Chapter 5

ECONOMIC AND SOCIAL OVERHEADS

5.1 Overview

The quality and coverage of the available physical and social infrastructure supported by an efficient and effective regulatory system constitute the crucial factors for creating a conducive investment climate in a country. However, as common to many developing countries, Sri Lanka is in need of substantial improvement in infrastructure facilities. The development of infrastructure responds positively to liberalisation, deregulation in some sectors and private sector participation as has been experienced in other countries. Sri Lanka is not an exception to this general rule. The need for creating a conducive environment for infrastructure development in Sri Lanka has been identified, but a vigorous pursuit of this goal has not been followed adequately or continuously.

Many enterprises supplying infrastructure services are owned by or remain monopolies of the government. Services rendered by many of these are below the expected service norms, while being unviable and therefore dependent on government assistance, although they could be profitably run. To address these issues and improve the investment climate of the country, a wide range of reforms has already been suggested and some are being implemented in areas such as electricity, petroleum, passenger transportation, air transportation, telecommunications, postal services, and port services. The common features of these reforms are that: the supply of services should be on a competitive basis; services should be provided at affordable and cost effective prices; and be operated by public-private partnerships (PPP). With private sector participation, inefficient public sector enterprises are expected to operate efficiently under self-financing mechanisms, thereby reducing the burden on the state. Other advantages of PPP include expansion of services, risk transfer from the public sector to the private sector and possibility of adopting international best practices in terms of technologies and managerial skills. Further, it would promote local entrepreneurship and help deepen the local capital market.

The government has a major role to play under PPP, as private sector participation has not always been a success or adequate in some areas. The reasons for recent failures in some PPP were due to poorly structured arrangements and the absence of important checks and balances. Similarly, setting up a strong and efficient regulatory mechanism to monitor standards and guidelines to safeguard the public interest is important, if the sector remains a monopoly or a close oligopoly. The Public Utilities Commission of Sri Lanka established under Act No. 35 of 2002 is expected to carry out such regulatory functions, initially covering the electricity, water and petroleum sectors.

In 2003, further progress in reforms was evident particularly in the petroleum, electricity, and rail transportation and telecommunication sectors. The domestic petroleum market was opened for competition thus ending the monopoly in petroleum importation and distribution. Lanka Indian Oil Corporation (LIOC) commenced retailing of petroleum products from March 2003. A third player in importing and distributing petroleum products is expected to commence operations in 2004. In the petroleum sector, a common user facility company, Ceylon Petroleum Storage Terminals Ltd (CPSTL) to manage key petroleum infrastructure such as oil terminals, storage facilities and pipelines, was set up. The formula based petroleum pricing policy was continued, though there were some interventions, particularly during the Iraq war, when international petroleum prices were unusually high temporarily.

Restructuring of the electricity sector, mainly by unbundling the key activities of the Ceylon Electricity Board (CEB), was in progress in 2003. However, CEB faced a severe capacity shortage in the latter part of 2003 due to the drop in reservoir water levels, as there were no adequate alternative energy sources. Due to the high cost of power generation, CEB's financial position continued to be weak in 2003. A solution to both inadequate capacity and high cost power is to secure low cost large-scale power sources such as coal power as early as possible. Though the system loss of the CEB declined slightly in 2003, it still remains high at around 19 per cent, requiring the power authorities to take appropriate action to bring it down to an acceptable level.

In terms of the Railway Authority of Sri Lanka Act No. 60 of 1993, the Sri Lanka Railway Department was converted to an Authority in July 2003. In the new structure, rail services are expected to operate in a commercially viable manner, thereby reducing the burden on the budget. However, due to resistance from unions, a noteworthy improvement could not be made in the rail services, except for the implementation of the fare revision. Air transportation revived with the increase in tourism, recovery in the world aviation industry, negotiations with a number of countries to increase the number of services as well as destinations and reforms in the institutional structure by establishing the Civil Aviation Authority of Sri Lanka (CAASL) in place of the Department of Civil Aviation.

The reforms in the telecommunications sector continued in 2003. They included liberalising external gateway operations, and improving technology by introducing a 10 digit numbering system for telephones and continuation of tariff rebalancing process. Harnessing the further potential of the sector was impeded as a result of underdevelopment of bandwidth expansion, restricted licensing, and prevalence of regulatory risks.

Reforms in other infrastructure facilities such as restructuring state owned bus companies and postal sector reforms were also further delayed. In 2003, port services displayed a strong growth supported by recovery in domestic and international trade, improved productivity at the Port of Colombo and effective marketing of port services. The housing market further expanded benefiting from the stable macroeconomic environment, declining interest rates and rising income levels.

The public sector health services were crippled by sporadic labour disputes in 2003. Health and education reforms were in progress but at a slower pace. Although the provisions in the Welfare Benefit Act were not yet implemented, the number of Samurdhi beneficiaries dropped due to strict controls and various income enhancement programmes.

The total government investment in infrastructure increased marginally to 4.4 per cent of GDP in 2003, reversing the declining trend observed in recent years. Government investment in economic infrastructure was maintained at 3.3 per cent of GDP, while investment in social infrastructure increased to 1.1 per cent of GDP.

TABLE 5.1
Government Investment in Infrastructure

Year	Economic Services		Social Services		Total	
	Rs.bn.	% of GDP	Rs.bn.	% of GDP	Rs.bn.	% of GDP
1993	29.6	5.9	6.1	1.2	35.7	7.1
1994	29.3	5.1	7.7	1.3	37.0	6.4
1995	36.1	5.4	9.9	1.5	46.0	6.9
1996	31.4	4.1	10.3	1.3	41.7	5.4
1997	32.5	3.6	11.6	1.3	44.0	4.9
1998	44.7	4.4	15.5	1.5	60.2	5.9
1999	44.9	4.1	17.5	1.6	62.4	5.6
2000	54.7	4.4	16.5	1.3	71.1	5.7
2001	54.9	3.9	14.6	1.0	69.5	4.9
2002	51.7	3.4	15.7	1.0	67.4	4.3
2003(a)	58.7	3.3	19.2	1.1	77.9	4.4

(a) Provisional Source: Central Bank of Sri Lanka

5.2 Health

The status of health of a population reflects the nature of the human capital endowment of the country, which is an important factor in the production process and in achieving development goals. The other dimensions of human capital, namely education, training and skills development are also largely dependent on the status of health. A healthier workforce means higher productivity. Since independence, public expenditure on health services has been high in Sri Lanka. As a result, Sri Lanka, in terms of key health indicators such as life expectancy and mortality rates, stands well above comparable developing countries and is on par with many developed countries. However, these achievements are now being threatened by emerging and re-emerging communicable and non-communicable diseases, demographic transition, high malnutrition among children, accidents, suicides, substance abuse, lack of a clear health policy, financial constraints and weaknesses in the institutional set up and human resource management. In recent years, government has not been able to maintain the same level of investment in the health sector as in the past due to budgetary constraints and due to other priority expenses, such as financing the war. Financial constraints have been central to most of these issues in the health sector. Therefore, alternative sources of financing need to be explored to maintain the current status of health, as well as for further improvements.

At present, the government's share in total health expenditure in the country is around 50 per cent, while the balance is financed by households (about 43 per cent in 1997) and employers, insurance and non-profit organisations (7 per cent).[1] A large part of public expenditure on health (about 90 per cent) and almost all private expenditure on health are on curative healthcare services. According to the Household Income and Expenditure Survey – 2002 of Department of Census and Statistics, the average household expenditure on health and personal care was 4.2 per cent of the total monthly household expenditure. Underfunding of preventive healthcare poses great risk to the health status of the country. The promotion of preventive healthcare services would reduce morbidity to a great extent. The government would be able to divert the required funds to preventive healthcare services by targetting public health services to needy households. In this respect, alternative financing sources, such as establishment of paying wards in hospitals, promotion of voluntary health insurance, encouraging greater financial autonomy for government hospitals and promotion of private investment in the curative health sector could be considered. This would enable government to divert more funds for preventive healthcare services and for health care needs of the deprived.

Key recommendations made by the Presidential Task Force (PTF) in 1997 continued to be implemented in 2003. Under the project to develop at least one hospital in each district, 32 hospitals from the Western medicine system and 23 hospitals from the indigenous medicine system have been selected for development. The Polonnaruwa general hospital and the Hambantota base hospital have already been developed as pilot projects. In order to provide quality health care services in the estate sector, 22 estate hospitals have been taken over by the government and are being developed. Action has been taken to decentralise mental health care services in order to promote accessibility. Implementation of health sector reforms has been slow, mainly due to financial constraints and lack of commitment.

[1] Sri Lanka National Health Accounts - June 2002, Ministry of Health, Nutrition and Welfare and Institute of Policy Studies.

TABLE 5.2

Public Health Services

Item	2001	2002	2003(a)
Hospitals			
(practicing Western medicine) (No.)	585	605	606
No. of beds	58,833	59,781	61,808
Central dispensaries (No.)	389	385	387
Total no. of doctors	7,235	7,459	8,342
Total no. of Asst. Medical Practitioners	1,330	1,295	1,289
Total no. of Ayurvedic physicians	16,130	16,455	n.a
Total no. of nurses	15,061	16,139	16,711
Total no. of attendants	7,163	6,955	6,880
Total health expenditure (Rs.bn)	18.8	24.9	27.5
Current expenditure (Rs.bn)	14.8	20.2	22.1
Capital expenditure (Rs.bn)	4.0	4.7	5.4

(a) Provisional Sources: Ministry of Health, Nutrition and Welfare Central Bank of Sri Lanka

There were 606 government hospitals at end 2003, with 61,808 beds. According to the Ministry of Health, there were 178 private medical institutions with 9,000 beds. Further, there were 49 public Ayurvedic hospitals with 2,567 beds. Accordingly, the number of beds per 1,000 persons has been estimated to be 3.8 at end 2003. The number of qualified medical officers in the public health services increased by 12 per cent to 8,342. It has been estimated that there were about 800 qualified doctors in private practice. Accordingly, the number of persons per doctor dropped to 2,104 at end 2003. In addition, there were 1,289 Assistant Medical Practitioners (AMPs) attached to government hospitals. The number of nurses in government hospitals increased by 4 per cent to 16,711 at end 2003. According to the Ministry of Health, there were an estimated 8,000 qualified nurses attached to private medical institutions, thus increasing the number of nurses per 100,000 persons to 123 at end 2003 from 121 a year ago. Both government and private medical institutions suffer from lack of trained health personnel particularly nurses and other para-medical staff. There are better employment opportunities in the foreign labour markets also for these categories of employment. Therefore, it is necessary to take appropriate measures to increase training opportunities for health personnel in the country with the support of the private sector.

The year 2003 was characterised by frequent disruptions to the smooth conduct of public health services due to labour disputes. The health sector lost a large number of mandays of service of medical officers and other health workers in 2003 due to strikes, creating much hardship to patients. The dispute illustrates that key health workers were of the view that they were inadequately compensated so that the return on their investment is very low. In this case it would be difficult to retain skilled health workers in the system, while future investments in the health profession also would be affected. At the same time payment of a reasonable return on investment also would not be feasible within the existing framework under government control. In 2003, major outbreaks of communicable diseases have not been reported as disease surveillance activities were strengthened, especially on Dengue Fever (DF)/Dengue Hemorrhagic Fever (DHF), hepatitis and measles. However, there were 4,672 DF/DHF suspected cases and 32 deaths due to DF/DHF reported in 2003, which were about 50 per cent lower when compared to 2002. There were no Severe Acute Respiratory Syndrome (SARS) cases reported in the country.

TABLE 5.3

Performance of Private Hospitals[a]

	2002	2003(b)	Change (%)
1 Hospital beds	668	661	-1.0
2 No. of patients			
In-patients ('000)	23	23	-2.8
Out-patients(OPD)(,000)	388	363	-6.3
3 Doctors			
Permanent	66	70	6.1
Visiting	553	650	17.5
Part-time	90	110	22.2
4 Nursing staff			
Nurses	751	857	14.1
Qualified	416	506	21.6
Trainees	335	351	4.8
Attendants	206	338	64.1
5 Other staff			
Technical staff	154	148	-3.9
Administative staff	132	146	10.6
Other (labourers etc.)	464	559	20.5

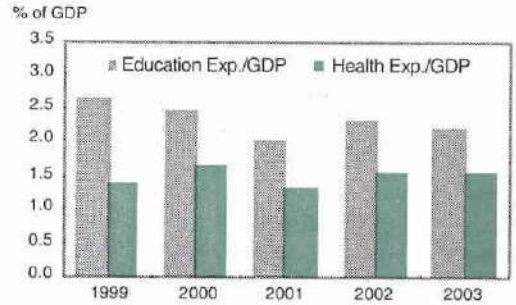
Source: Central Bank of Sri Lanka

(a) Based on information reported by 20 private hospitals located in the Western Province (12), Southern Province (3), Central Province (1), North Western Province (2), Eastern Province (1) and Uva Province (1).

(b) Provisional

The Ministry of Health was implementing several programmes aimed at improving healthcare services and health infrastructure. The National Commission on Macroeconomics and Health (NCMH) established in 2002 continued its activities in 2003 with a view to examining and exploring avenues to generate finances for the health system. The NCMH conducted several rounds of meetings and workshops to formulate policies in 2003. The preparation of a Master Plan for strengthening the health system was in progress in 2003. The Master Plan is expected to cover areas such as reorienting the Ministry of Health's focus on the emerging needs, strengthening decentralised management, maintaining balanced allocation of

Chart 5.1
Government Expenditure on Health and Education



health resources, establishment of sustainable financing mechanisms and enhancing financing of community based strategies. Construction work on the Sirimavo Bandaranaike Specialised Children Hospital at Peradeniya was nearing completion in 2003. The total cost of the project is projected to be Rs.610 million. The JBIC funded Blood Bank Development Project and the World Bank funded Human Resources Development Programme were in progress in 2003.

5.3 Education

General Education

The national education system that underwent several phases of reform since independence, is yet to reach an acceptable level of standard in terms of producing required skills demanded by changing labour market requirements, which casts doubts on the efficacy of those reforms. A recent survey undertaken by the National Education Commission (NEC) reveals that extensive politicisation of the education system at all levels, lack of co-ordination among policy makers, inefficiency and incompetence in policy implementation and a lack of motivation of service providers are the major issues in the current education system. The NEC has made a set of recommendations to overcome those problems. The recommendations include enhancement of educational opportunities, curriculum renewal, professional development of teachers and principals, improvement of education, governance and resource allocation and efficient utilisation. However, those recommendations did not contain a sustainable financing strategy except depending on public funds. As budgetary resources for the development of education are insufficient, successful implementation of the aforesaid reforms depends on the identification of alternative sources of resources, promoting private sector participation and accepting it explicitly as a policy of the country.

The existing education system is a result of several waves of reforms. The most recent reforms took place in 1998. As a result, enrolments in primary, junior and secondary education have improved while dropout rates have declined. The primary education enrolment ratio increased in 2003, while the drop out ratio declined. However, many schools, particularly those located in rural areas, continued to suffer from a lack of basic infrastructure facilities such as buildings, laboratories, libraries, educational equipment and other ancillary facilities.

By end 2003, there were 10,475 functioning schools, including private schools and pirivenas. The student population in all schools declined by 2 per cent to 4,097,336 in 2003. On average there is a school for every 6 sq kms in the country. The average number of students per government school dropped from 410 in 2002 to 402 in 2003. The pupil/teacher ratio in public schools was 21 in 2003. At end 2003, there were 85 private schools with 55,725 students.

With a view to reducing the regional disparities in the education system, several steps have been taken to improve educational infrastructure facilities in the plantation sector, junior secondary schools in rural areas, and schools in conflict affected areas. The development of a few selected schools on a district basis also continued as a country strategy for reducing congestion in urban schools, especially in main towns. Teacher training and skills development have been recognised as vital factors for effective implementation of education policy. To overcome the existing shortage of trained and qualified teachers, in 2003, a total of 3,848 trainees have been admitted to colleges of education. Foreign training opportunities were also provided to a few teachers and principals. Although there is an excess of teachers in general, shortages of teachers exist in the areas of English, Aesthetic Studies and in technical subjects. As proposed in the educational reforms, action is also being taken to rectify those disparities.

In view of recent productivity growth in developed and emerging economies, largely attributable to the adoption of Information and Communication Technology (ICT), a need has arisen to develop ICT training at the school level. During 2003, a total of 292 information technology centres were established in schools, and 1,800 teachers were provided with training on information technology.

The second General Education Project funded by the World Bank continued to provide assistance in curriculum development, publication of text books, rationalisation of schools, supply of quality inputs particularly teaching materials in subjects such as Science, Mathematics, Environmental Science and English to schools, development of libraries and educational research and studies. The World Bank funded Teacher Education and Teacher Deployment Programme financed projects designed for rationalisation of teacher deployment, improvement of teacher education, and strengthening of administration and management in teacher education institutions. The secondary Education Modernisation Project continued in 2003, implementing several programmes for the improvement of the quality of education by strengthening the teaching and learning process.

Student welfare programmes, such as distribution of free uniforms, textbooks, and provision of subsidised bus season tickets, were continued in 2003. Total government expenditure on these programmes amounted to Rs. 1,820 million in 2003. A multiple textbook system was introduced in 2003 to encourage students towards self-learning.

Total government expenditure on education, including higher education, was Rs 39,116 million in 2003, a 5.1 per cent increase over the previous year. Total expenditure as a per cent of GDP was 2.2 per cent in comparison to 2.4 per cent in 2002.

Higher Education

Government is the sole operator of accredited universities in Sri Lanka at present. All 12 national universities and the Open University are run by the public sector. Due to limited opportunities available at the universities, there exists a large excess demand for university education. For example, in 2003, a total of 213,201 candidates appeared for the G.C.E.(A/L) examination. Of these, 44 per cent obtained the minimum

TABLE 5.4
General and University Education

Item	2001	2002	2003(a)
General education			
1. Total schools	10,552	10,508	10,475
Government schools (b)	9,891	9,829	9,790
o/w National schools	320	323	323
Other schools	661	679	685
Private	78	80	85
Pirivena	583	599	600
2. Pupils ('000)	4,337	4,179	4,097
3. New admissions ('000)	330	325	316
4. Teachers ('000)	198	196	195
5. Pupil/Teacher ratio (government schools)	22	22	21
6. Government expenditure on education (Rs. bn) (c)	28	37	39
Current	23	31	32
Capital	5	6	7
University education			
1. Universities	13	13	13
2. Students (d)	48,061	48,666	59,734
3. Lecturers (e)	3,268	3,390	3,543
4. Number graduating	8,896	9,027	n.a.
Arts and Oriental studies	3,256	3,288	n.a.
Commerce & Management studies	2,367	2,018	n.a.
Law	182	170	n.a.
Engineering	653	1,060	n.a.
Medicine	801	754	n.a.
Science	1,052	1,159	n.a.
Other	585	578	n.a.
5. New admissions for first degrees	11,962	12,144	25,471(f)

Sources: Ministry of Human Resource Development, Education and Cultural Affairs
University Grants Commission
Central Bank of Sri Lanka

(a) Provisional
(b) Excluding non-functioning schools
(c) Includes government expenditure on higher education
(d) Excluding the Open University of Sri Lanka
(e) At the beginning of the year
(f) Students qualified from GCE (A/L) held in August 2001 and April 2002 (13,040) were admitted in 2003

qualifications required to enter a national university, but only 13,040 students, about 14 per cent of eligible students, were granted admission to national universities. Meanwhile, the existing university system in Sri Lanka has produced a large number of graduates who could not be employed unless further job related training is provided. This is due to a lack of curriculum reforms in line with changing needs of the labour market, lack of choice of courses, and resource constraints to implement reforms. Therefore, a large number of Sri Lankan students who can afford foreign university education leave Sri Lanka annually. Due to the present level of economic development in Sri Lanka, many cannot afford foreign university education, thus, barring them from acquiring skills needed to meet the growing demand for human capital. Hence, fostering competitive accredited universities with private sector participation could generate human capital needed for Sri Lanka's own development, and could also be an important tradable service.

As stated in the Central Bank Annual Report for 2002 (P.124) Sri Lanka's state sector universities suffer from a dearth of funds so as to introduce any worthwhile reform programme, on the one hand, and retain the services of competent academic, on the other. The dependence on the state sector solely for funding the universities without exploring alternative sustainable sources has created a major impediment for the university system to keep pace with the developments in the rest of the world. To complicate the matter, an unsalutory development has been the occurrence of frequent student disputes that result in prolonged closure of universities, thereby reducing the number of effective academic days. As a consequence, the universities have not been able to follow a pre-announced academic calendar as is being followed by universities in the rest of the world, including neighbouring India. The failure to complete a pre-announced academic programme coupled with diminished morale of students due to uncertainty, substantially reduced the quality of the graduates, as experienced by many prospective employers who in turn have expressly preferred professional qualifications in the young employed over academic qualifications.

A sad observation has been that student leaders and many university academics who appear in public fora seen to be oblivious to this alarming development. Instead of creating a positive mind-frame in students, the blame for the plight in the public university system is squarely placed on elsewhere leading to violent uprisings in the universities that destroy the true academic spirit that should prevail for intellectual advancement. It is therefore, high time for all stakeholders in the university education viz., academics, students and taxpayers to initiate a conflict resolution process to search for answers for the deepening crisis in the system.

The private sector is mainly engaged in the provision of professional education, particularly in the areas of accountancy, management and information technology. Although there are provisions in the existing Universities Act No. 16 of 1978 to recognise degree courses conducted by private institutions, the process for this is not clear. The University Grants Commission (UGC) has granted degree-awarding status to conduct some particular courses. Meanwhile, some private institutions conduct courses leading to degrees in collaboration with foreign universities. However, it is expected that the quality and market relevance of degree programmes conducted by public and private universities will be improved in an competitive environment.

In addition to state-run universities, there are several other public and private institutions, which conduct courses mainly relating to information technology and some other professional subjects. The Sri Lanka Institute of Information Technology enrolled 2,700 new students to its IT based courses. New admissions to courses in the Open University were 11,000 in 2003. In addition, the Institute of Chartered Accountants of Sri Lanka, the National Institute of Business Management, and the Sri Lanka Law College were the major providers of professional education.

Box 11

Youth Corps

The establishment of youth corps, in terms of the Youth Corps Act No 21 of 2002, was a mechanism to mobilise unemployed youth to centres, provide them with self-development and vocational training, and make them employable by prospective employers. Such a mechanism is an effective intervention by the government when there is a mismatch between the job requirements and available skills.

The overall unemployment rate in Sri Lanka has been on a declining trend since the 1980s. It has declined to a level around 8 per cent at present. However, unemployment among educated youth has been much higher than the national average and is on the increase. The mismatch between educational attainments and labour market requirements has been cited as the main contributor to this alarming development. High unemployment among the youth has its economic, social and political implications. The youth corps intend to bridge the gap between the labour market requirement and level of skills, while meeting employment expectations of the youth. In addition to formal education, those who seek employment in modern labour markets require proficiency in foreign languages and a high level of computer literacy, as well as qualities such as versatility, flexibility and adaptability, confidence to take up challenges, a positive work ethic, high productivity, discipline, leadership, dedication, commitment and teamwork. Opportunities are not available for many students who complete the current formal education to attain these qualities. The youth corps are expected to fill the gap so that the youth would be able to secure gainful employment in the competitive labour market. It has been planned to provide training initially to around 40,000 unemployed young persons under the youth corps programme. For this purpose, 160 youth corps centres, each with the capacity to train 250 persons at a time, has been planned to be set up at electorate levels. The period of training will be 18 months. Accordingly, when the programme is fully operational, 40,000 youth could be trained in every 1 1/2 years. The basic qualifications to enrol in the youth corps is passing the GCE (O/L) examination with six subjects in not more than two sittings and be in the 18 – 28 year age group. The trainees (called 'Rangers') are paid a monthly allowance of Rs. 2,000. The government has allocated Rs. 1,000 million in 2003 and Rs. 1,500 million in 2004 for the implementation of the youth corps programme.

The youth corps training comprises five main phases :

1. **Basic training (10 weeks):** For training the youth as a dedicated and disciplined force that could work as a team.
2. **Outward-bound training (1 week):** To develop planning, leadership, teamwork capabilities, and confidence building to face challenges.
3. **Development work (25 weeks):** To provide opportunities to learn and serve the country, while feeling a sense of dignity of labour, work ethics and best practices of national service, including leadership, team building, dedication and self-reliance.
4. **Vocational training (35 weeks):** To equip youth with employable skills to find employment or to start their own enterprises.
5. **Post training tracking (on a regular basis):** To review the progress of youth corp activities quantitatively and qualitatively.

The development work programme is implemented with the help of sector institutions and electoral working committees, district coordinating committees and national steering committees established for implementation of the youth corp programme. Vocational training is provided with the help of existing training institutions run by the government, private sector and NGOs. Career guidance and counselling will be important components of the youth corps programme and will run through the entire period of 18 months.

During 2003, training was provided to 850 youth (called as youth corps leaders) who would, in turn, be involved in the training of rangers in youth corps centres. A total of 19 youth ranger-training centres have been established in 2003 and during the first two months of 2004. A total of 3,386 rangers were undergoing training at these centres. The balance training centres are to be established in 2004.

The youth corps programme is a novel idea introduced for solving the unemployment problem among the educated youth in a sustainable manner. It would be important to ensure that the young rangers are provided with knowledge on financing of self-employment projects, basic bookkeeping, marketing, current economic policies etc., as that could be useful in case they decide to undertake such projects after their training.

Technical Education and Vocational Training (TEVT)

The emphasis placed on general and university education and the oversight of the importance of technical and vocational training have partly been responsible for a shortage of skilled manpower, and hence, unemployment among the educated youth.

The institutions involved in the TEVT sector continued to provide job oriented training as well as skills development programmes aimed mainly at school leavers. Vocational education reforms were introduced recently with a view to developing technical capabilities and promoting skills that are essential for industrial development and diversification as well as to generate self-employment opportunities. With the assistance of international donor agencies, the government continued TEVT sector reforms in 2003. Skills development projects funded by the Asian Development Bank (ADB) have expanded their activities in order to improve the quality and relevance of training in private sector training institutions.

The Tertiary and Vocational Education Commission (TVEC) is the policy making institution in this sector. Other institutions involved in TEVT are the Department of Technical Education and Training (DTET), Sri Lanka Institute of Advanced Technical Education (SLIATE), the Vocational Training Authority (VTA), and the National Institute of Technical Education of Sri Lanka (NITESL). In 2003, these institutions together trained 56,192 youth in various areas of vocational training. The DTET conducted its training courses at certificate level through its 36 technical colleges. A total of 17,339 students enrolled for these courses in 2003. SLIATE conducted diploma level courses in the fields of Engineering, Information Technology, Agriculture, Commerce and Business Studies and 2,308 students were trained in 2003. A total of 22,773 students enrolled for courses conducted by VTA through vocational training centers during the year. NITESL is mainly involved in teacher training and curriculum development in the entire technical education and vocational training sector in the country. It has conducted 15 short-term teacher training and skills development programmes and 3 Information Technology courses of 6 months duration for 1,561 teachers and instructors in the TEVT sector during 2003. Meanwhile, a total of 13,772 trainees were enrolled by the National Apprenticeship and Industrial Training Authority (NAITA) for 101 courses for technicians. It has been observed that physical infrastructure in some of these institutions is largely under-utilised and there is a greater potential to further expand services provided by these institutions.

Improving the quality and relevance of vocational training through enhancing the competence of teachers and curriculum development, and upgrading existing infrastructure in training institutions, are the major challenges and issues in the sector.

Education being an inter-temporal investment, i.e. investments today will bring returns in the future, requires to take cognizance of the structural changes in production, distribution and consumption and produce the skills to meet the future requirements. The first grade technology that would command mastership in the future world would comprise genetic engineering, nano- technology and distributed intelligence in computer technology and a race has already begun in the developed world to gain superiority in these areas. The future job market is globalised and will take the form of off-sharing (setting up production centres in less costly countries), outsourcing (engaging low cost entities to produce needed inputs), insourcing (pooling of resources in the same entity to attain optimal output) and smart sourcing (engaging high tech specialised agencies to produce specific outputs). Hence, the current education planning should prepare today's students to be a part of the future world economy, for otherwise all worthwhile jobs would be grabbed by Sri Lanka's competitors, such as India, Singapore, Thailand and the Philippines. This should receive the highest priority in education planning and resource allocation, in order for Sri Lanka to avoid repeating another episode of 'missing opportunities' in the future.

5.4 Communication Services

Telecommunications

Rapid development in the telecommunications industry is a global phenomenon. Fixed access and mobile cellular services grew internationally by 11 per cent in 2003. In Sri Lanka, the telecommunications sector, supported by a more liberalised market environment, showed a sharp expansion in 2003. The subscriber network for fixed access and mobile cellular services grew by 29 per cent compared to 21 per cent in 2002. The growth reflects the sharp expansion in the mobile cellular market, which grew at 50 per cent in 2003. The main factors behind this rapid growth have been liberalisation, private ownership and increased competition. The subscriber base of fixed access telephones increased by 7 per cent to 939,013 in 2003.

The Telecommunications Regulatory Commission of Sri Lanka (TRCSL) introduced three major reforms in 2003, namely, opening up of the external gateway for competition, introduction of 10 digit numbering system, and the completion of the fifth and final tariff re-balancing of the Sri Lanka Telecom (SLT). Opening of external gateway operations terminated the monopoly enjoyed by SLT. As a result, 32 licences were issued to private parties to operate external gateways by end 2003, and it resulted in a reduction of international direct dialing (IDD) call charges by over 50 per cent since March 2003. IDD calls also grew considerably and the number of subscribers for IDD facilities provided by SLT alone increased by 25 per cent. The final tariff re-balancing, as stipulated in the shareholders' agreement signed by the Government of Sri Lanka (GOSL) and Nippon Telegraph and Telephone Corporation of Japan (NTT) in August 1997, removed the cross subsidy from international calls to local calls to a large extent, which resulted in an increase in the monthly rental for residential telephones to Rs. 594 from Rs. 240, while providing the first 200 units free of charge. The discount time period has also been extended by an hour, benefiting Internet and e-mail users.

The introduction of a 10 digit number system accommodated the increasing demand for telecommunication services in line with regional and international standards. The long-awaited Calling Party Pays (CPP) scheme was to be implemented from 2004. The implementation of this scheme would have resulted in incoming calls being free of charge, but outgoing calls would have had a higher tariff. However, the scheme was postponed due to disputes relating to outgoing call charges. The progress of the National Telecommunications Policy has been suspended, contributing to increased regulatory uncertainty. The uncertainty is manifested in the lack of clear procedures in applying for and granting new licences to operate both fixed access and mobile telephone services, and insufficient regulatory strength.

The reform process that began in 1981 made Sri Lanka's telecommunication sector the most liberal sector in South Asia by end 1990s. This gave impetus to the development of the information technology industry in Sri Lanka. However, further expansion of the industry to compete with other countries in the region has been impeded by inadequate bandwidth expansion, restricted licensing, prevalence of regulatory risk etc. Neighboring countries, especially India, which began liberalisation of the sector after Sri Lanka, accelerated the process by early opening up of the external gateway, introduction of CPP and expanding the bandwidth, coupled with creating a conducive policy environment to provide essential infrastructure to gain a competitive edge in attracting information technology related investment. This has paid greater dividends to India as it already had made strides in the development of the complementary knowledge and human capital in information technology.

The demand for fixed line telephones grew faster outside the Colombo Metropolitan area, reducing the disparity of distribution. The number of fixed line telephones (wireline) in service rose by 6 per cent in the Colombo Metropolitan area, while in other areas it grew by 7 per cent. The national telephone density (telephones per 100 persons) for fixed access telephones increased from 4.6 in 2002 to 4.9 in 2003. The mobile telephone network expanded by 50 per cent in 2003 after a 40 per cent growth in 2002. Improvements in cellular telephone technology, aggressive competition, affordable initial costs, quick supply and expansion of coverage have been the main reasons for the significant growth in this sector. As a result, telephone density including cellular phones, increased to 12.1 in 2003 from 9.5 in 2002. The penetration of mobile telephones in relation to fixed access telephones increased to 148 in 2003 from 105 in 2002. Internet and e-mail services are also expanding rapidly. Subscribers to Internet and e-mail services, provided by 27 operators, increased by 22 per cent in 2003.

TABLE 5.5
Telecommunications and Postal Services

Item	2001	2002	2003(a)	Percentage Change	
				2002	2003(a)
1 Telecommunications services					
1.1 Fixed access services					
SLT Telephone lines in service (No.)('000)	708	769	823	9	7
New telephone connections given by SLT (No.)('000)	78	69	63	-11	-9
Applicants on waiting list for SLT telephones (No.)('000)	258	306	379	19	24
Wireless local loop telephones('000)	121	114	116	-5	1
Telephone density (Telephones per 100 persons)	4.4	4.6	4.9	5	7
1.2 Other services ('000)					
Cellular phones	668	932	1,393	40	50
Public pay phones	7	7	6	-8	-4
Radio paging services	7	6	3	-16	-48
Internet & e-mail	62	70	86	14	22
2 Postal service					
Delivery areas (No)	6,729	6,729	6,729	0	0
Post offices (No)	4,556	4,616	4,680	1	2
Public	4,042	4,046	4,048	0	0
Private	514	570	632	11	11
Area served by a post office (Sq.Km)	14.4	14.2	14.0	-1	-1
Population served by a post office	4,103	4,102	4,100	0	0
Letters per inhabitant	26	25	24	-4	-4

a) Provisional

Sources: Sri Lanka Telecom Ltd.
Telecommunications Regulatory Commission of Sri Lanka
Department of Posts

The market share of telephone services is dominated by mobile operators, with a share of 60 per cent in 2003. The rest is distributed among three fixed access service providers. The largest share of fixed access services was owned by SLT, followed by two wireless local loop (WLL) operators. Mobile cellular services were provided by 4 operators. SLT, the largest fixed access operator, acquired the ownership of Mobitel, a cellular service provider.

The geographical dispersion of services shows that there is a heavy concentration of telecommunication facilities in Colombo. Out of the total fixed access phones, 45 per cent were in the Colombo Metropolitan area at end 2003. Development of telecommunications, especially in rural areas, is very much dependent on the use of radio frequency spectrum. Radio frequency spectrum is needed in increasing quantities by WLL telephones and cellular mobile operators, broadcasters, civil aviation authorities, the military, police and security organisations, government departments and some private institutions. The new generation of wireless mobile services referred to as Universal Mobile Telephone Services (UMTS) or Third Generation also requires new allocation of spectrum. Managing the use of this scarce resource among these competing uses is the main responsibility of the TRCSL.

To expedite the supply of telecommunication facilities in rural areas, the TRCSL introduced a subsidy scheme in 1999, under which a subsidy is paid to payphone operators, who install payphones in rural areas. TRCSL has gradually raised the subsidy amount from Rs.50,000 to Rs.75,000 per payphone installation. Furthermore, the maximum number of eligible installations was raised to 175 from an initial 25 installations per district, per operator.

A number of projects were in progress to improve telecommunication facilities in the North and the East. A project to establish a link between Sri Lanka and India was completed in 2003. It connected the two countries by a microwave link between Talaimannar and Rameswaram in India. Telecommunication operators introduced new technology and various value added services to their customers in 2003.

Chart 5.2
Telephone Density (Telephones per 100 persons)

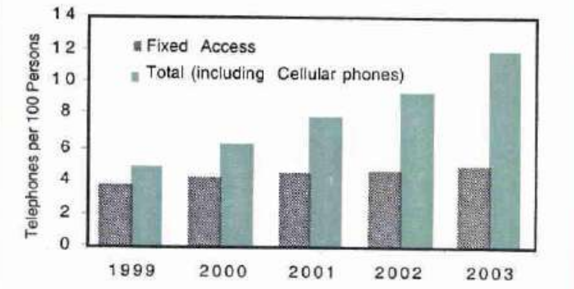
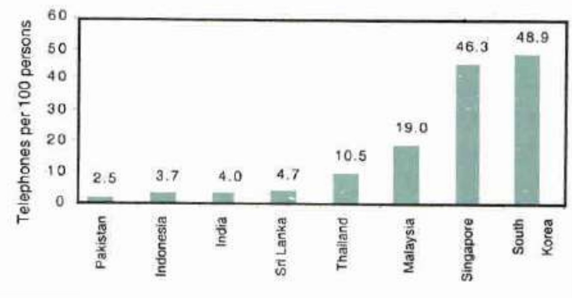


Chart 5.3
Telephone Density (Fixed Access): Selected Countries-2003
(Telephones per 100 persons)



The long waiting list for wireline telephones, especially in rural areas, is one of the main obstacles to developing telecommunication related activities in Sri Lanka. This is mainly due to insufficient competition and limited capacity in the industry. This contributes to the low tele-density in Sri Lanka, which stands at 4.9 per 100 persons. This compares adversely with many countries in the region. (Korea - 48.9, Malaysia - 19.0, Maldives - 10.2, Singapore– 46.3, Thailand - 10.5). It has been highlighted that given the high level of literacy in Sri Lanka, there is a greater potential to further develop information based activities such as telemarketing, call centres, remote data processing and Internet based products if the necessary infrastructure is available adequately.

Postal Services

A reliable and fast postal service is an essential part of a modern infrastructure system as it carries out important social and economic functions. The postal infrastructure in Sri Lanka is one of the largest networks of service delivery systems in the country, with great potential to serve the public better with a multitude of products. The network could harness the potential of rapidly growing information technology industry in delivering a wider array of services. The postal service could provide newer services, such as electronic money transfer, insurance and pension related services, utility bill payments and e-government services, especially where those services are not currently available. A hindrance to such developments in the service is due to the structural set up of the Postal Department, which does not allow full scale adoption of such services in a cost effective manner. Therefore, it is necessary to introduce broad-based institutional reforms and service modernisation in the postal service in the country. The Postal Reform Bill provides the required legal statute and basic framework for such modernisation. However, it has not yet been implemented.

The network expanded slightly to 4,680 post offices in 2003 from 4,616 in 2002. With the objective of providing a wider range of services especially to rural areas, 'communication locales' were introduced in 2002. These locales supply regular post office services, as well as sale of stationary, e-mail and Internet services, fax and photo copying services etc. There were 100 such communication locales by end 2003. The average area served by a post office improved marginally to 14 sq. km. in 2003 from 14.2 in 2002, while the population served by a post office also improved slightly to 4,100 from 4,102 in 2002. With the expansion of electronic communication services, the volume of physical mail articles, both inland and foreign, decreased slightly in 2003. The average number of letters per person handled by the Department of Posts (DOP) also decreased slightly to 24 during 2003 from 25 in 2002.

Despite such developments, the DOP continued to incur losses. The total revenue of DOP increased by 9 per cent to Rs. 2,326 million while its total operating expenditure grew slightly to Rs. 2,823 million. Consequently, an operating loss of Rs. 497 million was recorded in 2003, burdening the budget. In addition a capital expenditure of Rs. 574 million was made to the Postal Department.

5.5 Energy

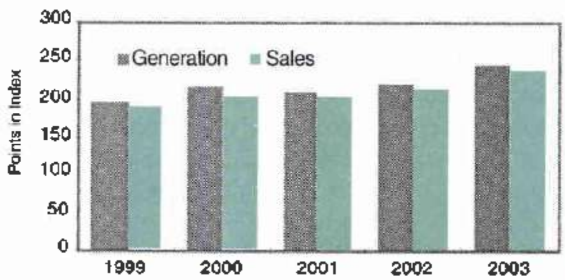
Electricity

The work initiated for restructuring the electricity sector, mainly by unbundling the key activities of the Ceylon Electricity Board (CEB), was in progress in 2003 albeit slowly. However, CEB faced a severe capacity shortage in the latter part of 2003 due to the drop in reservoir water levels, as there were no alternative energy sources, including thermal power. This occurred after a brief recovery in the first half of 2003, followed by severe shortages in the two preceding years. Favourable weather during the first half of the year and expansion in power generating capacity, although not sufficient to meet the increasing demand, helped a temporary recovery. There are no signs of a sustainable and steady supply of power in the near future, as appropriate action to further expand the power supply has not been taken as per the demand estimates for the medium to long-term.

The initial steps in restructuring the power sector, which envisaged unbundling of power generation, transmission and distribution in terms of the Electricity Sector Reforms Act No.28 of 2002, have been taken. CEB would be broken down into seven companies, viz., five distribution companies, one generation company and one transmission company. Power generation companies will compete with the private sector. The Public Utilities Commission of Sri Lanka, constituted under the Public Utilities Commission of Sri Lanka Act No. 35 of 2002, will become the regulatory authority for the electricity sector.

The total installed capacity increased by 15 per cent to 2,223 MW in 2003, with the commissioning of CEB owned 70 MW Kukule Ganga hydropower plant and the 165 MW combined cycle power plant owned by the private sector. The share of the private sector in the total capacity increased to 26 per cent in 2003 from 24 per cent in 2002. With the expansion of thermal power capacity, the hydropower dependency of the power system declined from 61 per cent in 2002 to 56 per cent in 2003. Despite the capacity expansion, a continuous electricity supply was at risk towards the end of the year as hydropower generation was affected by the drought. The drought conditions caused the reservoir capacity to remain below 42 per cent throughout the second half of the year.

Chart 5.4
Electricity Generation and Sales
(1990 = 100)



Total electricity generation increased by 10 per cent to 7,612 GWh in 2003 as a result of the recovery in power supply from the lower base in 2002. The share of hydropower in the total power generation increased to 43 per cent from 39 per cent in 2002. Power purchases from the private sector declined to 29 per cent from 35 per cent in 2002 mainly due to a sharp decline in the use of emergency power and non-implementation of self-generation schemes. All emergency power plants, except for the 30 MW power plant in the North, had been decommissioned by June 2003 in view of the favourable water levels in reservoirs during the first half of 2003 and the commissioning of 2 new power plants during the second half of the year.

The total electricity consumption increased by 13 per cent to 6,208 GWh in 2003. Electricity consumption grew only by 5 per cent in the preceding year, due to frequent power cuts. Electricity consumption in the domestic, industrial and general purpose categories expanded by 11 per cent, 16 per cent and 13

Chart 5.5
Electricity: Average Tariffs and Unit Costs

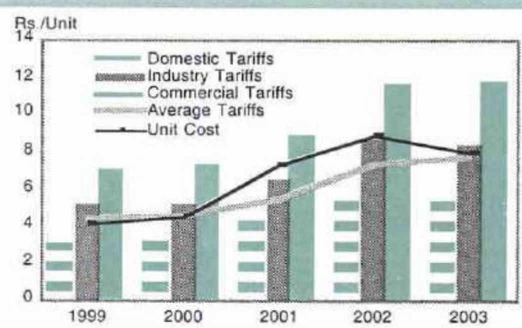


TABLE 5.6
Performance of the Power Sector

Item	Unit	2001	2002	2003(a)	Percentage Change	
					2002	2003(a)
Available capacity	Mw	1,999	2,230	2,483	12	11
Installed capacity	"	1,901	1,930	2,223	2	15
Hydro	"	1,161	1,171	1,247	1	6
Thermal	"	737	756	973	3	29
Wind	"	3	3	3	0	0
Hired private power	"	98	300	260	206	-13
Units generated	Gwh	6,625	6,951	7,612	5	10
Hydro	"	3,110	2,692	3,310	-13	23
Thermal	"	3,066	3,201	3,904	4	22
Wind	"	3	4	3	33	-15
Hired private power	"	341	913	394	168	-57
Self generation	"	105	141	-	34	0
Total sales by CEB	"	5,238	5,502	6,208	5	13
Domestic and religious	"	1,798	1,821	2,030	1	11
Industrial	"	1,719	1,866	2,159	9	16
General Purpose	"	859	921	1,042	7	13
Bulk sales to LECO	"	802	811	894	1	10
Street lighting	"	60	83	83	38	-
Composition of LECO sales	"	743	763	843	3	10
Domestic and religious	"	366	370	402	1	9
Industrial	"	188	194	214	3	10
General Purpose	"	141	149	168	6	13
Street lighting	"	19	20	22	5	10
Other	"	29	30	37	3	23
Overall System loss	%	21.8	21.5	19.1	-1	-11
Number of Consumers (b)	('000)	3,029	3,186	3,381	5	6
Domestic and religious	"	2,691	2,821	2,993	5	6
Industrial	"	32	34	35	4	4
Commercial	"	305	330	352	8	6

(a) Provisional
(b) Inclusive of LECO consumers

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

per cent, respectively. Per capita electricity consumption increased by 11 per cent to 322 KWh per year. In the domestic sector, the average consumption of electricity of a household was 68 KWh per month. The proportion of households with electricity increased to 68 per cent from 64 per cent a year ago, as rural electrification programmes were expedited. The system losses, though declining slightly from 21.5 per cent to 19.1 per cent, still remain high, requiring action to reduce it to an acceptable level.

The financial situation of the CEB continued to remain weak in 2003 mainly due to the high cost of power generation and high cost of servicing large amounts of short-term debt. According to provisional data, CEB has reported an operating profit of Rs. 940 million for 2003, in comparison to a Rs. 7 billion loss in 2002. CEB's short-term bank borrowings stood at Rs. 13 billion at end 2003. As current tariffs are high in relation to other similar countries, the loss making nature of the CEB's operations should emanate mainly from high cost of power generation. The average cost of electricity to CEB increased to Rs. 7.98 per unit from Rs.7.78 per unit in 2002. The average tariff was Rs. 7.68 per unit in 2003. As Sri Lanka's power system is gradually shifting from a predominantly hydropower to thermal power, it is essential to move to low cost sources of thermal power, such as coal power, to maintain the long-term viability of the power sector as well as to supply electricity to end-users at an affordable price. As power is an essential input for other industries, the high cost of power generation raises the cost of production in all other industries, thereby having a major impact on Sri Lanka's competitiveness.

The Energy Supply Committee (ESC) has called for Expressions of Interest from prospective investors to construct a 300 MW coal power plant on a BOO basis for commissioning by 2008. CEB intends to commence construction work of the proposed 150 MW Upper Kotmale hydropower plant in 2004. In addition, CEB has identified a series of low cost capacity expansion projects in its long-term generation expansion plan to meet the growing demand. These power projects need to be implemented as scheduled to avoid any power shortage in the future. At the same time, the proposed restructuring of the power sector needs to be expedited to improve the efficiency and viability of the sector. A durable solution to both capacity shortage and high cost power is to secure low cost, large-scale power sources such as coal power.

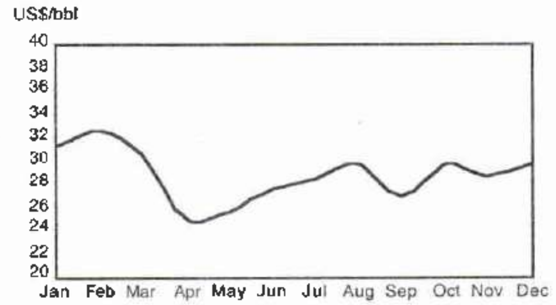
Petroleum

The local petroleum market was opened for competition in 2003 ending the monopoly held by CPC since its inception. CPC was established in 1961 with monopoly rights in petroleum imports, refining, export, and distribution, by nationalising a few private sector foreign companies operating in the country. The petroleum sector restructuring process was commenced in the early 1990s. Accordingly, Colombo Gas Ltd., Lanka Lubricants Ltd., and Lanka Marine Services Ltd., which were subsidiaries of CPC, have already been privatised. In 2003, Lanka Indian Oil Corporation (LIOC) entered the local market for importing and retailing petroleum products. LIOC commenced its petroleum distribution through 100 filling stations, which were previously owned by CPC. In addition, another 107 filling stations owned by CPC have been identified for sale to a third party to be licensed in 2004. At end 2002, there were 1,074 filling stations in the country, of which 362 were owned by CPC. A storage and distribution company, called Ceylon Petroleum Storage Terminals Ltd. (CPSTL), was incorporated in November 2003 to manage common user facilities such as oil terminals, storage facilities and pipelines. The aviation re-fuelling function has also been identified for diversification in the future. With these reforms and improving competition, the petroleum sector is expected to operate efficiently, based on market principles, for the benefit of consumers. The beneficial effects of the liberalisation are already beginning to be evident as CPC and the LIOC have commenced upgrading their filling stations to provide a better service to consumers.

International oil prices remained high in 2003 and fluctuated between US dollars 25 and 35 (Brent crude oil) in 2003. CPC's average import price of crude oil increased to US dollars 29 per barrel from US dollars 25 per barrel in 2002. In line with international prices, local petroleum prices were revised in terms of the pricing formula, except in several months during the Iraq war and in a few months towards the end of the year, when international oil prices were high. The pricing formula, which was introduced in January 2002, was revised in January 2004 so as to reflect more details of cost components and profit margins.

The demand for major petroleum products declined by 2 per cent in 2003. Consumption of petrol (90 octane) increased by 18 per cent, following the 14 per cent increase in the preceding year. The sharp increase in the registration of petrol driven motor vehicles and narrowing down of the price differences between petrol and diesel seem to have caused this significant increase in petrol consumption in recent years. The use of LP gas to fuel motor vehicles also dropped by 19 per cent in 2003. Diesel consumption constituted about 49 per cent of the total consumption of major petroleum products. Kerosene consumption declined by 8 per cent as kerosene used for lighting purposes is declining rapidly with expansion in the supply of electricity. Furnace oil sales by CPC declined by 8 per cent in 2003. The share of CPC in total petroleum sales was 93 per cent in 2003, while the balance was supplied by LIOC. CPC imported 1,995,000 MT of crude oil and 1,168,286 MT of refined petroleum products, while LIOC imported 225,904 MT of refined petroleum products in 2003 to meet the demand. As petrol production at the refinery is almost sufficient to meet the entire domestic demand, LIOC purchased its petrol requirement from the CPC. Meanwhile, LP gas sales increased by 3 per cent in 2003, after an 11 per cent increase in 2002. LP gas sales to domestic and industrial sectors increased while that to auto gas sector declined. A third LP gas distributor, Mundo Gas Lanka Ltd, entered the domestic market in 2003 increasing the competition in the LP gas market.

Chart 5.6
International Crude Oil Prices - 2003
(Brent-New York closing prices)



CPC's financial position did not improve as much as expected in 2003, as there has been only a partial pass-through of increased costs resulting mainly from high international oil prices. The monthly price adjustments as required by the formula based pricing policy were implemented only on 6 occasions, though price adjustments were needed on 11 occasions, especially in respect of diesel and kerosene. However, according to provisional data CPC reported around Rs. 3 billion of operating profit in 2003 on a gross turnover of Rs. 111 billion. CPC reduced its short-term bank borrowings by Rs. 2 billion in 2003 to Rs. 16.2 billion. In 2003, CPC received US dollars 22 million out of the sale proceeds of its assets to LIOC. The carrying cost of the large short-term bank borrowings is very high. It would adversely affect CPC's competitiveness in the emerging competitive market environment. Therefore, it would be prudent to use future proceeds from sales of CPC assets to repay CPC's short-term borrowings.

The Muthurajawela tank farm project to store petroleum products was completed in 2003. These tanks have the capacity to store 250,000 cubic meters of diesel and kerosene. The total cost of the project was Rs.7.7 billion and was funded by a US dollar 72 million loan from the Exim Bank of China. The new aviation terminal at BIA was also completed in 2003. Initial work in respect of the Oil Exploration Promotion Project and Satellite Gravity Survey Project were in progress in 2003 for exploration of petroleum deposits in the country. The Petroleum Resources Act was passed in 2003 in order to

TABLE 5.7
Performance of the Petroleum Sector

Item	Unit	2001	2002	2003(a)	Percentage Change	
					2002	2003(a)
Quantity imported						
Crude oil	Mt '000	1,955	2,280	1,995	17	-13
Refined products	"	1,419	1,344	1,394	-5	4
L.P. gas	"	126	137	141	9	3
Value of imports (c&f)	"					
Crude oil	Rs. mn	32,004	40,404	41,628	26	3
	US$. mn	358	422	432	18	2
Refined products	Rs. mn	27,284	27,781	34,609	2	25
	US$. mn	305	290	359	-5	24
L.P. gas	Rs. mn	4,295	3,773	4,502	-12	19
	US$. mn	48	39	47	-19	21
Average price of crude oil (c&f)	Rs./barrel	2,207	2,415	2,819	8	18
	US $/barrel	24.66	25.13	29.46	2	17
Quantity of exports	mt '000	148	214	110	45	-49
Value of exports	Rs. mn	3,561	3,981	3,501	12	-12
	US$ mn	40	42	36	4	-13
Local sales	mt '000	3,305	3,423	3,360	4	-2
Petrol (90 Octane)	"	244	277	328	14	18
Petrol (95 Octane)	"	5	9	13	80	44
Auto diesel	"	1,675	1,752	1,652	5	-6
Super diesel	"	49	47	42	-4	-11
Kerosene	"	228	229	210	0	-8
Furnace oil	"	811	780	715	-4	-8
Avtur	"	138	114	139	-17	22
Naphtha	"	14	56	102	307	79
L.P. gas	"	141	157	161	11	3
Local Price (at period end)	Rs./litre					
Petrol (90 Octane)	"	50.00	49.00	53.00	-2	8
Petrol (95 Octane)	"	53.00	52.00	56.00	-2	8
Auto diesel	"	26.50	30.00	32.00	13	7
Super diesel	"	31.80	35.30	37.30	11	6
Kerosene	"	17.40	24.00	25.50	38	6
Furnace Oil	"					
500 Seconds	"	17.80	22.90	24.80	29	8
800 Seconds	"	17.00	21.90	23.70	29	8
1,000 Seconds	"	16.50	21.20	23.20	28	9
1,500 Seconds	"	15.80	20.70	22.30	31	8
3,500 Seconds	"	14.10	18.90	20.70	34	10
L.P. Gas	Rs./kg					
Shell gas	"	40.72	47.84	45.60	17	-5
Laugfs gas	"	32.72	41.20	47.60	26	16

(a) Provisional

Sources: Ceylon Petroleum Corporation
Lanka Indian Oil Corporation
Shell Gas Lanka Ltd.
Laugfs Lanka Gas (pvt) Ltd.

provide legal authority for public private partnerships for oil exploration. Necessary action was taken to reduce the sulphur level in auto diesel from 1.0 per cent to 0.5 per cent, as required by environmental regulations.

5.6 Transportation

Roads

There was limited progress in developing the road network in the country in 2003, except for the commencement of the construction of the Southern highway in 2003. One of the main features of road construction and maintenance in the country is that these are sole responsibility of the public sector and dependent on budgetary allocations. Given the current fiscal constraints, the government is not in a position to allocate sufficient funds and hence a number of planned road projects have been abandoned or delayed. The economic and social cost of this is significant. Therefore, there is an urgent need to explore alternative financing sources to improve the road network, which is vital for achieving economic and social progress. Raising financial resources in the capital market and increasing direct private sector investment should resolve funding problems to some extent.

As an alternative source of funds to finance road maintenance, Budget 2003 proposed to establish a Road Fund through the imposition of a special levy. The Fund would be managed by a Board comprising representatives of the public and private sector. Accordingly, the excise duty on imports of petrol and diesel was increased by Rs.1.00 and Rs.0.50 per liter, respectively, from August 2003 to raise money for the Fund. The total amount received by the Treasury as contribution to the Road Fund during 2003 amounted to Rs 900 million. The Road Fund and the Road Board, which have not yet been set up, need to be duly established to fulfill this purpose. Even some foreign funded projects have faced delays due to the problems associated with land acquisition and litigation.

The Road Development Authority (RDA), the key institution responsible for the development and maintenance of the national highway network, maintains 11,650 km of trunk (A class) and main (B class) roads, and 3,902 bridges. The RDA spent Rs.11,811 million during 2003, a 20 per cent increase over the previous year. Further, the central government allocated Rs.1,363 million to provincial councils for development and maintenance of C and D class roads during 2003.

During 2003, the RDA implemented several major road projects with foreign financial assistance. The main one was the Southern Expressway project, which consists of two sections separately funded by the Asian Development Bank (ADB) and Japanese Bank for International Development (JBIC). The total estimated project cost is Rs. 29 billion. Work on the ADB funded section, from Kurundugahahetepma to Godagama, commenced in early 2003 and is expected to be completed in 2006. Construction work of the JBIC funded Kottawa to Kurundugahahetepma section is expected to commence in 2004.

During the year, the RDA continued to implement the Road Network Improvement Project (RNIP) with financial assistance from ADB and JBIC to rehabilitate 345 kilometers of roads and to improve 47 bridges. Rehabilitation of the Kandy-Jaffna Road (the A-9 road) was commenced in 2003 and is expected to be completed by early 2004. Several road development projects, in particular rehabilitation of bridges, were carried out with financial assistance from the Japanese International Co-operation Agency (JICA) and the Kuwait Fund for Arab Economic Development.

During the year, the RDA carried out special projects for the rehabilitation of 20 roads with a total length of 120 kms at a cost of Rs.1,000 million of local funds. It also conducted a programme focusing on improving rural roads to motorable conditions for the benefit of the rural communities. Under this programme, 72 rural roads with a total length of approximately 2,470 kms have been completed at a cost of Rs. 58 million. With a view to allowing the private sector to carry out road construction and maintenance work, the RDA closed-down the Road Construction and Development Company (RCDC), a subsidiary of the RDA that carried out most of the construction and rehabilitation work on its behalf. The services of around 6,000 employees of RCDC were to be terminated after the payment of compensation.

With a view to reducing traffic congestion within the Colombo City, an Outer Circular Highway has been proposed, linking all major roads radiating from Colombo. The estimated cost of this 28 km highway is Rs.17 billion and it is expected to be funded by JICA. Ground surveys for detailed designing were in progress in 2003. The proposed Colombo - Kandy Expressway, at an estimated cost of Rs.29 billion, is expected to be implemented on a BOT basis. In this respect, an MOU has been signed between the Government of Sri Lanka and the Construction Industry Development Board of Malaysia. Construction work on the Colombo - Katunayaka Expressway, which was originally estimated to be completed at a cost of Rs.14 billion, and commenced with local funds in October 2000, was terminated due to financial difficulties and designing problems. The project is now expected to be recommenced on the basis of a public private partnership.

The Baseline Road (Phase III) Extension Project is the continuation of the Baseline Road from Kirulapone Junction to the Galle Road at Ratmalana (7.5 kms.). The RDA has designed the road, but acquisition of land have been suspended due to resistance from residents.

In addition to highway projects, several other road development and improvement projects have been identified by the RDA during 2003. The rehabilitation and improvement of the Balangoda - Beragala - Bandarawela road, Hatton - Nuwara Eliya road and Puttalam -Anuradhapura-Trincomalee road, have already been initiated. With a view to reducing traffic congestion in Colombo, a number of road projects such as the Marine Drive, Duplication Road and Colombo Road Package II have been identified, but have been suspended due to financial constraints.

Road Passenger Transportation

Passenger bus services contribute to about 80 per cent of the overall passenger transport service in the country. Private sector bus operators account for about two thirds, while the balance is provided by public sector bus services consisting of 11 Regional Transport Companies (RTCs, also called cluster bus companies), the Northern Region Transport Board and Vavniya Passenger Transport Services Ltd. monitored by Sri Lanka Central Transport Board (SLCTB).

A series of shortcomings have been cited in both the public and private sector passenger bus operations in the country over the last few decades. Among them, poor service and quality, an inadequate number of buses operating on some routes, especially in remote areas, non availability or non-adherence to time tables, unqualified crew, poor infrastructure facilities such as bus stands, bus halts etc., increasing operating costs and low profit margins have been prominent. The RTCs are highly overstaffed, particularly in certain clerical and allied categories. However, in respect of crews, technical and engineering grades are understaffed. At the same time, RTCs are under capitalised.

RTCs have undergone severe financial difficulties and experienced operating losses, since most RTCs have not been able to generate sufficient revenue even to cover their operating costs such as basic repairs and maintenance of the existing fleet. The situation has worsened due to low, administratively set fares that have not been adjusted in a timely and appropriate manner. As a result of these financial difficulties, RTCs were granted government subsidies and allowed to compensate operating cost of non-economic routes. However, private bus operators had to face the disadvantage arising from low fares. Taking this into consideration, a new bus fare policy was adopted in 2002 for private and public bus services to replace ad hoc fare revisions. Under this, fares are to be determined on a cost based formula. The National Transport Commission (NTC), the regulatory authority for passenger transportation under the central government, monitors the formula, carrying out surveys every year to ascertain changes in the cost components. In terms of the bus fares policy, bus fares were increased by 15 per cent in July 2003.

The overall performance of the road passenger bus services, in terms of fleet renewal, operated kilometerage and passenger kilometerage, reflected a setback during 2003. The total bus fleet declined in 2003 due to drop in RTC bus fleet, although private bus operators increased their fleet. The average number of buses operated per day by both sectors also dropped. However, in terms of vehicle utilisation, on average, an RTC bus ran 200 kilometers per day while a private operator's bus ran 132 kilometers per day indicating that privately owned buses are under-utilised due to the single crew system. The load factor of RTCs buses remained at 105, compared to 150 for private buses, reflecting that buses in both sectors are over crowded. During the year, the total operated kilometerage by RTCs and private operators declined by 5 per cent, the net result of a 15 per cent decline in RTC bus operations and 1 per cent increase in private bus operations. Reflecting the same trend, overall passenger kilometers declined by 5 per cent.

The consolidated expenditure of RTCs in 2003 dropped by 5 per cent to Rs.10,957 million, whereas revenue dropped by 10 per cent to Rs. 8,396 million, excluding reimbursement received from the Treasury. As a result, RTCs, reported a Rs.2,561 million loss against the Rs. 2,197 million loss reported in 2002. During the year, a sum of Rs.255 million was released to the SLCTB to be disbursed among the RTCs for the operation of 2,186 uneconomic rural bus services.

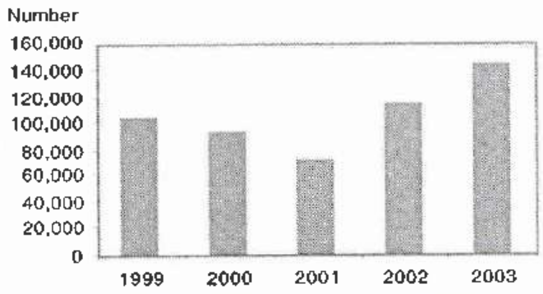
TABLE 5.8
Salient Features of the Transport Sector

Item	Unit	2001	2002	2003(a)	Percentage Change 2002	Percentage Change 2003(a)
1. New registration of motor vehicles	no.	72,634	113,351	181,502	56.1	60.1
Buses	"	1,310	1,429	1,949	9.1	36.4
Private cars	"	6,426	12,003	21,184	42.5	76.5
Three wheelers	"	10,274	20,876	36,204	103.2	73.4
Dual purpose vehicles	"	5,864	8,591	13,268	46.5	54.4
Motor cycles	"	34,119	54,762	86,877	60.5	58.6
Goods transport vehicles	"	6,013	7,952	11,014	35.8	34.9
Land vehicles	"	6,546	7,728	11,006	14.9	46.3
Others	"	82	0	0	-	-
2. Sri Lanka Railway Authority						
Operated kilometers	'000	8,860	8,470	8,077	-4.4	-4.6
Passenger kilometers	mn.	3,979	4,079	4,258	2.5	4.4
Freight ton kilometers	mn.	109	131	129	20.2	-1.5
Total revenue	Rs.mn.	1,200	1,362	1,321	13.5	-3.0
Current expenditure	"	3,020	3,328	3,383	10.2	1.7
Operating loss	"	1,820	1,966	2,063	8.0	4.9
Capital expenditure	"	4,425	1,667	1,437	-62.3	-13.8
3. Regional Bus Companies						
Operated kilometers	mn.	420	395	336	-6.0	-14.9
Passenger kilometers	"	21,204	20,436	17,560	-3.6	-14.1
Total revenue	Rs.mn.	9,113	9,288	8,396	1.9	-9.6
Operating expenditure	"	11,516	11,485	10,957	-0.3	-4.6
Operating loss	"	2,403	2,197	2,561	-8.6	16.6
4 SriLankan Airlines						
Hours flown	hrs.	47,402	41,935	49,144	-11.5	17.2
Passenger kilometers flown	mn.	6,556	6,180	6,926	-5.7	12.1
Passenger load factor	%	67	76	76	13.4	0.0
Weight load factor	%	n.a	44	52	-	18.2
Freight	mt. '000	50	45	64	-10.0	42.2
Employment	no.	4,086	3,945	4,095	-3.5	3.8

(a) Provisional

Sources: Department of Motor Traffic
Sri Lanka Railway Authority
National Transport Commission
Civil Aviation Authority of Sri Lanka
SriLankan Airlines

Chart 5.7
New Registration of Motor Vehicles



Bus service in the North (Jaffna Peninsula) had not been operated since June 1990 to 1996 due to the security situation, resulting in about 1,000 redundancies. Buses and buildings belonging to SLCTB depot in the North were completely damaged. However, in May 1996, bus services resumed, which led to the recruitment of a considerable number of staff and crew. Currently, the North Region Transport Board (NRTB) depots in Jaffna, Point Pedro, Karainagar and Mannar are operating on average about 115 buses daily, earning approximately Rs.16 million per month with 32,000 operated kilometers. The Kilinochchi and Mullaitivu depots have not been functioning since 1990, due to the prevailing security situation in this area.

The government's policy to improve efficiency in RTCs is to establish private-public partnerships. In 2002, PERC called for Expressions of Interest from private investors to acquire 39 per cent equity in 11 RTCs. Subsequently, a private consortium was selected to divest six RTCs in 2003. However, the Cabinet of Ministers later cancelled the divestment. PERC has now commenced calling for new tenders for all 13 state owned bus companies.

The registration of motor vehicles at the Department of Motor Traffic (DMT) increased substantially, by 60 per cent, to 181,500 during 2003, following a 56 per cent growth in 2002. Improvements in economic activities and income levels and a reduction in the import surcharge from 40 per cent to 20 per cent helped to increase motor vehicle registrations in recent years. The registration of all types of motor vehicles increased; registration of three wheelers and motorcycles increased by 73 per cent and 54 per cent, respectively.

During the year, DMT introduced several measures to improve the efficiency of operations relating to vehicle registration, change of ownership and issue of driving licences through computerisation. One day services have also been introduced. As a result, registration of a vehicle can be accomplished within 24 hours. Similarly, vehicle transfers could be done within the same day. Some services, such as registration of motorcycles, have been decentralised.

Railway Transportation

Sri Lanka Railways (SLR) had been operating as a government department since 1902 till July 2003. Prior to 1902 rail services were managed by the Ceylon Railway Company registered in 1845.[1] The primary objective of the SLR was to provide and operate rail services in the country for the efficient carriage of goods and persons. However, the contribution of railway services to the country's overall passenger and freight transportation has not significant, particularly in recent years. At present, the share in the passenger and freight transportation was approximately 8 per cent and 5 per cent, respectively. Its share in the Colombo suburban areas, however, is important. Insufficient investment on track maintenance, lack of locomotives and compartments, weak signaling systems, management deficiencies, overstaffing and irrational fare policies have contributed to the deterioration of rail services in the country.

All attempts made to revitalize the rail service within the framework of a government department failed. Subsequently, it had been recognised that the shortcomings in the SLR should be resolved by transforming the Department to an Authority, as this would provide flexibility in decision making, enable operation as a commercially viable entity and enhance operating efficiency and reduce the burden on the government budget. Consequently, in 1993, the Sri Lanka Railway Authority Act No 60 was passed, but did not come in to effect until the Gazette notification issued by the Minister of Transport, Highways and Civil Aviation on 23 July 2003. However, according to the Gazette notification No. 1298/22, the operation of Section II of the Act, relating to the employees of the SLR was postponed.

There was no noteworthy improvement in the rail services in terms of train operations, revenue, new investments or quality of the services. In fact, they deteriorated further during 2003. At end 2003, the SLRA owned only 130 locomotives and power sets for daily operations, although it needed 153 locomotives to meet the demand. The old and obsolete nature of existing rolling stock, decaying rail tracks and outdated signaling system have adversely affected the provision of satisfactory rail services. There were 255 derailments and 585 locomotive failures in 2003, compared with 104 derailments and 620 locomotive failures in 2002. The punctuality of rail services measured by on time arrival and departures further deteriorated in 2003.

Despite the resource constraints, the operated train kilometers remained at 8 million kilometers, approximately the same level as in 2002. The passenger kilometerage increased by 4 per cent to 4,258 million, while goods transportation dropped by 2 per cent to 129 million kilometers. The increase in passenger kilometerage was largely due to relatively very low passenger fares maintained by SLRA. As passenger fares

[1] Indrani Munasinghe, (2002), The Colonial Economy on Track.

have been raised from 1 March 2004, passenger kilometerage are likely to decrease unless services are improved substantially.

The total revenue of SLRA declined by 3 per cent, due to a decrease in income from goods and other revenue. Operating expenditure increased by 2 per cent, resulting from increases in the price of fuel. Consequently, the operating loss of the SLRA increased by 5 per cent to Rs.2,063 million in 2003.

The SLRA continued development and improvement activities of the railway system during 2003. As part of the project to duplicate the Coast Line from Panadura to Aluthgama the second track from Wadduwa to Kalutara North was completed during the year, while project two of Phase II of the installation of Colour Light Signaling System continued during the period. Private sector assistance was obtained in maintaining buildings and premises of railway stations at Colombo Fort, Kompannavidiya and Maradana.

The total employment of SLRA stood 16,422 at end 2003. In addition there were 1,104 casual labourers. The SLRA has offered a number of schemes including a voluntary retirement scheme (VRS) with a view to developing the human resources of SLRA.

Civil Aviation

As the global civil aviation industry began to recover from the severe setback resulting from the terrorist attack on the World Trade Center in New York on 11 September 2001 and the global economic slow-down, it was affected by the Iraq war and SARS epidemic in 2003. However, the industry registered a moderate recovery in 2003. In Sri Lanka the civil aviation sector continued to recover from the attack on the Bandaranaike International Airport (BIA) in July 2001, with the benefit of the ceasefire and peace negotiations. The ongoing ceasefire and recovery in the global economy rapidly expanded tourist arrivals, exceeding the target of 500,000 tourists. This was a major factor that contributed towards improving the civil aviation sector in the country during 2003.

Following the world trend of liberalisation and de-regulation in civil aviation, Sri Lanka too increased liberalisation. Accordingly, the Department of Civil Aviation was converted to the Civil Aviation Authority (CAA) of Sri Lanka on 27 December 2002 under the Civil Aviation Authority Act No. 34 of 2002. As 2003 was the first year of existence of the CAA, the Authority mainly dealt with its institutional arrangements such as staffing, acquisition of basic facilities, development of internal management policies, finding revenue sources and the establishment of its role and identity. The CAA is a self-financed organisation. Its primary source of income is the surcharge levied on airline tickets. In 2003, the CAA earned Rs.128 million, while total expenditure was Rs.58 million, resulting in Rs.46 million of operating profits. As one of its primary functions, the CAA maintains safety standards through safety registration. The year 2003 was noted as an accident free year, with only a very few incidents. One of the noticeable shifts initiated by the CAA was the move towards public private partnerships (PPP) in aviation infrastructure management in Sri Lanka, under which management of airports and provision of air navigation facilities and services would be carried out with private sector participation.

During 2003, 40 international airlines, including 8 cargo airlines, operated in Sri Lanka, compared to 27 airlines, including 5 cargo airlines, in 2002. The number of passengers who passed through BIA increased by 16 per cent to 3.4 million in 2003 from 2.9 million in 2002. Of the total air passengers, 58 per cent traveled by the national carrier whereas in 2002 the share was 60 per cent. The total freight tonnage handled at BIA increased by 5 per cent to 124 million metric tons. Of this, 57 per cent was on SriLankan Airlines (SLA). SLA commenced an air taxi service in December 2003, from Colombo to major tourist destinations such as Kandy, Koggala, Bentota, Trincomalee, Anuradhapura and Hinguraggoda. The air taxi has already become popular among local and foreign holidaymakers and businessmen. Three domestic private airlines operated in 2003, carrying 86,388 passengers, against 41,034 carried in 2002.

During 2003, there were 9 Airbuses in the SLA fleet though it had 12 Airbuses before the terrorists attack in July 2001. In 2003, SLA flew 49,144 hours and 6.926 million passenger kilometers against 41,935 hours and 6,180 million passenger kilometers in 2002, increase of 17 per cent and 12 per cent, respectively. The financial performance of SLA improved in 2003 compared with 2002. Revenue increased by 24 per cent to Rs.38,841 million, while operating expenditure increased by 21 per cent to Rs.38,433 million. As a result, SLA reported Rs.408 million operational profits before tax, in contrast to a Rs.524 million loss in the previous year.

During 2003 BIA handled 27,937 aircraft, 11 per cent higher than 2002. It is expected that the capacity for aircraft handling and passenger movements would increase at BIA with the completion of the new airport development programme. The proposed Phase II of the airport development project aims to expand the capacity with modern passenger facilities.

The airline industry in the region is expected to grow rapidly and become highly competitive, and that BIA will emerge as a regional hub, given its geographical location between Singapore and Dubai. Several measures that need to be implemented to meet this demand in the future have been identified. Accordingly, CAA has initiated to promote the open-sky policy that will be fully effective from July 2005 and will allow foreign airlines to operate commercial air services. In addition, Airport and Aviation Services (Sri Lanka) Ltd. has proposed to expand the departure public concourse, the arrival public concourse, develop transit hotel and construct a multi storey car park. The settlement of civil disturbance and potential development of tourism in the country would considerably intensify domestic air travel which would require development of domestic airports. At present, the alternative international airport at Wellawaya is under Cosideration.

Port Services

Port operations improved further in 2003 after a strong recovery in 2002. Improved world trade, the rapidly improving Indian economy and the faster recovery in Asian economies helped improve port operations. Productivity improvements, capacity expansion and effective promotional schemes also had a positive impact on the port services.

Container throughput handled at the Port of Colombo during 2003 increased by 11 per cent. This is the highest ever annual container throughput handled at the Port of Colombo. Reflecting a similar trend, transshipments and domestic container handling at the Colombo Port rose by 12 and 8 per cent, respectively, during 2003. Improved performance at the Jaye Container Terminal (JCT) and South Asia Gatway Terminals (Pvt) Ltd (SAGT) contributed equally to the growth of container handling at the Colombo Port. The container handling efficiency at the JCT improved satisfactorily due to various incentives and marketing strategies and a human resource development programme. Total cargo handling, of which 75 per cent is containerised, increased by 8 per cent during the year.

The number of ships arriving at the Port of Colombo increased marginally by 1 per cent to 3,838 in 2003. However, ship arrivals at Galle suffered a marginal decrease of 3 ships to 73. The number of ships calling at Trincomalee port decreased by 78 to 121, mainly due to improved land transport in the North and the East after the ceasefire. Accordingly, total ship calls to all three ports decreased from 4,062 in 2002 to 4,032 in 2003.

Productivity at the Port of Colombo during the last five years has increased substantially. Net gantry moves (the number of containers handled) per hour for main line ships rose

TABLE 5.9

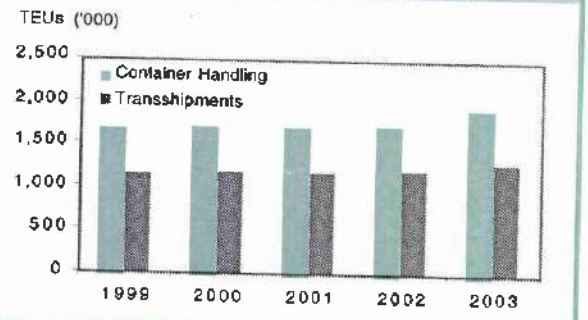
Performance of the Port Services

Item	2001	2002	2003(a)	Percentage Change 2002	Percentage Change 2003(a)
1 Vessels arrived (No.)	4,014	4,062	4,032	1	-1
Colombo	3,570	3,787	3,838	6	1
Galle	117	76	73	-35	-4
Trincomalee	327	199	121	-39	-39
2 Total cargo handled (MT '000)	27,062	28,363	30,500	5	8
Colombo	24,741	26,273	28,198	6	7
Galle	662	526	482	-21	-8
Trincomalee	1,659	1,564	1,820	-6	20
3 Total container traffic (TEUs '000)	1,727	1,765	1,959	2	11
SLPA	1,397	1,207	1,335	-14	11
SAGT	330	558	624	69	12
4 Transshipment container (TEUs '000)	1,195	1,218	1,370	2	13
SLPA	959	848	910	-12	7
SAGT	236	370	407	57	10
5 Revenue (Rs. mn.) (b)	16,389	15,667	16,356	-4	4
Colombo	15,625	15,105	15,856	-3	5
Galle	390	332	314	-15	-5
Trincomalee	374	230	186	-39	-19
6 Expenditure (Rs. mn.) (b) (before VRS expenses)	12,193	12,870	12,609	6	-2
Colombo	11,577	12,212	11,846	5	-3
Galle	270	305	345	13	13
Trincomalee	346	353	418	2	18
7 Operating profit-before tax and before VRS expenses (Rs.mn.) (b)	4,195	2,797	3,747	-33	34
Colombo	4,050	2,892	3,856	-29	33
Galle	117	27	35	-77	30
Trincomalee	28	-122	-144	-536	18
8 Employment (no.) (b)	18,561	17,910	13,418	-4	-25
Colombo	16,744	16,157	12,004	-4	-26
Galle	737	752	638	2	-15
Trincomalee	1,080	1,001	776	-7	-22
9 Productivity indicators (main vessels) (b)					
Gantry moves per hour (gross)	16	24	30	50	25
Gantry moves per hour (net)	18	26	32	44	23

(a) Provisional
(b) Only for Sri Lanka Ports Authority
TEUs = Twenty-foot equivalent container units

Source: Sri Lanka Ports Authority

Chart 5.8
Total Container Handling and Transshipments



from 26 in 2002 to 32 in 2003, while gross gantry moves increased from 24 to 30 between the two periods. Berth efficiency, measured as average waiting time (hours) for container vessels, improved from 1.9 hours in 2002 to 0.9 hours in 2003 for main line ships. Meanwhile, berth efficiency, measured as average berth stay, decreased from 13.4 hours in 2002 to 10.7 hours in 2003. Reflecting the same trend, port stay for container vessels dropped to 12.7 hours in 2003 from 15.8 hours in 2002.

The major contributor to the improved performance of the Colombo Port is the JCT, which performed better with the introduction of a set of reforms, including elimination of speedy money offered by the shipping agents, introduction of a target bonus system based on container handling productivity, and introduction of some welfare facilities provided to employees. As a result of these developments, the JCT was able to enter into Terminal Services Agreements (TSA) with five top container lines to operate at JCT and attract some other new shipping services during the year.

The financial performance of SLPA improved in 2003. Total revenue increased by 4 per cent to Rs.16.4 billion. The operating expenditure declined by 2 per cent to Rs.12.6 billion, excluding Rs. 2.5 billion of expenditure on voluntary retirement scheme (VRS) introduced in that year. As a result, operating profit before tax and cost VRS increased by 33 per cent to Rs.3.9 billion during the year.

With a view to placing Sri Lanka as the topmost maritime center in the South Asian region, the SLPA implemented several projects during the year. The North Pier widening project that started in 1996 was completed and the widened pier was opened in August 2003. Once equipped, the New North Pier will have the capacity to handle 300,000 twenty-foot equivalent units (TEUs) per annum. Feasibility studies were in progress in respect of proposed Colombo south harbour and Hambantota port.

5.7 Irrigation and Settlement Schemes

As in the previous year the Department of Irrigation carried out both locally and foreign funded projects during 2003. Hambantota Irrigation and Rehabilitation Project and the Weli Oya project are two major foreign funded projects while the department also carried out work on 15 locally funded projects. Expenditure incurred by the Irrigation Department on locally funded projects and foreign funded projects during the year amounted to Rs. 184 million and Rs. 417 million respectively.

Irrigation department continued to implement the participatory Irrigation Management of major and medium scale schemes through "Wap Haula" programme during 2003. At present there are 205 schemes coming under the above programme covering an extent of 89,000 hectares.

5.8 Special Programmes

Housing

According to the Ministry of Housing and Plantation Infrastructure, the shortage of houses in Sri Lanka is around 400,000 and is expected to increase to 650,000 units by 2010. A large number of existing housing units are considered to be substandard and lack essential utility services and amenities. The government policy on housing is to create a conducive environment to mobilise credit and other forms of financing for housing construction. The government has introduced an affordable housing finance scheme for low and middle income groups through financial institutions with a view to encouraging construction of private housing. Under this scheme, loans upto Rs.500,000 are granted at an interest rate of 9.5 per cent per annum. Government also aims to expand the supply of affordable, good quality housing for the poor. This encompasses identification of housing needs in the urban, rural, coastal and plantation sectors and addressing the housing needs on a sectoral basis. The National Housing Development Authority (NHDA), the Ministry of Fisheries and Ocean Resources (MFOR), the Plantation Human Development Trust (PHDT) and the Urban Development Authority (UDA) play a major role in the provision of public sector housing. To promote housing development further, the Financial Sector Reform Committee that is co-ordinated by the CBSL, with representation from both public and private sector prepared a policy paper in 2003. The paper recommended setting up an institution to develop housing financing through the development of mortgage linked bonds.

A surge in construction and financing of housing was seen in 2003, benefiting from improved economic conditions, especially the low interest rate regime. A strong growth in lending by commercial banks and other financial institutions was seen during the year. To meet the growing demand for housing in and around Colombo, particularly middle class housing, a rapid expansion in construction of condominium was observed in 2003. According to housing finance institutions, construction of at least 125,000 houses commenced in 2003, reflecting a 33 per cent growth over the preceding year.

Total loan disbursements under NHDA housing programmes increased more than twofold to Rs.1.2 billion in 2003. The number of housing units whose construction

TABLE 5.10
Public Sector Housing Programme

Sub Programme	Units Commenced (No.)		Units Completed (No.)		Disbursements (Rs.Mn.)	
	2002	2003a)	2002	2003(a)	2002	2003(a)
Model Village Housing Programme	9,162	1,948	9,029	3,565	209	91
Rural Housing Programme Scattered Loan & Grants Programme	13,446	6,572	12,726	6,018	11	199
Diripiyasa Housing Programme	-	2,093	-	1,400	-	97
Estate Housing Programme	3,325	-	3,391	-	64	-
Disaster Housing Programme (b)	-	29,090	-	15,284	-	589
Direct Construction Programme	-	-	705	303	197	199
Pradeshiya Gamudava Programme	583	-	294	-	8	-
Total	26,516	39,703	26,145	26,570	489	1,175

(a) Provisional
(b) For Flood Victims

Source : National Housing Development Authority

commenced during 2003 increased by 50 per cent. NHDA also implemented a new housing programme called 'Diripiyasa' during the year and helped flood victims in the Nuwara Eliya, Ratnapura, Kalutara, Galle, Matara and Hambantota districts to reconstruct their houses. MFOR continued implementing the Diyawara Gammana housing programmes. During 2003, a total of 10 housing schemes with 801 housing units were completed under this programme. PHDT continued implementing several housing construction and upgrading programmes in the estate sector under the Plantation Development Support Programme (PDSP) in 2003. The new approach adopted in the plantation areas for on-site relocation of line rooms with two storied housing units with basic infrastructure facilities has created a new demand for housing in the plantation sector.

UDA has planned 10 housing schemes with 15,000 houses in Colombo and suburbs with all ancillary facilities. Of this, three housing projects with 500 units have already commenced. These projects are expected to be completed by 2005. Real Estate Exchange (Pvt) Ltd (REEL) has signed an MOU with a private company in 2003 to construct 1,143 low cost apartments with a total investment of Rs.1,984 million. REEL will own 358 housing units worth Rs.622 million in lieu of the land value and these will be distributed among previous occupants of those lands. The Sustainable Township Programme is being revitalised to expand the re-housing of underserved communities in newly constructed housing schemes with basic infrastructure facilities. Commercially valuable lands freed up under this scheme will be utilised for various development activities.

The Housing Development Finance Corporation has been converted to a fully fledged housing finance bank with the objective of expanding housing finance activities and mobilising financing resources from the capital market. SMIB, HDFC Bank and NSB, together, granted 28,289 housing loans in 2003, in comparison to 25,122 in 2002. Meanwhile, several commercial banks, namely, BOC, PB, HNB, Seylan Bank and Commercial Bank, together, granted 86,967 housing loans in 2003, which reflects a 59 per cent growth over 2002. The total loan amount granted was around Rs. 85 billion.

Urban Development

The urban population and urban centres emerging throughout the country are major driving forces of expansion for the services sector. The urban population is on the rise and will go up to 40-50 per cent of the total population by 2025. Urban development is partly a public good, which needs public financing whenever private investments are not forthcoming. In Sri Lanka, a lack of funding available for urban development has created a series of difficulties in the areas of urban housing, transportation, congestion, urban health and environment. Most urban centres in the country are experiencing inadequate economic and social infrastructure, environmental and waste disposal problems, urban poverty and unemployment. An urban sector policy framework has been proposed for Sri Lanka with the objective of facilitating an integrated, sustainable and equitable urban development by the government.

The Urban Development Authority (UDA) plays a crucial role in planning and executing urban development projects in the country with the participation of local government authorities. UDA provides consultancy services to provincial councils, local authorities and other organisations with regard to urban planning and development. Key obstacles to expanding urban services have been the lack of space and financial resources. In this respect, unproductive and vacant lands in urban areas need to be identified for systematic development. Private sector participation in the development of urban infrastructure needs to be encouraged to address financial and managerial issues.

The main operational activities of UDA include the construction of administrative complexes, commercial complexes, town improvement projects, industrial projects, integrated projects and social and cultural projects. The main projects operated under the purview of the UDA in 2003 included work on the Beira Lake Redevelopment Project, construction work at the Information Technology (IT) Park at Malabe, the Galle Face Green Redevelopment Project and construction of a bus stand in Nuwara Eliya. In addition, UDA implemented several projects on behalf of public sector institutions and continued to maintain the Land Bank. The total expenditure on the implementation of these programmes amounted to Rs.466 million, a decline of 3 per cent from the previous year. The sources of funds for these projects were the UDA's own funds (43 per cent), the Consolidated Fund (42 per cent) and funds received from client institutions (15 per cent).

The main projects that did not have sufficient funding for implementation were the planned relocation of the Welikada prison, the headquarters of the defence services and the Pettah wholesale market, and the construction of the Presidential Secretariat and residence.

UDA has also taken steps to remove unauthorised constructions along main roads with a view to reducing unnecessary congestion in urban centres and hardships faced by pedestrians. UDA has invited proposals from private sector firms for the construction of low cost houses in Colombo. Under the Town Improvement Project, UDA launched a New Town Development Programme in conjunction with the construction of the Southern Expressway.

Water Supply

The proportion of households with access to an improved water sources is about 70 per cent and of that, only about 31 per cent have access to pipe borne water. The demand for pipe borne water is growing, in line with population growth, increased urbanisation and the expansion of commercial and industrial activities. The supply of water needs to be expanded to meet both current and future demand, which is a challenging task. One of the Millennium Development Goals (MDGs) declared by the United Nations, requires all citizens to have access to safe drinking water and adequate sanitation facilities by 2025. The National Water Supply and Drainage Board (NWSDB) intends to provide access to safe drinking water for the entire population and adequate sanitation facilities for all by 2010. However, the estimated investment needed to achieve this goal, at Rs.85 billion (Rs.10-12 billion per year) is in excess of available funding. The average value of investments by the government in recent years has been around Rs.7 billion. Thus, private sector and community participation are essential to meet the required investment.

NWSDB managed 280 water supply schemes with 782,724 water connections in 2003. The total volume of water supplied by NWSDB increased marginally from 350 million cubic meters in 2002 to 357 million cubic meters in 2003. The number of new connections provided by NWSDB decreased by 27 per cent to 49,789 in 2003. The percentage of non-revenue water (system loss) increased from 31 per cent in 2002 to 35 per cent in 2003. This illustrates the need for improving the distribution network, stopping illegal and non-revenue generating water connections and giving immediate attention to breakdowns.

In 2003, NWSDB invested Rs.10.2 billion in the water supply sector, a sharp increase of 25 per cent over the previous year. Of the total investment, 77 per cent was on new projects, while the balance was on the rehabilitation of existing projects. Foreign funding, on concessionary terms contributed to 67 per cent of the total investment. NWSDB concessionary terms commenced the Secondary Towns Water Supply and Sanitation Project covering both urban and rural areas at a cost of US dollars 86 million. The Small Towns Water Supply Project is one of the major projects implemented by the NWSDB with ADB assistance to improve health and well being of one million people living in Anuradhapura, Hambantota, Kalutara, Kegalle, Monaragala and Puttalam districts through improving water supply and sanitation facilities. The NWSDB implemented 47 upgrading and rehabilitation projects at a cost of Rs.611 million during the year. An additional population of 1.3 million will be benefited once these projects are completed. The Towns North of Colombo Water Supply Project was in progress with financial assistance from JBIC. The total estimated cost of the project is Rs.5 billion. A population of 350,000 will be benefited once the project is completed. In addition, NWSDB implemented several water supply projects including the Nuwara Eliya Water Supply Augmentation Project, Nawalapitiya/Ampara/Koggala Water Supply Project, Greater Kandy and Greater Galle Water Supply Projects and the Kalu Ganga Water Supply Project in 2003.

Further, NWSDB implemented a project aimed at reducing non-revenue water distribution in Colombo. Under the project, the water distribution network is expected to be improved while providing direct water connections to households in low income resettlements, instead of through non-revenue generating public stand posts. With a view to promoting public private partnerships, two pilot projects, namely, the Greater Negombo and Kalutara to Galle water distribution schemes, have been identified for private sector participation. In this respect, feasibility studies have been carried out and pre-qualification documents for private sector participation were under preparation.

The total revenue of NWSDB increased by 6 per cent to Rs. 4,864 million in 2003. This increase in revenue was largely due to the expansion in the consumer network. There were no tariff revisions in 2003. NWSDB reported a net operating profit of Rs.278 million in 2003, compared to Rs.112 million in 2002, which is negligible compared with the required financial resources for maintenance and new investment.

Samurdhi Programme

The Samurdhi programme is to be streamlined in terms of the provisions stipulated in the Welfare Benefit Act (WBA) passed in 2002. The law clearly indicates the eligibility criteria and screening process for beneficiaries to enroll in the programme. A task force has been set up to monitor the implementation of these reforms. Prior to implementation of the provisions of the WBA, a pilot project was carried out covering urban, rural and estate sectors in several districts. The reforms are expected to be implemented from 2005. It is expected that assistance under Samurdhi will be targeted better with the implementation of the WBA.

The Samurdhi programme has been the single largest welfare programme in the country since its inception in 1995. A total of 1.5 million families (excluding families receiving Rs. 140) benefited directly under the income supplementary programme implemented under Samurdhi. This indicates that nearly 33 per cent of the total population was receiving assistance under Samurdhi in 2003. However, as per the Household Income and Expenditure Survey-2002, conducted by the Department of Census and Statistics, the percentage of poor households in Sri Lanka was 23.9 per cent.[1] This survey also revealed that 18.1 per cent of non-poor households are receiving Samurdhi. Though the provisions of the WBA have not yet been implemented, owing to various stricter controls and empowerment programmes, the number of Samurdhi beneficiaries declined in 2003. The total outlay for this programme dropped by 18 per cent to Rs. 7,966 million in 2003. This excludes 383,783 families, who were virtually retired from income supplementary programme but were receiving Rs.140 per month to keep them involved in other community development programmes and to pay the social security premium and contribution to the compulsory savings fund. In addition to the income supplementary programme, 222,652 families received benefits under the dry ration scheme implemented for the benefit of internally displaced families at a cost of Rs.1,228 million. Meanwhile, nutrition allowance cards, valued at Rs. 177 million were issued to 90,866 families, during 2003. The total cost of the entire Samurdhi programme

[1] Those households spending more than 50 per cent of the expenditure on food and average adult equivalent food expenditure is less than Rs.1,378.48 per adult per month are considered as poor households.

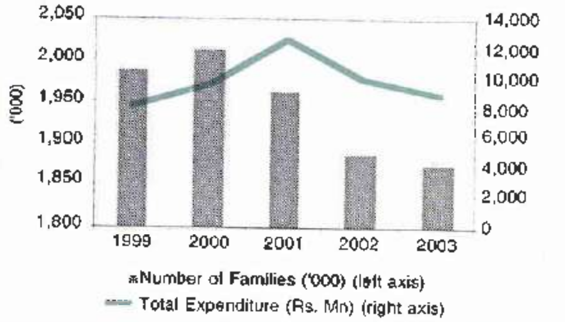
TABLE 5.11
Samurdhi Welfare Programme
Number of Beneficiary Families and Value of Grants 2001-2003

Cash Grant Amount (Rs.)	2001		2002		2003 (a)	
	No. of Families	Value (Rs.mn)	No. of Families (b)	Value (Rs.mn)	No. of Families (b)	Value (Rs.mn)
Samurdhi Income Supplementary Programme						
Rs.1,000	8,966	108	3,954	67	3,801	47
Rs. 700 (Rs. 600 with effect from November 2002)	858,902	7,215	589,460	5,663	586,318	4,233
Rs. 400	487,991	2,342	335,727	1,860	336,203	1,613
Rs. 350	363,752	1,528	320,759	1,400	322,701	1,351
Rs. 250	233,718	701	238,593	701	243,225	723
Rs. 125 (Rs. 140 with effect from August 2001)	9,282	16	398,244	242	383,783	657
Total	1,962,613	11,910	1,886,737	9,933	1,876,031	8,623
Total (Excluding families receiving Rs. 125 or Rs. 140)	1,953,331	11,894	1,488,493	9,691	1,492,248	7,966
Dry Ration Programme						
Rs. 336 -1260 (c)	168,965	1,818	145,777	1,453	222,652	1,228
Nutrition Programme						
Rs. 150	109,202	138	83,171	80	90,866	117

(a) Provisional.
(b) Based on the Samurdhi cards issued during the second half of the year.
(c) As at end 2003.

Source: Department of the Commissioner General of Samurdhi

Chart 5.9
Samurdhi Welfare Programme



was Rs. 10 billion or about 3 per cent of the government's current expenditure in 2003.

It has been highlighted that development of social insurance schemes under the Samurdhi programme or by the private sector organisations on a sustainable basis will support the poor, as unexpected events badly affect their day to day living. The incidence of poverty has been wider in the rural and estate sectors, as well as in the North and the East. It is expected that with the ceasefire in place, broad based economic growth and infrastructure developments which improve the accessibility and connectivity to poverty stricken areas would help to reduce the incidence of poverty.

The main institutions involved in the implementation of the Samurdhi programme were Samurdhi Authority of Sri Lanka (SASL), Department of Commissioner General of Samurdhi (DCGS) and the Department of Poor Relief (DPR). DPR amalgamated with the Commissioner General of Samurdhi in January 2004. SASL implemented several community development programmes in the areas of rural development, agro development, industrial development, livestock development and fisheries, and marketing programmes.

Samurdhi Bank Societies (SBS) continue to expand in 2003. There were 1,033 Samurdhi Bank Societies operating throughout the country at end 2003.

5.9 Environment

Unsustainable expansion of economic activities, particularly agricultural activities and industries, has an adverse impact on the environment. Striking a balance between the consumption of natural resources and development has been a challenge faced by the authorities. The protection of the environment has been recognised as an integral component of the development process and any breakdown in environmental stability would in turn, have serious implications on development. Reforms, the market mechanism and the use of economic instruments for environmental regulations have proved effective in managing the environment.

The Ministry of Environment and Natural Resources (MENR), the leading policy making institution responsible for the protection and development of the natural environment in the country, has identified five major environmental issues in the country. They are; land degradation due to soil erosion, loss of biodiversity, waste disposal problems, water pollution and depletion of coastal resources. In 2003 , MENR formulated the National Environmental Policy (NEP), with a view to addressing those issues and managing the environment on a sustainable basis.

In terms of NEP, MENR prepared a National Policy on Cleaner Production and Strategy to minimise environment pollution from industries. The Biodiversity Secretariat of the Ministry initiated formulating a National Biodiversity Policy for Sri Lanka. In order to address the issue of an increasing trend in air pollution due to vehicle emissions, standards were imposed on fuel and vehicle imports from July 2003.

MENR has taken several steps to improve bio-technology, bio-safety and genetic diversity in the country. In this respect, a programme for the conservation and commercial scale production of red sandlewood planting materials was initiated as a special project. Further, with the assistance of the United Nations Environmental Programme (UNEP) and the Global Environment Facility Project (GEFP), the development of a National Biodiversity Framework for Sri Lanka was launched in 2003.

With a view to preventing and mitigating the level of pollution, the Ministry implemented several programmes during 2003. The 'Pavithra Ganga' Programme was continued to monitor the water quality of inland water bodies. The Ministry continued to co-ordinate the implementation of the National Strategy for Solid Waste Management Programme. The approval of the Cabinet of Ministers was obtained to involve the private sector in solid waste management. MNRE continued to co-ordinate international treaties, such as the Basle Convention on the Transboundary Movements of Hazardous Wastes and Disposal, the Stockholm Convention on Persistent Organic Pollutants and the United Nations Convention on Combat Desertification.

The Central Environment Authority (CEA), the regulator in the environment sector, processed 21 Environmental Impact Assessments (EIA) in respect of various projects during 2003. It conducted 22 Initial Environmental Examinations (IEE) and granted approval for 16 projects. Under the Natural Resources Management and Monitoring Project, CEA conducted 378 examinations in 2003. In addition, CEA issued 197 Environment Protection Licences (EPL) in 2003.

CEA continued monitoring the discharge of effluents, air and noise emissions and waste water samples in order to mitigate environment pollution. During 2003, CEA analysed 318 industrial effluent samples carried out 66 noise measurements and tested 13 metal quarries for ground vibration and air blast. Under the Ambient Air Quality Monitoring

Programme, CEA continued testing the quality of air and measured values of sulpher dioxide, nitrogen dioxide and carbon monoxide throughout the year at selected locations.

CEA continued to monitor the water quality of major inland water bodies in the country during 2003. Accordingly, the water quality in the Kandy Lake, the Kelani River and Beira Lake was monitored on a regular basis, in order to detect pollution trends. CEA analysed 347 surface water samples and 40 ground water samples in 2003. Public complaints under the Industrial Environmental Pollution and Violation of National Environmental Act increased. During 2003, 1,618 complaints were received by CEA compared to 1,242 complaints in 2002.

Disposal of solid waste is a chronic problem, especially in urban areas and needs concerted effort for reduction. CEA implements the Solid Waste Management (SWM) Programme, under which it issues site clearance certificates for projects proposed by local government authorities and NGOs regarding the dumping of solid waste and for projects on composting. CEA also conducted environmental education and awareness programmes among school children, teachers, and the general public at district level.