to the recession in Europe, competition from other airlines, significant investments in acquiring additional capacity and enhancement of supporting services including the cabin upgrades. Meanwhile, Mihin Lanka recorded an operating loss of Rs. 1.5 billion in 2013 compared to the operating loss of Rs. 1 billion in 2012.

SLA expects to gradually move towards profit making in the medium term through cost reduction movements. SLA's load factor is relatively in line with other profit making airlines, although more efforts are required to improve the load factor in high-end destinations. SLA's fuel cost is almost a half of its operating cost which is significantly higher in comparison to many other airlines. As a corrective measure, SLA is expected to gradually replace existing low efficient A340-300 and A330-200 airbuses with six new A330-300 and seven new A350-900 airbuses. The delivery of the new airbuses will commence in October, 2014. These new aircrafts will reduce the fuel cost by around 6-15 per cent while offering more

1 Passenger load factor is defined as the number of passenger-kilometres travelled as a percentage of the total seat-kilometres available.

seat comfort and in-flight entertainment through advanced on-board products using the latest technology. SLA is also expected to take revenue optimisation techniques in its turnaround strategy such as last minute post-sale seat upgrades and business class yield upgrades using real-time market information and analysis tools. Further, SLA will obtain the membership in the world renowned airline alliance 'oneworld' in 2014 which will strengthen the ties to deliver premium service in line with alliance standards. Meanwhile, Mihin Lanka is also expected to improve its financial viability through revenue optimisation techniques which include launching profitable new routes.

Construction work of key infrastructure projects related to aviation sector made rapid progress during the year. The phase I of MRIA was declared open on 18 March, 2013. The 3,500 metre long 75 metre wide runway at MRIA is capable of accommodating even the largest aircrafts in the world including the Airbus A380, the largest passenger carrying jet airliner. Currently, it has an annual capacity of one million passengers and 50,000 MT of cargo. The MRIA is expected to facilitate the increasing number of tourist arrivals to Sri Lanka, while alleviating the congestion at BIA. Further, areas surrounding the MRIA have been declared as a 'bonded area' enabling the set up of a tax-free industrial zone in close vicinity. Moreover, hotels and leisure facilities envisaged to be developed near the MRIA will provide accommodation facilities for airline crew and transit passengers. These steps are expected to make a substantial improvement to MRIA in terms of passenger and cargo handling in the medium to long term. Meanwhile, construction of a new terminal under phase II of the BIA expansion project that would handle 9 million passengers per annum is expected to be completed by 2017. Upon completion of the new terminal, the total capacity of the BIA would be 15 million passengers per annum. The runway extension of the Batticaloa Airport was commenced while clearing and construction has already begun in Kandy for establishment of a domestic airport. In addition, the feasibility study of the domestic airport to be built in Nuwara Eliya was in progress.

Port Services

Ports activities showed a turnaround in 2013 despite the challenging global environment. The gradual recovery of foreign trade, attraction of new shipping lines, port efficiency and productivity improvements helped the turnaround of port services in 2013. Total container handling grew by 2.8 per cent to 4.3 million twenty foot equivalent container units (TEUs) in 2013 from 4.2 million TEUs in 2012. Transshipment handling registered a growth of 3.4 per cent compared to a negative growth of 1.5 per cent in 2012. Total cargo handling increased by 2.0 per cent to 66.2 million MT. Although the number of vessels that arrived at the port of Colombo recorded a decline, the gross tonnage of container ships that called during the year increased by 0.6 per cent reflecting the arrival of larger ships. During the year, the financial performance of the Sri Lanka Ports Authority (SLPA) deteriorated as per the unaudited financial data. The revenue of the SLPA had declined by 2.3 per cent to Rs. 37.2 billion while the operating expenditure increased by 5.8 per cent to Rs. 34.8

Chart 3.5 Container Handling, Transshipment Volume and Ship Arrivals

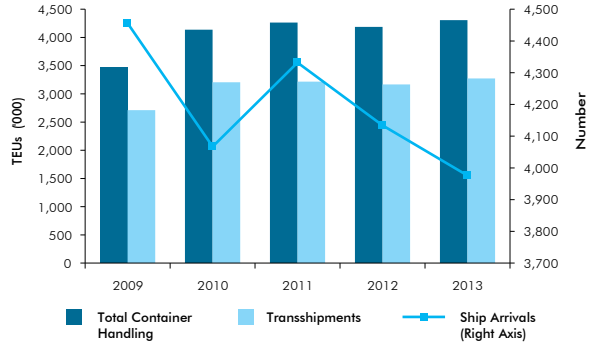


Table 3.7 Performance of Port Services

Item	2012	2013(a)	Growth Rate (%) 2012	Growth Rate (%) 2013(a)
1. Vessels Arrived (No.)	4,134	3,976	-4.6	-3.8
Colombo	3,870	3,667	-6.2	-5.2
Galle	69	36	-5.5	-47.8
Trincomalee	161	134	27.8	-16.8
Hambantota	34	139	277.8	308.8
2. Total Cargo Handled (MT '000)	64,970	66,243	-0.2	2.0
Colombo	61,669	63,482	-0.6	2.9
Galle	422	207	-9.1	-50.9
Trincomalee	2,859	2,435	11.1	-14.8
Hambantota	20	119	33.3	495.0
3. Total Container Traffic (TEUs '000) (b)	4,187	4,306	-1.8	2.8
4. Transshipment Container (TEUs '000)(b)	3,167	3,274	-1.5	3.4
5. Employment (No.) (c)	10,200	9,886	-7.3	-3.1
Colombo	9,373	9,081	-7.3	-3.1
Galle	391	379	-9.7	-3.1
Trincomalee	436	426	-6.4	-2.3

(a) Provisional
(b) TEUs = Twenty-foot Equivalent Container Units
(c) Only for Sri Lanka Ports Authority

Source: Sri Lanka Ports Authority

billion in 2013. Accordingly, the operating profit of the SLPA had declined by 53.4 per cent in 2013 to Rs. 2.4 billion compared to Rs. 5.2 billion in 2012.

The ongoing port development projects would help Sri Lanka to emerge as a maritime hub in the region. The economic stabilisation measures that were implemented in 2012 coupled with the opening of the Colombo South Container Terminal at the Colombo port and the declaration of the Hambantota and Colombo Ports as 'free ports' in mid-2013 helped enhance the activities in the ports sector. Under the Colombo Port Expansion Project, the South Container Terminal was declared open on August 5, 2013 with a range of equipment and facilities that has brought it on par with regional ports. The construction of the second terminal under this project, the East Container Terminal, commenced in May 2013 and is expected to be completed by end 2014. The East Container Terminal will also have a depth of 18 metres which would facilitate the docking of mega ships carrying approximately 18,000 TEUs. The construction of Phase II of the Magam Ruhunpura Mahinda Rajapaksa Port (MRMRP) commenced and is expected to be completed by end 2015. In the meantime, the construction of fourteen tanks at MRMRP with a total capacity of 80,000 cubic metres for storing and blending of marine fuel, aviation fuel and Liquid Petroleum Gas (LPG) has been completed and the pre-commissioning and testing of the bunkering facilities are now underway. In the first and second round of 'Request for Proposals' (RFP) for industries to be located at the port, cabinet approval has been granted to twelve investors, of which three have already signed agreements. The remaining investors are expected to finalise their agreements during the course of 2014. In order to facilitate the growing economic activity along the Eastern Coast, the Oluvil Port was declared open on September 01, 2013 and this port will serve as a commercial and fisheries harbour. The Trincomalee port has been earmarked to serve as a centre of growth for the North Eastern region of the country and a RFP was called for business ventures in the vicinity of the port. The Galle Port is to be developed as a leisure port in line with the development of Sri Lanka as a 'tourism hub' in the region.

The proposed Colombo Port City Project is designed as an 'offshore city' which is to be developed on reclaimed land in Colombo. The proposed Port City, adjacent to the Colombo Port, will consist of shopping malls, luxury apartment complexes and hotels, modern office complexes and other leisure and recreational activities. The proposed model of development of the Port City is commendable as it encourages active participation of the private sector which is expected to provide a higher value addition while enabling the cross-transfer of public and private sector skills, knowledge and expertise creating immense potential for both efficiency and innovation within this development initiative. The envisaged private sector participation would also relieve the government from the burden of financing this project. (Details in Box 4)

BOX 4 Colombo Port City Development Project

In line with the overall objective of transforming Colombo into a well-planned commercial centre, a multi-billion dollar Colombo Port City Development Project has commenced. The new city is proposed to be built by reclaiming the sea beside the breakwater of the Colombo Port Expansion project towards Galle Face Green. The proposed project is expected to raise the image of Colombo as a leading commercial hub and a new global business city with international connectivity. The resulting project will be a unique proposition for Sri Lanka. It is proposed to utilise this area for mix developments, including luxury hotels, residential apartment complexes, shopping malls, modern offices for the corporate sector, leisure, recreational and entertainment activities, such as water sports, mini golf courses, and racing tracks. The need for a project of this nature is identified as a response to avoiding some of the constraints that exist in the further development of the Colombo city such as environmental pollution due to overcrowding, blockage of drainage systems and road traffic congestion.

The new project is being carried out by China Communications Construction Co. Ltd. (CCCC Ltd.) under the supervision of Sri Lanka Ports Authority (SLPA) and Board of Investment (BOI) of Sri Lanka, and is governed by the Strategic Development Projects Act No. 14 of 2008. Tax and other incentives which have been granted for the project were published in Gazette notification No. 1846/51 of 24 January 2014.

Under the proposed project, it is expected that a land area in the extent of not less than 233 hectares of the sea bed would be reclaimed. Of the total land development, 170 hectares is identified as saleable land, while the balance is to be used for the development of roads, parks and other public uses. The project is to be carried out under two phases: Phase I of the project includes construction of wave protection breakwater, reclamation of 233 hectares of land, ground improvement and infrastructure development. The construction of office buildings, hotels, commercial buildings, shopping complexes, convention center, residential apartments and development of other facilities required for the commercial operation of the port city is expected under Phase II. The initial stage of the project is expected to be completed within three years of the effective date of the agreement. The overall port city is to be separated into four zones, comprising hotel and residential, office, cultural and commercial areas.

The cost of Phase I of the project is estimated at US dollars 1.3 billion and is to be financed by CCCC Ltd, the project proponent. As the financing of the project is expected as a foreign direct investment by the project company, it will neither entail expenditure nor foreign borrowing and financing risk by the government. At the same time, the country is expected to benefit through the acquisition of fully pledged extra land area which is ready for commercial use at no financial cost. It is expected that international and local investors will be attracted to participate in Phase II of the project.

Once the reclamation work is completed, a total land area of 108 hectares will be allocated to the project proponent for the recovery of the investment, sales promotion cost and profit. Of which, 20 hectares of land would be granted on a free hold right basis and 88 hectares on a 99 year lease. The balance land area of 125 hectares would remain with the SLPA.

The feasibility study and environmental impact assessment for the land development phase are underway and it is expected that the project will have minimum impact on the environment and the existing landscape. The master plan for Phase II is to be carried out by a Swedish consultancy firm and is expected to follow international best practices. URS Infrastructure and Environment UK Ltd. has been appointed to act as the SLPA's representative to monitor the quality of the project from the design stage. The project company is CHEC Port City Colombo Pvt. Ltd. which is a subsidiary of CCCC Ltd. It is envisaged that a separate management unit is to be established under SLPA for the maintenance of the port city.

The project will provide an impetus to the development of the overall economy and be a major avenue for new foreign direct investment. Further, the economic and social benefits of this project are expected to accrue over a long period of time. It will include, the positioning of Sri Lanka as a world class international business hub; a venue for regional headquarters of large conglomerates; a popular MICE (meeting, incentives, conference, and exhibition) destination; a knowledge hub which employs skilled work force in high-end jobs; a preferred destination for high-end tourists; and a city offering high end housing and recreational activities for Sri Lankans. This new city will also help to meet Sri Lankans' aspirations through providing a public space and will certainly enhance the status of Colombo as an emerging international city.

At the same time, it must be acknowledged that a project of this nature would require the development of infrastructure facilities of the country as a whole, which has also got to be supplemented by a high level of institutional commitment to harness the maximum benefits expected from the project.

It must also be recognised that the demand for the developed lands for specific economic activities will depend on the expected economic development of the country. Thus, the realisation of expected development goals of the country in the medium to long term is also a necessary outcome that will be important for the viability of the project.

It is also vital that the SLPA is highly cognisant of the engineering challenges of a project of this nature. In that context, the SLPA's prior experience in land reclamation from the recent port development project will provide them with the confidence to address any technical and engineering issues that may arise in the implementation of the project. At the same time, the connected stakeholders of this project must address the political and social challenges with effective publicity campaigns, so that the level of awareness is increased and any issues are addressed in a timely manner.

Several initiatives have been taken to improve the attractiveness and competitiveness of the ports sector. The declaration of the Ports of Colombo and Hambantota as 'free ports' will help enhance the competitiveness of the port in international trade and is expected to attract investors to set up businesses to exploit the benefits of the demarcated duty free zones in these ports. In a move to reduce the cost of shipping and attract more shipping lines to the ports as proposed in the Budget 2014, terminal handling charges and other surcharges levied by the shipping lines were abolished. As a result, from January 2014, shippers are expected to pay an all-inclusive freight rate. Measures are also being taken to minimise non-operational time at the container terminals thereby creating new berth window capacity. Vessel productivity was also improved further during the year with procurement of new ship-to-shore gantry cranes, rubber tyred gantry cranes and yard tractors. The SLPA has been granted Cabinet approval to set up two Dry Ports at Peliyagoda and Thelangapatha as inland ports. This is expected to improve integration with the maritime terminals and thereby provide inbound and outbound traffic with more efficient access to the inland market. A warehouse complex is also to be constructed at Peliyagoda to minimise the traffic congestion on roads in Colombo and to enable the provisioning of an increasingly efficient service to SLPA's stakeholders.

Water Supply and Irrigation

The National Policy on drinking water which provides a broad framework and policy guidelines for improving national coverage in safe water was being actively implemented by the National Water Supply and Drainage Board (NWS&DB). During the year, the access to pipe borne water increased to 44.3 per cent in 2013 compared to 43.5 per cent in 2012. Further, NWS&DB took measures to establish 19 Rural Water and Sanitation Units island-wide as a technical supportive mechanism to assist Community Based Organisations which were established in rural and underserved settlements to maintain and operate small water and sanitation projects. During the year, the government had spent Rs. 26.4 billion for the implementation of water supply and sewerage projects.

Several water supply projects were implemented across the country by NWS&DB while water projects in the Northern Province have been undertaken in association with the Emergency North Recovery Project (ENRP) in 2013. Nadunkerny, Vidathalathiv, Thevanpiddy, Adampan, Valvatithurai, Maruthankerny, Pandiyankulam, Mallavi and Oddusudan water supply projects were completed under ENRP benefiting 51,220 people in 60 Grama Niladhari Divisions. Further, more than 80 per cent of the water supply infrastructure and service improvement projects under CAREP which will benefit 20 villages in Jaffna, has been completed in 2013. Meanwhile, two major projects, the Kelani Right Bank and the Towns North of Colombo-Stage II, that benefits 1.25 million consumers in Colombo and Gampaha, were completed by NWS&DB in 2013 while over 30 other major projects progressed well during the year. Further, several other small water supply projects were completed island-wide during the year, benefiting around 300,000 consumers in Thampalakamam, Galigamuwa, Welimada town, Monaragala town, Kaduwela, Homagama and Avissawella regions.

The NWS&DB continued to expand its services to meet rising demand for pipe borne water. The NWS&DB provided 120,084 new water connections in 2013 compared to 137,874 in 2012. Accordingly, the total number of connections managed by NWS&DB reached

Table 3.8 Water Supply by National Water Supply & Drainage Board

Item	2012	2013 (a)	Growth Rate (%) 2012	Growth Rate (%) 2013 (a)
Total Number of Water Supply Schemes (b)	323	326	0.0	0.9
Total Number of New Connections provided during the Period	137,874	120,084	44.0	-12.9
Total Number of Connections (b)	1,587,663	1,707,747	9.5	7.6
Total Water Production (MCM) (c)	526	547	7.3	4.0
Unaccounted Water (%)				
Colombo City	49.2	47.5	-1.6	-3.4
Islandwide	29.9	30.2	-1.5	1.1

(a) Provisional
(b) As at year end
(c) MCM=Million Cubic Metres

Source: National Water Supply and Drainage Board

1.7 million, reflecting a 7.6 per cent increase over 2012. The proportion of unaccounted water in the country increased marginally to 30.2 per cent in 2013 compared to 29.9 per cent in 2012 while unaccounted water in Colombo city decreased to 47.5 per cent in 2013 compared to 49.2 per cent in 2012. In order to reduce the levels of unaccounted water usage, the NWS&DB has gathered necessary engineering knowledge through a consultancy service project carried out during the last three years. The NWS&DB aims to bring down the percentage of unaccounted water usage in the country to 20 per cent by year 2020 to help improve NWS&DB financial viability and for the efficient management of the scarce water resource.

The financial position of the NWS&DB remained steady in 2013. As per unaudited provisional financial statements, NWS&DB recorded an operational profit of Rs. 1.9 billion compared to Rs. 1.2 billion in 2012. This was the outcome of an increase in total revenue by 14.7 per cent to Rs. 18.3 billion and 11.4 per cent increase in operating expenditure to Rs. 16.4 billion, during the year. This revenue increase was mainly supported by the new tariff structure implemented in October 2012 as well as due to the increased number of connections provided.

Work on several major irrigation projects continued during the year. Rambakan Oya irrigation project which was implemented with local engineering technology was commissioned in 2013. This project will facilitate cultivation of around 3,500 acres while serving 2,300 families directly in Padiyathalawa, Rideemaliyadda and Maha Oya areas. Meanwhile, Deduru Oya, the largest irrigation project in the North Central Province is expected to be commissioned during the first half of 2014. The Deduru Oya reservoir project is expected to facilitate 15,000 farmer families to cultivate 27,500 acres while benefiting 50,000 families with domestic water supply. During the year, 14 other major irrigation projects, including the Menik Ganga Reservoir, Yan Oya Reservoir, Lower Uva Project, Galoya Nawodaya, Gurugaloya Project, Morana Reservoir progressed well. Further, several irrigational initiatives such as the diversion of Mahaweli water to Wayamba province and augmentation of Mahagalagamuwa tank commenced in 2013 and these initiatives are expected to irrigate 8,907 hectares benefiting 16,000 families. The expenditure incurred on major irrigation schemes during the year stood at Rs. 4.2 billion.

3.3 Social Infrastructure Policies, Institutional Framework and Performance

Health

An efficient and effective healthcare sector with reduced regional disparities and improved equity in accessibility to healthcare services has led to an improved state of public health in the country. Currently, the national health policy is focused on consolidating the gains made by the continuous public investment in the health sector through the reduction of the prevalence of communicable and non-communicable diseases (NCDs) and the enabling of individuals to improve the quality of their lives through the adoption of a healthy lifestyle. In addition, as outlined in the 'Mahinda Chintana - Vision for the Future,' there

has been increased emphasis on the reduction of regional disparities in the delivery of free healthcare services and ensuring the inclusivity of vulnerable sections of the population including those in estates, remote rural areas and former conflict and disaster affected areas. However, the gains made by the health sector are currently being challenged by the demographic transition triggered by the gradually aging population and declining fertility rates resulting in a constrictive population pyramid. The eventual decline in the share of the working age population and an increasing dependency ratio, will create an epidemiological transition from maternal and child health and infectious diseases towards NCDs. Therefore, the volume and types of health services provided by the public health sector needs to be improved further.

Despite the prevalence of a network of healthcare institutions, the lack of a clear demarcation of the roles of specialised hospitals and non-specialised primary care institutions is a hindrance in ensuring universal access to the health care system. Patients who seek curative care are provided with the liberty of accessing the required care from any institution without having to register with any health institution or office. This is in contrast to patients who seek preventive or community health services that need to register with the local Public Health Midwives or the Ministry of Health office. The ability to bypass primary care curative institutions and reach specialist institutions reduces the effectiveness of the health care service delivery expected from each of these institutions. Therefore, initiatives are being made to develop a cluster system whereby specialist hospitals (base hospitals and above) will be linked with the primary level institutions for referral and back referrals, ensuring that continuity of medical attention is in place. Patients may be referred for specialist care both during acute situations and on a regular basis for early diagnosis preventing development of any complications. Such a system will reduce the burden on specialist hospitals, helping the specialists to focus on patients who are in urgent need of medical attention and those with preventive referrals to ensure early diagnosis. This will help save resources and enable efficient allocation to other areas of importance such as research.

During the year, numerous measures have also been taken to improve the human resource and physical infrastructure base of the health sector. By end of 2013, there were 603 government hospitals with 74,636 beds in the country excluding beds in private hospitals, which amounts to 3.6 beds per 1,000 persons. There were 17,553 qualified doctors in the state health sector: a doctor for every 1,167 persons, and 30,928 qualified nurses: a nurse for every 662 persons, by end 2013. The cadre of the health ministry and provincial health departments were improved with new staff recruitments. Several physical infrastructure development projects, such as construction of a Cardio Thoracic Unit and Neurology, Nephrology and Orthopaedic wards at the Lady Ridgeway Hospital, Theatre Complex at Kegalle General Hospital, Expansion of OPD & Clinic Building at the National Eye Hospital in Colombo, development of the District General Hospital, Polonnaruwa, were underway to improve service delivery of the public health system in 2013.

Table 3.9 Salient Features of Health Services

Item	2012	2013(a)
1. Government (No.)		
Hospitals (Practicing Western Medicine)	593	603
Beds	73,437	74,636
Primary Health Care Units	480	481
Doctors	17,129	17,553
Assistant Medical Practitioners	1,061	1,057
Nurses	30,136	30,928
Attendants	8,403	8,091
2. Ayurvedic (No.)		
Ayurvedic Physicians (b)	20,712	21,061
3. Total Govt. Expenditure on Health (Rs. billion)	99.1	119.5
Current Expenditure	81.9	99.6
Capital Expenditure	17.2	19.9

(a) Provisional
(b) Registered with the Ayurvedic Medical Council

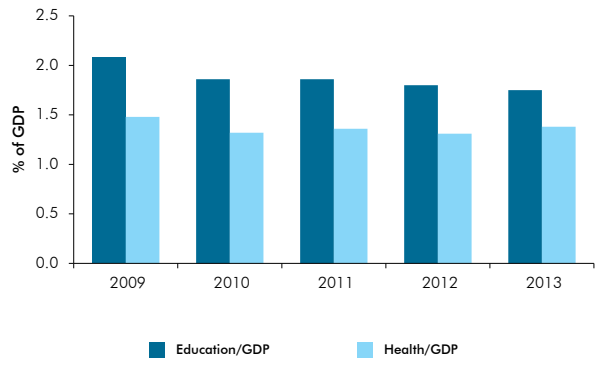
Sources: Ministry of Health
Department of Ayurveda
Ministry of Finance and Planning
Central Bank of Sri Lanka

In 2013, several measures were taken to address the prevalence of communicable diseases and issues related to maternal and neo-natal health. During the year, high vaccination coverage was maintained throughout the country with the coverage exceeding 95 per cent while surveillance of outbreaks of Measles, Dengue fever, Influenza A, and Influenza B had been undertaken. Accordingly, a supplementary immunisation programme was initiated for Measles for those within the age group of 6 – 12 months. The National Maternal and Child Health Policy was officially launched in August 2013 and is envisaged to provide appropriate guidance for districts health officers to develop their individual annual or bi-annual plans. Further, the government has allocated funds for free distribution of micronutrients for all school children and pregnant mothers. A review of deaths caused by dengue fever showed that mortality rate had declined from 1 per cent in 2009 to less than 0.3 per cent in 2013.

The threat posed by NCDs as the leading cause of mortality in Sri Lanka has led to a strong need for targeted measures to address these diseases. In addition to the increase in the aging population, urbanisation and changes in lifestyles have aggravated the epidemiological transition. A commendable initiative to curb the contracting of such diseases is the establishment of 'Healthy Lifestyle Centres' (HLCs) across the country at the primary healthcare level to increase awareness regarding the importance of adopting healthy lifestyle habits. As at end 2012, there were 574 HLCs functioning throughout the country and during 2013, initiatives were made to establish new units while strengthening the existing ones.

The increasing burden on the public health sector could be alleviated through the active and efficient participation of the private sector in healthcare service delivery while proper regulations should be in place to secure delivery of services at an acceptable standard. The number of registered private hospitals stood at 206 by end 2013 with a bed capacity of 5,309. Despite significant capacity expansion in government hospitals, including hospitals in rural areas, and the increased availability of specialised treatments, the demand for private health services has increased due to improvement in income levels and increased prevalence of NCDs which commonly requires treatment over longer periods of time. This has warranted the need for regulation of private health care providers to ensure that quality of healthcare provided is not compromised as a result of the increase in demand. The standards and guidelines drafted as minimum requirement for private hospitals, medical centres, full-time and part-time medical practices, full-time and part-time dental surgery practices, private medical laboratories and private ambulance services was in the finalisation stage. Also it is expected to establish and maintain proper information systems especially with regard to human resources, and communicable and non-communicable diseases. In addition, policy intervention is required to create effective regulations especially with regard to pricing of drugs and medical tests. Lack of awareness among patients about generic drugs creates opportunities for consumer exploitation in the guise of branded drugs from private healthcare providers. The effective regulation and monitoring of private healthcare providers, in addition to constant innovation and modernisation, can also help promote

Chart 3.6 Government Expenditure on Health and Education



Sri Lanka as a destination for 'medical tourism'. In this regard, active public and private sector participation is necessary to exploit the immense potential that lies in traditional medicinal sciences such as Ayurveda, which is becoming increasingly popular among the international community.

Education

The higher accessibility and quality of primary and secondary education provides the foundation for the knowledge based economic and social development which Sri Lanka is envisaged to acquire. As envisioned in the 'Mahinda Chintana' and 'Mahinda Chintana – Vision for the Future', the government aims to restructure the education system suitably, to provide an equitable and quality education for all, thereby transforming the country to become a key hub for knowledge and learning in Asia. This would lead to a paradigm shift in educational thinking which is expected to bring far-reaching changes in the sector. This shift needs to be supported through sound higher education systems, and technical and vocational education sectors that is linked with quality, recognition and employability.

Many initiatives have been taken by the government in recent years to strengthen the equitable dispersion of resource and opportunities. The Ministry of Education in association with national education agencies has formulated a medium term Education Sector Development Framework and Programme (ESDFP) 2012-2016 to uplift education in Sri Lanka which was supported by the Transforming School Education Project (TSEP) that worked to enhance the accessibility and quality of primary and secondary education. The TSEP has been designed to enhance access to primary and secondary education through improving opportunities and the quality of education while strengthening governance and delivery of education services. Provision of education opportunities with adequate facilities for children with special education needs has also been broadened. The flagship programme of developing 1,000 secondary schools and 5,000 primary schools under the education strategic plan continued in 2013. Under this programme, 100 schools from each district have been selected based on the poverty index to be developed as secondary schools offering all streams at GCE Advanced Level. Construction work of 20 new schools was completed during 2013 under the Secondary Schools Programme while the construction of 415 Mahindodya Technical Laboratories under phase II of construction had commenced in June 2013. The number of schools with less than 50 students continued to remain around 1,580 in 2013. Disparities in resource endowments were observed in such schools compared to national level schools, reflecting the need for rationalising the usage of existing resources. Several important steps have been taken for improving the education facilities in the Northern Province to create an environment that ensures commencement of education activities to the re-settled children. Under this, special financial grants have been awarded for development of 20 secondary schools. In 2013 a landmark change in education sector in Sri Lanka was taken through the introduction of 'Technology' as a subject stream for GCE Advanced Level. This initiative is expected to widen the opportunities in education for students who expect to follow university or technical and vocational education at the tertiary level.

ICT literacy in the country is following an exponential growth path towards achieving the target of 75 per cent in ICT literacy by 2016. Sri Lanka's Networked Readiness Index ranking has improved significantly. According to the Memorandum of Understanding signed between the Ministry of Education and Ministry of Youth Affairs and Skills Development, it has been decided to award National Vocational Qualification

Table 3.10 Salient Features of General and University Education

Item	2012	2013 (a)
1. General Education		
a. Schools (No.)	10,737	10,852
Government Schools	9,905	10,012
o/w National Schools	342	350
Other Schools	832	840
Private (b)	98	104
Pirivena	734	736
b. Students (No.) ('000)	4,194	4,231
c. New Admissions (No.) ('000) (c)	339	342
d. Teachers (No.) ('000)	236	236
e. Student/Teacher Ratio		
Government Schools	18	18
Other Schools	16	16
2. University Education (Government)		
a. Universities (No.)	15	15
b. Students (No.) (d)	70,222(e)	78,442
c. Lecturers (No.)	5,176	5,457
d. Number Graduated	11,614(f)	n.a.
e. New Admissions for Bachelor's Degrees (No.) (d)	28,908 (g)(h)	24,299(h)
3. Expenditure on Education (Rs. billion) (i)	136.2	151.8
Current Expenditure	107.3	119.8
Capital Expenditure	28.9	32.0

(a) Provisional
(b) Private schools approved by the government and schools for children with special needs (This figure excludes international schools which are registered under the Companies Act)

Sources: Ministry of Education
University Grants Commission
Ministry of Finance and Planning
Central Bank of Sri Lanka

(c) Government schools only
(d) In all Universities, excluding the Open University of Sri Lanka
(e) In 2012, student enrolment was less as the 2011 GCE (A/L) intake was not admitted due to court cases relating to the discrepancies in the Z-score. However, this decrease was not significant as the final exams and academic terms of some universities were not completed by the end of the year due to Academic and Non-Academic staff strikes
(f) Number graduated has been decreased in 2012 as final exams were not held in several faculties due to Academic and Non-Academic staff strikes
(g) Including 5,182 students admitted in addition to the normal intake due to court cases filed before the Supreme Court challenging the methodology used to calculate the Z-score
(h) Admissions in 2012 includes the intake from the 2011 GCE (A/L) but has been admitted only in 2013, while the admissions in 2013 shows the undergraduates admitted in the first quarter of 2014
(i) Government expenditure on general and higher education

(NVQ) for school children as they pass ICT at GCE (Advanced Level) and GCE (Ordinary level) examinations. Accordingly, 175 schools have been selected to conduct NVQ for GCE (Advanced level) students and 47 provincial and zonal ICT centres were selected to hold NVQ courses for school leavers. Scholarships have been granted for teachers to acquire International Computer Driving License (ICDL), Computer Assisted Learning (CAL) and International Pedagogical ICT Driving License (IPICT). In addition, e-Citizen training scholarships have been granted for school principals and education officers while scholarships have been provided to students and school leavers for acquiring short-term professional training and development programmes.

A remarkable transition is taking place in the Sri Lankan higher education sector in order to be in line with the demands of the dynamic new world. On that basis, the education sector is moving away from the traditional model into a competency based education system, aligning itself with the needs of the employers, leading to create a geographically fluid workforce. It is inevitable that the state monopoly in higher education will come under heavy pressure, as the government finds it difficult to keep pace with the demand for higher education. Moreover, the quality of education sought by the students and the standards offered by the universities has created a gap, which is difficult to be bridged with the resources available. Therefore, the courses offered in Sri Lankan universities need to be diversified while the skills level that students are exposed to acquire, needs to be broadened to give students an edge in the global market. In order to reduce the government monopoly in higher education, it is appropriate to move towards a more formal two-tier system, where state and private sectors competes with each other for academic excellence. A Standing Committee on Accreditation and Quality Assurance (SCAQA) has been formed to advise the Non-State Sector Division of the Ministry of Higher Education on the quality standards required to be maintained by the non-state sector higher education institutions. Further, amendments have been proposed to Section 128 of Universities Act No.16 of 1978 to be more specific on prohibitions imposed on persons and institutions to award any degree or academic distinction.

The University Grants Commission (UGC) which functions as the apex body of the University System continued to manage higher educational institutions ensuring smooth operations amidst several challenges during the year. In 2013, the number of students admitted to the University system was 28,908 under normal and special provisions for academic year 2011/12.

In addition, the UGC has given its approval for the 'technology' subject to be offered at GCE (advanced level) subject stream for university entrance and is gearing the universities to establish Departments of Technology in relevant faculties to enroll students accordingly by 2016. UGC has also granted approval for 26 new postgraduate degree programs in 2013. The Ministry of Higher Education has approved the degree awarding capacity to several new higher education institutes in 2013. Accordingly, the Institute of Chartered Accountants of Sri Lanka (ICASL), the National School of Business Management (NSBM), Sri Lanka International Buddhist Academy (SIBA) and the Colombo International Nautical and Engineering College (CINEC) were approved to confer selected Bachelor's Degrees. The increased opportunities of acquiring bachelor level qualifications in diverse fields are expected to bridge the wide gap between industry requirements and qualifications of job aspirants. The Ministry of Higher Education and the UGC have jointly commissioned an 'Innovative Research Grant Scheme' (IRGS) to harness research and development initiatives of national universities and higher education institutions. IRGS is expected to assist basic, applied and adaptive research activities promoting human resource development.

The Technical and Vocational Education and Training (TVET) sector actively contributed in strengthening the tertiary education in 2013. The demand for TVET sector is on an increasing trajectory due to many benefits it entails despite the limitation on academic and non-academic staff. There were 519 public institutions and 562 private and NGO institutions providing 1,601 accredited courses in technical and vocational education in the country at end 2013. Under the NVQ system, 22,855 NVQ certificates were issued to students by the Tertiary and Vocational Education Commission (TVEC) during the year. The Department of Technical Education and Training has enrolled students to its technical colleges in diversified fields such as building and construction, automobile repairs and maintenance, electrical, electronic and telecommunication, information and communication and multimedia technology and languages.

Housing and Urban Development

The government has taken many steps in 2013 in line with the 'Mahinda Chintana' to realise the national policy of 'house ownership for all' by 2020. The government strategy consists of a multidimensional approach of construction of new houses, renovation of existing housing facilities, financial assistance to construct houses, relocation from low quality houses, resettlement and confirmation of property rights. During the year, many families island wide benefited from housing programmes carried out under the above initiatives. Meanwhile, the Ministry of Construction, Engineering Services, Housing and Common Amenities released the 'National Housing Policy' for public comments in September 2013 which they plan to finalise during 2014. This will ensure the right of living in a stable, affordable and quality house with all facilities in an environmentally friendly atmosphere.

Several housing development programmes were continued in 2013 to increase housing facilities in the country. The Ministry of Construction, Engineering Services, Housing and Common Amenities spent over Rs. 7 billion in 2013 on 12 programmes that were initiated by the National Housing Development Authority (NHDA), Urban Settlement Development Authority (USDA), Condominium Management Authority (CMA) and Ocean View Development Private Limited. Over 21,000 families benefited from the Janasevena Housing Development programme of NHDA to complete their houses. Further, the 'Nagamu Purawara' housing infrastructure rehabilitation programme under the NHDA commenced rehabilitation of 26 housing schemes and CMA renovated 12 housing schemes benefiting 6,933

BOX 5 Transforming Colombo into a World Class City

Rapid urbanisation is taking place across the world with an increasing number of the world's population living in urban cities. The world's urban population is projected to grow by 72 per cent from 3.6 billion in 1950 to 6.3 billion by 2050[1]. In 1970, the world had only two mega cities which are defined as cities with populations of over 10 million persons - Tokyo and New York. By 2011, this had increased to 23 with more than half the mega cities located in Asia.

In Sri Lanka too, there has been an increasing shift of people to urban areas. Out of the total estimated population of 2.3 million in the District of Colombo, 77.5 per cent are classified as urban dwellers.[2] With major developments being carried out in the City of Colombo the number of residents and those commuting into the city are likely to increase rapidly.

A study[3] that was recently conducted identified 49 major projects[4] that have already commenced and are in the pipeline within the Central Business District of Colombo (CBD) that will transform the landscape of the city dramatically in the next 3 - 5 years. Upon completion of these projects, the built up area of the CBD is expected to increase by approximately 4 million square metres and is expected to add around 7,900 hotel rooms and 7,600 new apartments. In addition, it has been projected that these developments would generate an additional 175,000 commuters and residents into the city.[5]

Table B 5.1 Existing and Proposed Real Estate Stock in the Colombo Business District

		2013 (actual)	2020 (est)1/
High end condominiums	No. of units	1,800	9,400
4 or 5 star hotel rooms	No. of rooms	2,500	10,400
'A' grade office space	Sq. mt	83,000	537,000
Retail space	Sq. mt	12,000	366,000

1/ Based on a list of construction projects and development plans obtained from the UDA and the BOI that have been approved and are in the pipeline in the CBD that are expected to be implemented up to 2020.

A key feature of a world class city is that it must have a unique selling point and a brand identity. It should have a clear value proposition in order to attract the required skills and investments. The characteristics of a world class city are that it should be clean, green and people friendly. It should have sustainable urban infrastructure and services and an efficient and reliable public transportation system. Safety and security are also important features of a world class city. In the development of the City of Colombo, it is necessary that policymakers take note of these characteristics and seek to preserve them to ensure that Colombo becomes a smart city of choice for investors and businesses. Since infrastructure is one of the key elements that enable a city to compete with other cities in the region to attract foreign direct investment (FDI), it is necessary that the supply of infrastructure and utility services keeps pace with the growing demand.

In the light of this major construction boom that is taking place, it is envisaged that there will be a surge in demand for major public utilities and infrastructure, such as water, electricity, sewerage and storm water drainage, fire protection in buildings, solid waste management and transportation infrastructure. This could result in enormous pressure being exerted on existing infrastructure due to the demand generated from these projects. Accordingly, a study was commissioned recently to assess the capacity of the major utilities and infrastructure services to meet the existing and future demand arising from the emerging developments in the city. The key findings of the study are summarised below.

Water Supply: It is expected that the incremental demand generated from these new developments will be met provided the planned water supply augmentation projects and loss reduction projects are completed as scheduled. However, greater focus needs to be given to demand management with attention being paid to areas such as rain water harvesting, encouraging the use of water saving devices, and grey water treatment and reuse. These demand management measures would have the added benefit of reducing the amount of waste water discharged into the storm water drainage system, while reducing the pressure on the sewerage system.

Electricity: Colombo's peak electricity demand at present is 300 MVA. With the proposed developments, this is expected to rise to around 400 MVA by 2020. The 500 MVA grid substation that the CEB plans to commission for the Colombo Port area, is expected to be sufficient to cater to the incremental demand from port activities, the proposed port city development as well as the new demand emerging from the proposed developments in the CBD. However, other interventions may also need to be considered to reduce demand such as the construction of green buildings, the use of standby generators, education of the public on electricity conservation and the promotion of renewable energy sources such as solar and wind harvesting.

1 United Nations Department of Economic and Social Affairs, World Urbanisation Prospects: the 2011 Revision.
2 According to provisional data from the Census of Population and Housing of Sri Lanka, 2012, the population categorised as urban was less than 20 per cent of the total population of the country. However, many of the cities which have urban characteristics, such as high population and building density are not considered as 'urban' as per the census definition.
3 A study was conducted by a team led by Messrs. Ernst and Young to assess the infrastructure capacity and utility services gaps in the Central Business District of Colombo, which was defined for the purpose of the study as the area covering Colombo 1, Colombo 2 and Colombo 3.
4 Pipeline of projects were based on data from the BOI and UDA.
5 A total of 33 projects have been identified in the area outside the CBD (Colombo 4-15). These developments are expected to add a further 1.1 million square metres of built up area and attract another 105,000 commuters and residents to those areas. The study did not cover the proposed Port City development.

Sewerage: At present, one of the critical factors that is facing the city of Colombo is the capacity of the sewerage system which was established over a 100 years ago. Even with the planned interventions, it will be challenging for the sewerage system to meet the incremental demand arising from the proposed developments in the city. Hence, several additional interventions will be needed to ensure that this utility service does not become a bottleneck for the proposed developments. On the supply side, it would be necessary to upgrade the sewerage capacity to acceptable standards, while on the demand side implementing a sewerage tariff, in addition to promoting the conservation of water and encouraging rainwater harvesting are some measures that could be considered to reduce pressure on the sewerage system.

Solid Waste Management: The generation of solid waste has been projected to increase by nearly threefold by 2020, from the current level of 700 MT/ day in the Colombo Municipal area. Addressing this issue would also require a comprehensive review of the current solid waste management system. In addition to the development of an alternative sanitary landfill, it would be necessary to enforce the segregation of waste at source in order to reduce, reuse and recycle the waste generated, while providing incentives to encourage the conversion of waste to energy.

Fire Rescue Services: This was identified as another area that would require significant overhaul to address the emergence of ultra-high rise buildings, modern transport facilities, highways and expressways, facilities with large seating capacity and the conduct of international sporting events. Some of the issues identified were the need for greater capacity to handle emergency situations in ultra high rise buildings, the need for a more modern legal framework covering high rise buildings, the need for a system of cooperation between neighbouring fire service stations and the procurement of more modern equipment and international level training in fire safety and fire fighting techniques. Accordingly, several measures are proposed to improve fire rescue services, such as introducing a new Fire Services Act and revising the existing fire regulations particularly in relation to high rise buildings; enhancing capacity and equipment at fire stations; improving access to water in emergencies; establishing clear guidelines for the storage of hazardous materials and establishing standards for fire testing of materials used in construction. These initiatives must be pursued diligently over the next few years

Transportation: A clean and efficient public transport system that is energy-efficient and environmentally friendly would be a key ingredient in transforming Colombo into a world class city. Although there has already been a significant investment in roads, there has also been a rapid increase in the ownership of private vehicles. This has been reflected in the share of private transport which has increased from 33 per cent in 2004 to 42 per cent in 2013. This has created a challenging cycle, where more vehicles have resulted in greater congestion, leading to the construction of more roads which has once again led to an increase in private vehicles and congestion. In the light of these developments and to address the expectations of commuters for improved connectivity, priority needs to be given to improving the public transport system, managing the road network to improve safety and encouraging sustainable transport choices. In this regard, the Ministry of Transport has already taken steps to develop a Transport Master Plan which includes a multi-modal transport system encompassing both public and private transport choices. The proposed new developments, including a monorail and a Bus Rapid Transit (BRT) system, and improved multi-modal connectivity, especially between public transport modes would be necessary to position public transport as an attractive choice for commuters.

Transforming Colombo into a world class smart city will require taking into consideration land use patterns and population trends while being mindful of budgetary constraints. This would also require coordination between all the agencies responsible for providing utility and infrastructure services in the city to ensure a high level of service delivery that would meet the demand arising from the mega developments taking place in the city of Colombo. The interventions in this regard must be continued on a sustained basis, in order to meet the identified demand, and also to meet the needs of the city for the next 50 years. Maintaining a central database of all land uses and infrastructure facilities would also be necessary to enable the exchange of data and information sharing among relevant agencies, thus ensuring that the highest level of service is provided, while being ready to address any shortfall as and when it arises.

dwellers during the year. Meanwhile, freehold deeds were issued by the NHDA to 2,581 dwellers who reside in government housing schemes without proper ownership rights. The 'Mihindu Senpura' housing scheme in Dematagoda which was constructed by Urban Development Authority (UDA) was opened in November, 2013 which offered 500 housing units for underserved families. Additional 5,000 housing units through 10 other projects for underserved families are expected to be completed by UDA in 2014. The USDA commenced construction work of 1,019 housing units under Thalawakele-Lindula, Chilaw, Angulana and Lunawa housing programmes and Janasevena Diriya programmes during the year. Further, the USDA continued Janasewana Swashakthi Human Development programme with the objective of empowering communities in undeserved settlements. Initiatives were taken under this programme to support 35,000 low facility urban settlements through a participatory approach.

Urban development is one of the major drivers of economic growth. Well-planned, economically productive, environmentally sustainable, clean and healthy, and well secured cities and towns throughout the country will provide multi-faceted benefits to all stakeholders while boosting economic development. Urban development is essential in attracting foreign direct investments and private sector investments and establishment of world renowned companies. In addition, a better working environment, comfortable and diversed leisure activities, reduced vulnerabilities to natural disasters is expected to enhance the living conditions of urban societies.

The contribution of the UDA in the advancement of urban infrastructure, healthy living environment and improving the urban lifestyle has been commendable. During the year, many large scale projects were accomplished while several more projects were at various levels of implementation, striding towards a significant change in the landscape of cities in the country. Sri Lanka's second international conference hall 'Magam Ruhunupura International Conference Hall' in Hambantota which is equipped with state-of-the-art facilities was declared open in November, 2013. Further, the UDA has completed 35 other projects countrywide providing facilities for business activities, public utilities, township development, improving recreational facilities and city beautification. During the year, UDA has invested around Rs. 8.3 billion on 238 projects.

The Colombo city beautification and countrywide township development projects continued in collaboration with both local authorities as well as international organisations. The Wetland Park in Nugegoda, Waters Edge Hotel Landscaping in Battaramulla and beautification of Independence Square were some of the projects completed by the UDA in 2013 with the aim of beautifying the city of Colombo. Further, the township projects such as re-development of the Racecourse Ground and its Grand Stand was also completed in 2013. During the year, several types of projects, such as the construction of shopping complexes, bus stands, children parks, sports complexes, play grounds, vehicle parks, renovations of sacred areas and historical places in the capital city of Colombo as well in main cities countrywide were completed by the UDA.

Safety Nets and Poverty Alleviation

The sustained pace of inclusive growth seen in recent years has translated into a significant reduction in poverty levels. Preliminary findings of the Household Income and Expenditure Survey (HIES) 2012/13 indicate that poverty has declined to 6.5 per cent in 2012 from 8.9 per cent in 2009/10. The Gini coefficient has also improved to 0.48 in 2012 from 0.49 in 2009/10 reflecting a reduction in income inequality.

Table 3.11 Samurdhi Welfare Programme Number of Beneficiary Families and Value of Grants

Year	Income Supplementary Programme		Dry Ration Programme		Nutrition Programme	
	Number of Families (a)	Value (Rs. million) (b)	Number of Families (a)	Value (Rs. million)	Number of Families (a)	Value (Rs. million)
2008	1,631,133	9,967	102,662	1,457	86,480	386
2009	1,600,786	9,274	173,450	2,860	71,762	505
2010	1,572,129	9,241	30,320	1,016	61,495	388
2011	1,541,575	9,043	n.a.	100	44,739	600
2012	1,549,107	10,553	n.a.	54	55,299	250
2013	1,477,313	13,896	n.a.	33	40,403	204

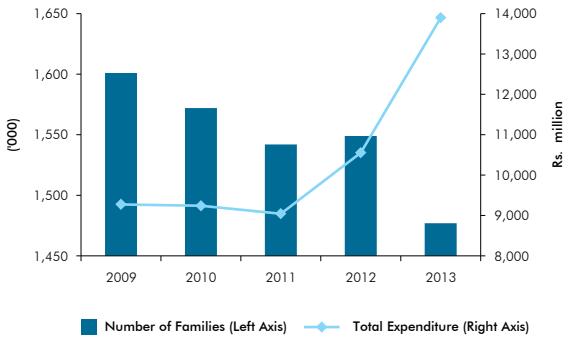
(a) As at year end
(b) Including the kerosene subsidy

Sources: Department of the Commissioner General of Samurdhi
Ministry of Finance and Planning

Numerous programmes were implemented during the year to improve the socioeconomic condition of low income households. The Samurdhi Authority of Sri Lanka provided various benefits to self-employed Samurdhi beneficiaries and low income households to uplift their living conditions under the Livelihood Development programmes. The total allocation for Samurdhi subsidy programmes in 2013 was Rs. 14.2 billion. Under these programmes, 1.5 million households benefited. The Samurdhi Social Security Fund has also consistently helped reduce the vulnerability of the poor to exigencies such as death, hospitalisation and child births. During the year, payments were made from this fund to 75,180 beneficiaries.

The Divineguma Development Department was established in early 2014 by consolidating the Samurdhi Authority of Sri Lanka, Southern Development Authority and Udarata Development Authority. This is expected to improve institutional strength to carry out development activities targeted at poverty alleviation, food security and individual empowerment through provision of micro-finance facilities, development of physical and social infrastructure, and development of human capital to improve the living standards of low income households. Therefore Divineguma is expected to mobilise people towards a national development process at the community level by establishing Divineguma community based organisations thus building regional, district and national level coordinating networks. The department aims to raise the living standards of 1.8 million families, benefitting five million individuals in line with the vision of 'Mahinda Chintana' on reducing poverty in Sri Lanka.

Chart 3.7 Number of Samurdhi Beneficiary Families and Expenditure



Environment

Sri Lanka adhered to sustainable environmental policies such as a policy on National Cleaner Production and National Policy on Climate Change to provide guidance and direction to address the adverse impacts on environment. In addition Sri Lanka is a signatory to different international treaties and has taken many proactive measures for conservation of environment and its related aspects. Further concern

on managing and protecting the environment is extremely significant, as many projects in Sri Lanka's steadfast movement towards growth, may result in environmental exposure, which need to be addressed cautiously without hindering growth. Meeting the delicate balance between growth and environmental protection is a universal challenge that needs to be addressed by every developing nation.

Sri Lanka continued to be involved in adaptation and execution of environment policies to ensure that the ecological impacts of economic activities are sustainable. The implementation of the National Climate Change Policy of Sri Lanka (NCCPSL) that was drafted in 2012 with the aim of mainstreaming climate change issues within the overall national efforts towards sustainable development, was carried out in 2013, while the Inter-Agency Coordination Committee on Climate Change (IACCCC) was also established during the year. The objective of the IACCCC is to guide the Ministry of Environment and Renewable Energy on climate change mitigation and adoption, while working to integrate climate change issues into the mandate of respective ministries and line agencies. Meanwhile in 2013, National Green Reporting System (NGRS) was also strengthened with the preparation of a database and web portal on NGRS. Under the 'Pavithra Ganga' programme, which was established with the objective of maintaining clean water bodies in the country, a user friendly software package for assessing data for the management of water and its quality was prepared in 2013. An agreement was signed in 2013 between the World Food Programme (WFP) and the Ministry of Environment and Renewable Energy on a project to address climate change impact on marginalised agricultural communities living in the Mahaweli river basin.

The Central Environment Authority (CEA) as the government authority with the mandate to integrate environmental considerations into the development process, continued activities to protect, manage and enhance the environment of Sri Lanka. CEA assesses the possible impact, a proposed project may have on the environment through issuance of Environmental Impact Assessment (EIA) and Initial Environment Examination (IEE) certificates. Accordingly, CEA has issued 6 EIA certificates in 2013 while 33 EIA reports are in the process of preparation. In addition, CEA has issued 303 IEE certificates in 2013. The Environmental Protection License (EPL) also continued to be issued to industries as a regulatory tool under the provisions of the National Environmental Act No: 47 of 1980. CEA in association with different local and international institutes organised the 17th EIA training for EIA regulators and practitioners in December 2013. In addition, CEA conducted many training programmes for teachers and school children in 2013. In order to address the issues relating to air pollution, vehicle emission standards have been developed and implemented through the Department of Motor Traffic. The production of digital district resource profiles and development of the Global Information System (GIS) database for solid waste management also continued during the year. Further the CEA was involved in monitoring major water bodies of the country on water quality, construction of large and medium scale cluster composting plants and strengthening the plastic waste collection and recycling network in the country during 2013.