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ECONOMIC AND SOCIAL INFRASTRUCTURE

Measures aimed at improving the provision of economic and social infrastructure continued, with progress in energy supply, transportation and telecommunication activities as well as health and education services. A mechanism has been established to ensure cost-reflective domestic fuel pricing. Accordingly, against the backdrop of elevated global crude oil prices, the first major revision of domestic petroleum prices, since January 2015, took place in May 2018, and a series of regular revisions followed. The dependence on thermal power in electricity generation was somewhat limited during the first seven months of 2018, due to increased hydropower generation supported by favourable weather conditions. However, electricity tariffs that are in general below the cost recovery levels highlight the need for expediting the adoption of a cost-reflective electricity tariff as well. With regard to transport infrastructure, several projects to improve the road and expressway network continued. Port activities continued to record significant growth while the performance of the civil aviation sector improved, particularly with increased tourist arrivals. Meanwhile, the government continued to provide social infrastructure, increasingly supported by private sector participation in such service provision. Initiatives were taken to address some of the resource constraints in the education sector, with greater emphasis on technical and vocational education. The health sector continued to support the wellbeing of the people, although there was a surge in the incidence of some communicable diseases, namely influenza and leptospirosis, during the period under review. Moreover, social safety nets continued to support economically vulnerable sectors of the society. However, amidst the demographic transition and structural reforms that are taking place in the country, the need for better targeting of social security schemes should also be addressed. Going forward, encouraging increased private sector participation in developing and maintaining both economic and social infrastructure is essential, especially in the context of limited availability of public resources.

Developments in Economic Infrastructure

Petroleum

- The upward trend in global crude oil prices (Brent) observed since mid-2017 continued in the first nine months of 2018.** In mid-January 2018, the Brent price exceeded US dollars 70 per barrel for the first time since December 2014 mainly owing to the decision made in November 2017 by the Organisation of Petroleum Exporting Countries (OPEC) and some non-OPEC oil producing countries to extend their agreement to cut production until the end of 2018. Although the increase in prices was curbed to some extent during February 2018 with higher oil output from the US, Brent prices continued to rise thereafter as a result of geopolitical tensions in the Middle East and market speculation on the possibility of the US re-imposing trade sanctions on Iran. Consequently, the monthly average price of Brent increased to US dollars 76.88 per barrel by May 2018. However, global oil prices displayed some downward movement from early June 2018 to mid-August over the expectations that OPEC could wind-down the output cut. Nevertheless, supply concerns arising from the US trade sanctions on Iran resulted in a reversal in the downward trend in oil prices since mid-August

2018. Consequently, the Brent price increased to US dollars 81.93 per barrel by end September 2018. Import prices of the Ceylon Petroleum Corporation (CPC) broadly followed the global crude oil prices during the period under review. Accordingly, the average import price of the CPC increased by 41.5 per cent to US dollars 77.54 per barrel in the first nine months of 2018 compared to the average import price of US dollars 54.81 in the same period of 2017.

- Retail petroleum prices of the CPC were adjusted several times during 2018.** Rising prices in global oil markets, broad based strengthening of the US dollar together with mounting financial losses and debt levels of the CPC were considerations in implementing these price revisions. Accordingly, retail prices of the CPC for petrol, diesel and kerosene products were increased initially in May 2018 and a regular revision policy is currently in place. However, considering the burden of high kerosene prices on low income households and the fisheries sector, the government reduced the price of kerosene to Rs. 70 per litre with effect from 13 June 2018 and the price continues to remain at that level. In all instances of upward price revisions, the Lanka Indian Oil Company also raised their retail petroleum prices along with the CPC.
- The growth in overall petroleum sales in the domestic market was moderate during the first eight months of 2018.** Total domestic diesel sales contracted by 8.6 per cent during this period, with lower fuel oil-based power generation due to increased hydropower generation and decline in diesel sales to the transportation sector. Further, sale of fuel oil decreased by 2.9 per cent during the first eight months of 2018 due to the lower demand from the power generation sector. However, driven by the higher demand from the transportation sector, domestic sales of petrol grew by 7.5 per cent during the first eight months of 2018. Kerosene sales increased by 30.9 per cent during the same period.

Figure 3.1

Average Price of Crude Oil (Brent) in the International Market and the Crude Oil Import Price of the CPC

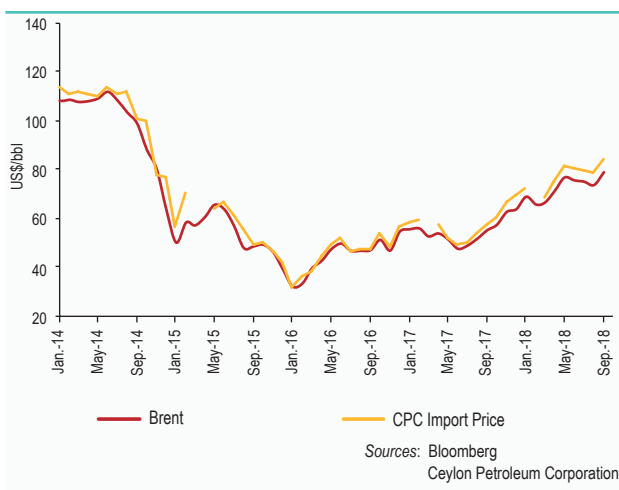


Table 3.1
Recent Revisions to Retail Petroleum Prices of the CPC

Product	Prices prior to 11.05.18	Prices w.e.f. 11.05.18	Prices w.e.f. 11.07.18	Prices w.e.f. 11.08.18	Prices w.e.f. 11.09.18	Prices w.e.f. 11.10.18
Petrol 92 Octane	117.00	137.00	145.00	N/R	149.00	155.00
Petrol 95 Octane	128.00	148.00	155.00	157.00	161.00	169.00
Auto Diesel	95.00	109.00	118.00	N/R	123.00	N/R
Super Diesel	110.00	119.00	129.00	130.00	133.00	141.00
Kerosene	44.00	101.00	70.00	N/R	N/R	N/R
Industrial Kerosene	88.00	110.00	(w.e.f. 13.06.18) N/R	N/R	N/R	N/R

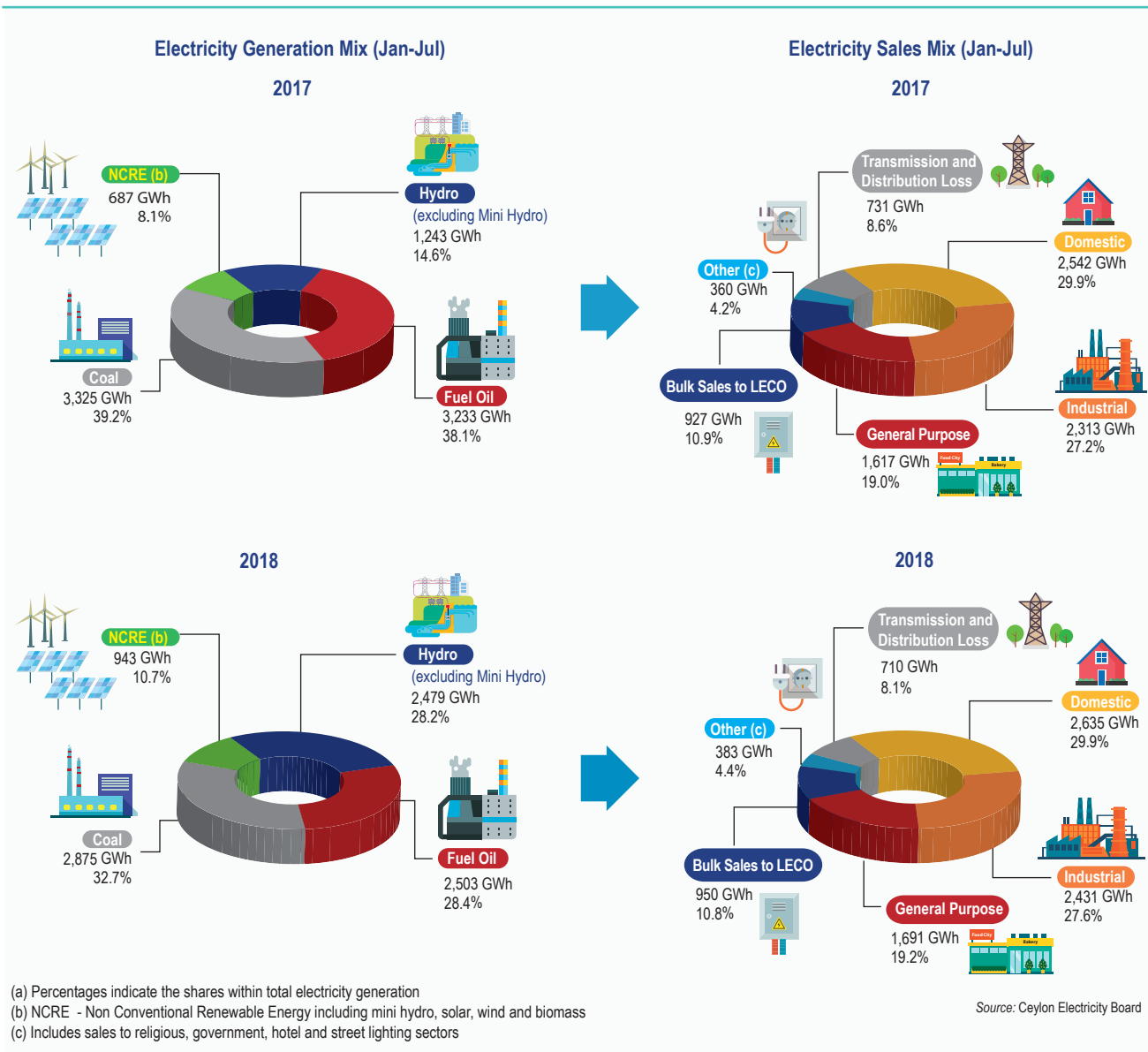
N/R - No revision

Source: Ceylon Petroleum Corporation

Electricity

- Total electricity generation grew by 3.7 per cent to 8,800 GWh during the first seven months of 2018 compared to 8,488 GWh generated in the corresponding period of 2017.** Heavy rains received during May 2018 and the prevalence of favourable weather conditions in catchment areas thereafter supported higher hydropower generation and eased the dependence on thermal power generation to some extent. Accordingly, hydropower generation, excluding mini hydro, increased by 99.5 per cent in the first seven months of 2018 in comparison to same period of 2017. Meanwhile, total fuel oil-based power generation in the country declined by 22.6 per cent. Coal power generation also decreased by 13.5 per cent during the first seven months of 2018, in comparison to the corresponding period of 2017, due to several plant failures at the Norochcholai coal power plant. Meanwhile, power generation through Non-Conventional Renewable Energy (NCRE) sources increased by 37.2 per cent in the first seven months of 2018, in comparison to the same period of 2017, due to increased mini hydro and solar power generation. The Ceylon Electricity Board (CEB) accounted for 75.6 per cent of the total energy generation in the country, while the Independent Power Producers (IPPs) generated the remainder. Compared to the growth of 5.6 per cent in the first seven months of 2017, electricity sales grew by 4.3 per cent during the corresponding period of 2018. The increase in electricity sales was mainly driven by the industry, general-purpose and domestic sectors, which grew by 5.1 per cent, 4.6 per cent and 3.7 per cent, respectively, in comparison to the corresponding period of 2017.
- The government in collaboration with the CEB and the private sector, is currently taking various measures to increase the installed generation capacity through both renewable and non-renewable sources.** Construction of the Moragahakanda hydropower plant, which adds 25 MW to the national grid, was completed during the first half of 2018. Uma Oya and Broadlands hydropower plants will be commissioned in 2019, while Thalpitigala hydropower plant is expected to be completed by 2020. Further, Gin Ganga, Moragolla and Seethawaka Ganga hydropower plants are expected to be completed by 2022. Meanwhile, the 'Soorya Bala Sangramaya' programme added 65 MW to the national grid by end June 2018 and is expected to add a further 70 MW to the grid by 2019. Moreover, the first 100 MW semi dispatchable wind farm of the CEB is planned to be commissioned in 2020, while another 275 MW capacity wind power plant will be developed in stages. In terms of non-renewable energy, a 100 MW barge mounted thermal power plant in the Southern region is expected to be commissioned in 2019. Further, three 35 MW gas turbine power plants will be installed in the Kelanitissa power station by 2019 and 2020.
- The Public Utilities Commission of Sri Lanka (PUCSL) granted conditional approval in June 2018 for the base case Least Cost Long-Term Generation Expansion Plan (LCLTGP) for 2018-2037, submitted by the CEB.** In May 2018,

Figure 3.2
Electricity Generation and Sales Mix (a)



the Cabinet of Ministers granted approval for a new national policy on the electricity generation mix, which stipulates the composition of energy mix to be 30 per cent Liquefied Natural Gas (LNG), 30 per cent high-efficient coal, 25 per cent large hydro, and 15 per cent furnace oil and non-conventional renewable energy sources by 2030. Further, the Cabinet of Ministers has also granted approval for the development of 'Government to Government' LNG power plants. Having considered the new national policy on the electricity generation mix, trade union actions staged by the CEB Engineers' Union

against the previously-approved LCLTGEP¹ and plans to develop 1,400 MW of natural gas-fired power plants on a 'Government to Government' negotiation basis, in June the PUCSL approved the base case LCLTGEP submitted by the CEB. According to the newly-approved LCLTGEP, the installed capacity is envisaged to be expanded by adding 2,700 MW of coal power, 1,500 MW of natural gas, 1,389 MW of solar, 1,205 MW of wind, 842 MW of major hydro, 320 MW of furnace

¹ As per the previously approved plan in July 2017, 242 MW of major hydro, 215 MW of mini hydro, 1,389 MW of solar, 1,205 MW of wind, 85 MW of biomass, 4,800 MW of LNG, 320 MW of furnace oil and 105 MW of gas turbine-based power plants were to be added to the installed capacity of the country.

Figure 3.3
New Electricity Connections



oil based power, 215 MW of mini hydro, 105 MW of gas turbines and 85 MW of biomass to the electricity generation system within the next 20 year period.

Road Development

- Road development and rehabilitation activities continued during the first half of 2018.** The Road Development Authority (RDA) incurred a total expenditure of Rs. 58.5 billion during the first half of 2018 compared to Rs. 48.8 billion incurred during the corresponding period of 2017, for the maintenance, development of expressways and highways, widening and improvement of roads, construction of bridges and flyovers, and rehabilitation of roads affected by natural disasters. The RDA maintained a total length of 12,380 km of national highways including expressways, as well as 4,662 bridges during the first half of 2018. Projects carried out to improve the road network included the rehabilitation and improvement of the Kandy-Jaffna road under the Northern Road Connectivity Project. Meanwhile, rehabilitation of 16 roads under the Priority Roads Project 3 - Phase II was also completed during this period. The Colombo National Highways Project also continued during this period. Meanwhile, under the 'Maga Neguma' rural road re-awakening programme, a total of 122 km was rehabilitated. Further, consultancy for the detailed design of the Port Access Elevated Highway Project was completed in February 2018.

- Expansion of the expressway network of the country also continued during the first half of the year.** The extension of the Southern Expressway Project from Matara to Hambantota, including an expressway link to Mattala, continued during the first half of 2018 and is scheduled to be completed by October 2019. Meanwhile, the government has given high priority to the construction work of the Central Expressway from Kadawatha to Dambulla, with expressway links at Pothuhera-Galagedara and Meerigama-Ambepussa. The total length of this project is 169 km, and currently land acquisition, land improvement and infrastructure development activities are in progress. Also, the construction work of Phase III of the Outer Circular Highway (OCH) from Kadawatha to Kerawalapitiya, with a link to the Colombo-Katunayake Expressway, continued with a cumulative physical progress of around 63 per cent of civil works by end June 2018. It is expected that the completion of the OCH in June 2019 would substantially reduce the traffic congestion within the Colombo Metropolitan Region.

Road Passenger Transportation

- Public passenger transportation showed subdued performance during the first half of 2018.** Operations of the Sri Lanka Transport Board (SLTB) showed a decline in terms of passenger kilometrage and the number of operated buses. However, operated kilometrage of the SLTB recorded a marginal increase. Meanwhile, passenger kilometrage and operated kilometrage of the private bus operators increased during this period. Inter provincial and intra provincial bus permits of private bus operators stood at 3,164 and 16,924, respectively, by end June 2018. Meanwhile, fares for both public and private bus operations were revised initially with effect from 23 May 2018, in line with the upward revision of domestic fuel prices. Accordingly, the minimum bus fare was increased to Rs. 12.00 from Rs. 10.00 and fares for other categories were revised upwards by an average rate of 12.5 per cent. Considering the higher fuel prices in the domestic

Table 3.2

Performance of Road Passenger Transportation Sector

Item	2017 Jan - Jun	2018 Jan - Jun (a)	Change %
Sri Lanka Transport Board (SLTB)			
Operated Kilometrage (mn)	219	220	0.1
Passenger Kilometrage (mn)	7,709	7,582	-1.6
No. of Buses Owned	7,608	7,308	-3.9
Average no. of Buses Operated	5,219	5,211	-0.2
Private Sector			
Operated Kilometrage (mn)	523	554	5.9
Passenger Kilometrage (mn)	26,346	27,668	5.0
No. of Buses Owned	19,917	20,088	0.9
Average no. of Buses Operated	17,728	19,165	8.1
No. of Inter Provincial Permits Issued	3,210	3,164	-1.4
No. of Intra Provincial Permits Issued	16,707	16,924	1.3

(a) Provisional

Sources: Sri Lanka Transport Board
National Transport Commission

market, bus fares were further increased by 4 per cent with effect from 21 September 2018, while keeping the minimum bus fare unchanged.

- **During the first half of 2018, the National Transport Commission (NTC) continued to take measures to improve the coverage of road passenger transportation.** Thirty two new 'Sisu Sariya' services were launched during the first half of 2018 with a total of 1,405 buses operating under the programme. This bus service, which is dedicated exclusively for school children at a concessionary rate of fifty per cent of the normal bus fare, was carried out with the aim of reducing heavy traffic congestion on roads during morning and afternoon peak hours, while ensuring the safety and reliability of the journey. Meanwhile, approval was given to initiate 10 new 'Gami Sariya' bus services during the first half of 2018 to provide uninterrupted, economical and reliable transport for people in rural areas, who travel to cities in order to fulfil their day-to-day requirements. Under the 'Nisi Sariya' project, the NTC plans to launch 100 new bus services during the year 2018 with 24 new services launched during the first half of the year. In addition, 154 'Nisi Sariya' services were in operation by end June 2018.
- **The registration of new motor vehicles increased during the first nine months of 2018 compared to the corresponding period of the previous year.** The total number of new

Table 3.3

New Registration of Motor Vehicles

Item	2017 Jan - Sep	2018 Jan - Sep (a)	Change %
Buses	2,356	2,383	1.1
Motor Cars	29,684	63,863	115.1
Three Wheelers	17,519	15,118	-13.7
Dual Purpose Vehicles	12,613	13,302	5.5
Motor Cycles	262,012	263,004	0.4
Goods Transport Vehicles	8,503	7,522	-11.5
Land Vehicles	9,528	7,187	-24.6
Quadracycles and Motor Homes	-	654	-
Total	342,215	373,033	9.0

(a) Provisional

Source: Department of Motor Traffic

vehicles registered during the first nine months of 2018 increased by 9.0 per cent compared to the same period of 2017. The increase in vehicle registration was mainly witnessed in motor cars, buses, dual purpose vehicles and motor cycles. However, registration of land vehicles, three wheelers and goods transport vehicles declined. The favourable duty structure introduced in relation to the import of small engine capacity vehicles and environmental friendly vehicles in the Budget 2018 resulted in a surge in the importation of small engine capacity vehicles, hybrid and electric vehicles. However, considering the adverse impact on the external trade account, the government and the Central Bank took a number of measures to curb excessive growth of vehicle imports generally used for non-commercial purposes during the second half of the year.

Rail Transportation

- **Rail transportation recorded an expansion in passenger transportation activities during the first half of 2018.** Rail passenger kilometrage increased by 2.7 per cent to 3.7 billion km. Continuous maintenance of rolling stock, rail track and improvements to the railway infrastructure contributed to this marginal expansion. However, goods kilometrage registered a decline of 10.2 per cent, recording 63.5 million mt km.
- **Several measures were taken to improve railway infrastructure in order to provide efficient transportation services.** During the first half of the year, the Sri Lanka Railways (SLR)

Table 3.4
Performance of Sri Lanka Railways

Item	2017 Jan - Jun	2018 Jan - Jun (a)	Change %
Operated Kilometrage (mn)	5.9	5.9	-0.8
Passenger Kilometrage (mn)	3,639	3,738	2.7
Freight Ton Kilometrage (mn)	70.6	63.5	-10.2

(a) Provisional

Source: Sri Lanka Railways

continued the construction and maintenance of railway station buildings, bridges, signals and telecommunication systems. In addition, double tracking of the rail line from Katunayake to Negombo continued and rehabilitation work of the Kandy-Peradeniya-Kadugannawa section commenced during the period under review. Further, initial work with regard to the Colombo Suburban Railway Project (CSRP) under the financial assistance of the Asian Development Bank (ADB) commenced, and initial work in relation to the rehabilitation of the rail track from Maho to Omanthei, and double tracking of the rail line from Polgahawela to Kurunegala were completed during the first half of 2018. Meanwhile, the SLR commenced surveying and assessing of railway lands in order to enhance the land management process. Meanwhile, the SLR also continued work on the Kelani Valley railway line project, which commenced in 2016.

Civil Aviation

- **The civil aviation sector recorded a significant growth in passenger and cargo movements during the first half of 2018, compared to the corresponding period of the previous year.** This was supported by the continued growth in tourist arrivals. Accordingly, total passenger movements at the Bandaranaike International Airport (BIA), including transit passengers, increased by 24.3 per cent to 6.4 million passengers during the first half of the year. Meanwhile, total volume of cargo handled by the BIA increased by 10.0 per cent during this period. Further, total aircraft movements of the BIA during the first six months of 2018 increased by 19.4 per cent to 35,908, compared to the corresponding period of 2017. However, the Mattala Rajapaksa International Airport (MRIA) handled only 281

aircraft movements during this period, compared to a relatively high number of 980 during the first half of 2017, which was due to the diversion of aircraft from the BIA to the MRJA during the partial closure of the BIA runway in 2017. At the same time, passenger movements at the MRJA also significantly decreased by 96.6 per cent. Total passenger movements pertaining to domestic air travel activities increased by 28.1 per cent during the first half of 2018 compared to the corresponding period of 2017.

- **Airport development projects continued in the first half of 2018 as well.** Under the BIA expansion project, the construction of remote apron and taxiways was in progress during the first half of 2018 and is expected to be completed by October 2019. Further, for better utilisation of MRJA, negotiations are currently underway with the Airports Authority of India (AAI) to start a joint venture to manage the airport. Moreover, the Cabinet of Ministers has granted approval for a Civil Aviation Policy of Sri Lanka and the approval of the Parliament is awaited. The Civil Aviation Policy will provide a strong legal background for all activities within the aviation industry of Sri Lanka. Further, during the first half of 2018, approval of the Cabinet of Ministers was granted for a Master Plan to develop the Ratmalana Airport, which includes ground plans as well as a business plan to explore business opportunities. Moreover, the Batticaloa airport was re-opened for civil aviation operations in March 2018.

Port Services

- **The overall performance of port related activities improved in the first nine months of 2018, reflecting the growth of commercial operations at all container terminals of the Colombo port.** The overall performance of the Colombo port in terms of container, transshipment and cargo handling, registered a growth of 14.9 per cent, 19.4 per cent and 13.3 per cent, respectively, in the first nine months of 2018, compared to the corresponding period in 2017. Total container handling at the Colombo

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International Container Terminal (CICT) and the South Asia Gateway Terminal (SAGT) recorded growth rates of 13.2 per cent and 16.5 per cent, respectively, for the first nine months of 2018. Accordingly, the CICT, Sri Lanka Ports Authority (SLPA) and the SAGT accounted for 37.8 per cent, 32.5 per cent and 29.7 per cent, respectively, of total container handling within the Colombo port. Meanwhile, transshipment container handling at the CICT, SAGT and SLPA in the first nine months of 2018 increased by 14.6 per cent, 21.1 per cent and 23.3 per cent, respectively, in comparison to the corresponding period of the preceding year.

- **The Port of Hambantota recorded a notable growth during the first nine months of 2018 after the SLPA and the government entered into a concession agreement with China Merchants Port Holdings Company (CMPort) to develop and operate the Hambantota port on a Public Private Partnership basis, in July 2017.** During the first nine months of 2018, cargo discharging, cargo loading and cargo handling registered a significant growth of 82.8 per cent, 156.1 per cent and 102.6 per cent, respectively, compared to the corresponding period of 2017. Meanwhile, total vehicle handling at the Hambantota port also recorded a significant growth of 98.8 per cent during the first nine months of 2018 against the corresponding period of last year, supported by both domestic and

Table 3.5
Performance of Port Services

Item	2017	2018	Change %
	Jan - Sep	Jan - Sep (a)	
Ship Arrivals at Ports of Sri Lanka	3,647	3,716	1.9
Total Cargo Handling (mt '000)	69,337	77,949	12.4
Total Container Handling (TEUs '000) (b)	4,545	5,223	14.9
Transshipments (TEUs '000) (b)	3,523	4,207	19.4

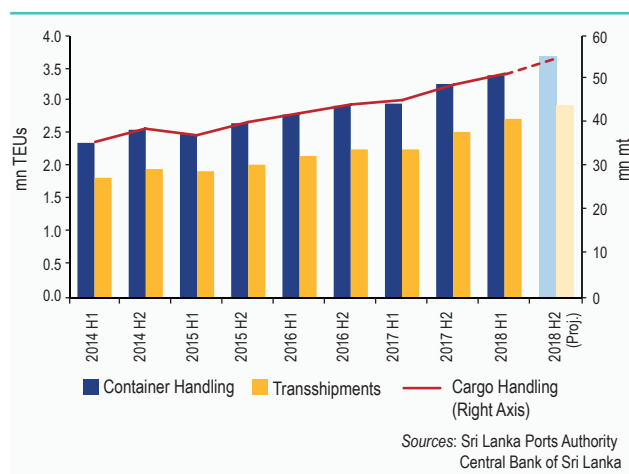
(a) Provisional
(b) TEUs = Twenty-foot Equivalent Container Units

Source: Sri Lanka Ports Authority

transshipment vehicle handling, which registered growth rates of 115.7 per cent and 88.6 per cent, respectively.

- **Several measures were undertaken during the first half of 2018 to develop Sri Lankan ports, with a view to improving connectivity through sea transportation.** During the first half of 2018, the development of the East Container Terminal (ECT) continued, which included the completion of the quay wall. A National Port Master Plan, which includes plans for the development of Colombo and Trincomalee ports, is being prepared with technical assistance from international consultants. Further, the Request for Proposals (RFP) for the Yacht Marina project at the Port of Galle was in progress during the first half of 2018. Meanwhile, rehabilitation of container stacking areas and roadways in the Colombo port have been carried out in stages to avoid the stoppage of day-to-day container operations at the Jaye Container Terminal, Prince Vijaya Quay and Bandaranaike Quay.

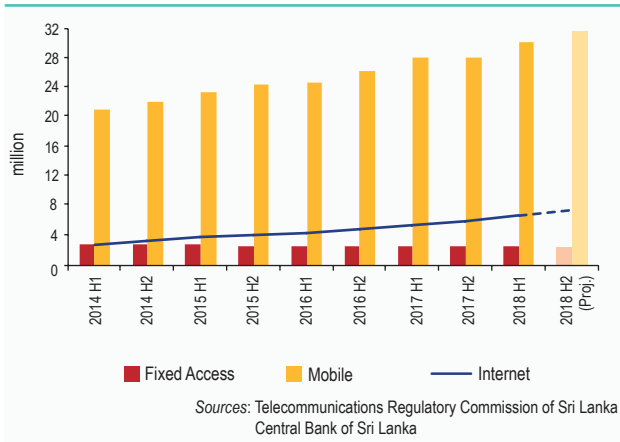
Figure 3.4
Container Handling, Transshipments and Cargo Handling at Ports of Sri Lanka



Telecommunication Services

- **The telecommunication industry continued its growth during the first half of 2018, largely supported by the increase in mobile telephone and internet connectivity.** The number of mobile telephone connections increased by 7.5 per cent, while fixed wireline telephone connections recorded a lower growth of 1.5 per cent during the first half of 2018, compared to the corresponding period of 2017. Fixed wireless connections continued to fall during the first half of 2018. By end June 2018, fixed telephone penetration (connections per 100 persons) and the mobile

Figure 3.5
Telephone Connections (Fixed Access and Mobile)
and Internet Connections



telephone penetration stood at 11.7 and 139.5, respectively. With regard to internet services, total internet connections grew by 19.7 per cent during the 12 months ending in June 2018, raising internet penetration to 30.3 (connections per 100 persons). As at end June 2018, the increase in internet connections was supported by the growth of fixed internet connections and mobile internet connections by 25.6 per cent and 18.3 per cent, respectively.

- **During the first half of 2018, the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) and the Information and Communication Technology Agency (ICTA) of Sri Lanka continued to support the development of the telecommunication sector.** The TRCSL finalised the preliminary design of the Colombo head office extension project and was in the process of obtaining the development permit for the project. The ICTA plans to complete several projects during 2018, which include the Lanka Government Network version 2.0 (LGN 2.0) project, Lanka Government Cloud (LGC) 2.0 project, Business Process Improvement study of the Employees' Trust Fund Management system, policy document and public hearing workshop under eGovernment policy and cloning of 358 websites for district and divisional secretariats to provide an efficient service, while improving and developing digital infrastructure of the country. With the completion of this project,

Table 3.6
Telecommunication Services

No. of Subscribers	End June 2017	End June 2018 (a)	Change %
Fixed Access Telephones ('000)	2,514	2,531	0.7
Mobile Telephones ('000)	28,113	30,209	7.5
Internet Connections ('000) (b)	5,479	6,561	19.7
Total Telephone Penetration (c)	142.8	151.2	5.8
Mobile Telephone Penetration (c)	131.1	139.5	6.4

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

- (a) Provisional
(b) Including mobile internet connections
(c) Telephones per 100 persons

several government e-services are expected to be provided through a secure network. Further, during the first half of 2018, the Ministry of Telecommunication, Digital Infrastructure and Foreign Employment (MTDIFE) continued several projects to develop Sri Lanka's digital strategy, which included enhancement of digital literacy among students and teachers, awareness on Internet of Things (IoT) and cyber security.

Developments in Social Infrastructure

Health

- **During the first half of 2018, the government continued to take measures to improve human resources and physical infrastructure available in the state health sector.** By end June 2018, there were 19,692 qualified doctors and 34,714 nurses in government hospitals, representing one doctor for every 1,100 persons and one nurse for every 624 persons. The total number of beds in government hospitals was 76,824, indicating 3.5 beds for every 1,000 persons. Further, there were 102 government Ayurvedic hospitals with a capacity of 5,210 beds and 25,378 registered Ayurvedic physicians by end June 2018. Meanwhile, several physical infrastructure development projects were in progress during the first half of 2018 to improve conditions in the health services. Upgrading of infrastructure facilities at Emergency Treatment Units in line ministry hospitals, such as the Teaching Hospital in Kandy, District General Hospitals in Chilaw and Trincomalee progressed, while construction work of the Millennium ward

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complex at the Teaching Hospital in Kalubowila and development of the District General Hospital in Polonnaruwa also continued during the period under review. In addition, construction of the Bone Marrow Transplant Unit at Kandy General Hospital and establishment of specialised pediatric care complexes in Karapitiya and Ampara also continued. Meanwhile, rehabilitation and expansion of production capacity at the State Pharmaceutical Manufacturing Corporation and activities under the second Health Sector Development Programme also continued during the period under review. In addition, the government took measures to reduce the price of selected essential drugs with immediate effect from August 2018, with the aim of providing some relief to patients. However, it is necessary to ensure that the price reduction does not prevent the supply of high quality imported medicine to Sri Lanka. Further, the National Medicines Regulatory Authority is expected to issue guidelines to regulate prices of private healthcare services such as scans, laboratory tests and surgeries.

- **Several outbreaks of communicable diseases were reported in Sri Lanka during the period under review.** The country faced a severe seasonal Influenza epidemic, and the prevalence of Influenza and the associated fatality rate were highest in the Southern province. Meanwhile, the number of leptospirosis cases recorded increased to 2,579 during the first seven months of 2018 compared to 1,666 cases recorded in the same period of the previous year. On the other hand, dengue prevalence was 154 per 100,000 persons in the first seven months of 2018, in comparison to the record high level of 597 per 100,000 persons in the corresponding period of 2017. Mass scale premises inspection programmes and integrated vector control mechanisms, legal action against the owners of vector breeding grounds, and public awareness campaigns conducted with the support of media institutions, contributed to reduce the severity of the dengue outbreak in 2018. In addition to paper based disease surveillance for early detection of increased caseload and outbreaks of dengue, web based surveillance in collaboration with the

Epidemiology Unit was strengthened in 2018. The government allocated Rs. 200 million to establish High Dependence Units in selected hospitals in all the provinces in the country. Meanwhile, 40 dengue related deaths were reported during the first seven months of the year and accordingly the dengue fatality rate also declined considerably from 0.28 per cent recorded during the first seven months of 2017 to 0.12 per cent during the same period of this year.

- **The private sector continued to play an important role in providing health services.** By the end of June 2018, there were 191 registered private hospitals with 5,095 beds, including 15 private Ayurvedic hospitals with 334 beds. There were 144 registered private medical and channelling centres and 381 full-time and part-time medical clinics, while 291 private medical laboratories were in operation as at end June 2018.

Education

- **The government continued its efforts to improve the quality of general education provided by government schools.** The government recruited a total of 492 new teachers, conducted programmes to train teachers, school principals, deputy principals and provincial officers on education service delivery, particularly on Science, Technology, Engineering and Mathematics (STEM) education, and leadership and management. Meanwhile, approximately 24,260 teachers have been evaluated through the external evaluation programme carried out by the Ministry of Education, zonal and divisional education offices to monitor the quality of education services. Meanwhile, the expenditure for physical infrastructure development in schools was Rs. 10.4 billion up to end June 2018.
- **The 13 years guaranteed education programme continued during the first half of 2018 amidst the need to strengthen the teacher cadre to ensure effective realisation of the programme.** A new vocational subject

stream was introduced for the GCE Advanced Level stage, comprising nine generic subjects and applied subject components through introductory, intermediate and advanced modules. The stage one of the pilot project in relation to this initiative was implemented in 42 schools in 2017 and stage two was implemented in 153 schools in 2018. Further, 850 teachers and 1,274 teachers from the existing cadre were trained to deliver subjects under stage one and stage two of the pilot programme, respectively.

- The government introduced the Suraksha school student health insurance scheme with the aim of providing insurance benefits for school children, in relation to diseases, accidents and other injuries.** Students aged 5 to 19 years studying from grade 1 to 13 in all government schools, government assisted or not-assisted private schools, pirivenas, assisted special schools and international schools are entitled for this health insurance, which provides a maximum insurance cover of Rs. 200,000 per student. Accordingly, 4.45 million students of 10,194 government schools, 80 government-approved private schools, 753 pirivenas and 220 international schools have been covered by this insurance scheme.
- Measures have been taken by the government to improve education services offered by the state universities.** During the first half of 2018, the University Grants Commission (UGC) approved three undergraduate programmes, four postgraduate degree programmes, 19 new departments and a faculty of medicine with particular emphasis on strengthening science related study programmes. Based on the 2017 GCE Advanced Level examination, 30,141 students have been selected for the 2017/2018 academic year, while it is proposed to enrol another 372 students under the additional intake. Meanwhile, the UGC collaborated with the Department for Registration of Persons to identify students who apply for university admissions from academic year 2017/2018 onwards and to obtain electoral registers from
- the Election Commission to determine the district of the candidates for university admissions, to ensure efficiency and transparency of university admission. Meanwhile, a Postgraduate Institute of Indigenous Medicine attached to the University of Colombo was established. Further, the Quality Assurance and Accreditation Council (QAAC) of the UGC continued its activities in setting up quality standards and measurements, supporting internal quality assurance units of the state universities, and institutional and programme reviews.
- The private sector continued to play an important role in the tertiary education sector, in the context of limited availability of opportunities in the state university system.** By mid-July 2018, there were 17 degree awarding non-state higher education institutes (NSHEIs) that were offering 120 local degree programmes. During the period under review, 21 new bachelor's degree programmes of five NSHEIs were accredited. Meanwhile, the government decided to absorb students of the South Asian Institute of Technology and Medicine (SAITM), who have basic entry qualifications and have registered for the MBBS degree programme at SAITM between 15 September 2009 and 15 May 2017 to the General Sir John Kothalawala Defence University (KDU), to follow the study programme leading to a MBBS degree of the KDU. In addition to state and non-state higher education institutions, several other private institutions conducted programmes leading to undergraduate and post-graduate qualifications offered by universities abroad.
- By end June 2018, the technical and vocational education and training (TVET) sector comprised 873 registered training institutions, of which 388 were public institutions.** These institutions offered a total of 1,888 accredited courses during the first half of 2018. The Ministry of Skills Development and Vocational Training introduced a new training approach titled 'Training Purchase Model', with a view to providing training on skills that are in demand, which the public sector TVET institutions alone cannot provide

sufficiently due to limitations of resource. Accordingly, private sector employers are encouraged to get their workers trained by public or private TVET institutions on a cost sharing basis. Meanwhile, the TVET policy framework is expected to be updated by end 2018. The Tertiary and Vocational Education Commission also conducted several TVET awareness programmes, especially for youth from the Northern, North Central and Uva provinces.

3

Urban Development and Housing

- **During the first half of 2018, township development and housing projects continued under the relevant government ministries.**

In the first seven months of the year, Rs. 343.6 million has been released to carry out 455 sub-projects under the 'Sukhitha Purawara' small township development programme, which aims at developing basic infrastructure in suburban cities, with a view to uplifting living standards of the citizens. Further, the Strategic Cities Development Project was underway in Anuradhapura, Galle, Jaffna and Kandy cities. Meanwhile, the construction work of several housing projects was in progress during the first half of 2018. Moreover, numerous small-scale model village projects were completed and declared open during the period under review, by the Ministry of Housing and Construction.

- **Activities pertaining to the development of urban transportation continued during the period under review.** Accordingly, under the Greater Colombo Urban Transport Development Project, substantial progress was achieved in the construction of the multimodal transit centre in Makumbura, rehabilitation project for Kottawa-Hokandara road and the road widening project for Kottawa-Malabe road. Further, preliminary work related to the Light Rail Transit Project, which aims to construct an elevated railway track from Malabe to Fort, was in progress during the first half of the year. Accordingly,

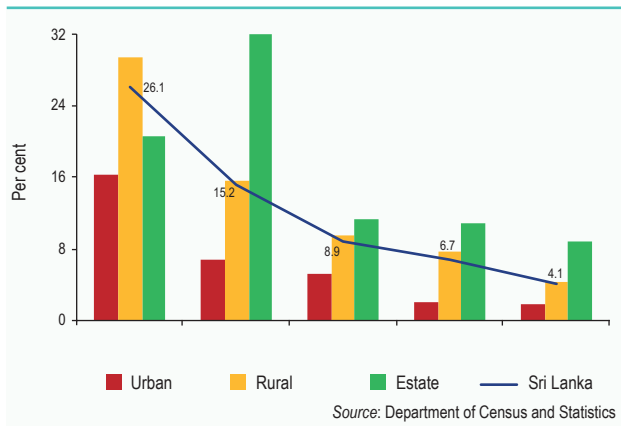
a detailed feasibility report, environmental impact assessment report and resettlement action plans were completed, while the land acquisition survey is in progress. The project is expected to be completed in 2026.

- **Several solid waste management projects were implemented during the first half of 2018.** Steps have been taken to close-down the Meethotamulla landfill site and develop a sanitary landfill site at Aruwakkalu to manage the solid waste collected from Metro-Colombo area, suburbs and local authorities in the Puttalam district. As at end June 2018, the project has achieved a physical progress of 15 per cent. Meanwhile, two waste-to-energy projects have been commissioned with the engagement of private sector companies. The CEB is expected to enter into standardised power purchasing agreements, while the Colombo Municipal Council (CMC) is expected to sign concession agreements in relation to waste management with the selected project companies.
- **The Colombo Port City Development project progressed during the first half of 2018.** Accordingly, over 90 per cent of the work related to land reclamation and 70 per cent of the work related to breakwater construction was completed by end September 2018. The land reclamation activities are expected to be completed in mid-2019.

Safety Nets and Poverty Alleviation

- **Although overall poverty levels in the country have continued to decline, remaining vulnerabilities and disparities need to be addressed through targeted initiatives to support inclusive growth.** As per the latest Household Income and Expenditure Survey (HIES) - 2016 of the Department of Census and Statistics (DCS), the Poverty Headcount Ratio (PHCR) stood at 4.1 per cent, compared to 6.7 per cent during the previous survey period of 2012/13. However, regional disparities continued,

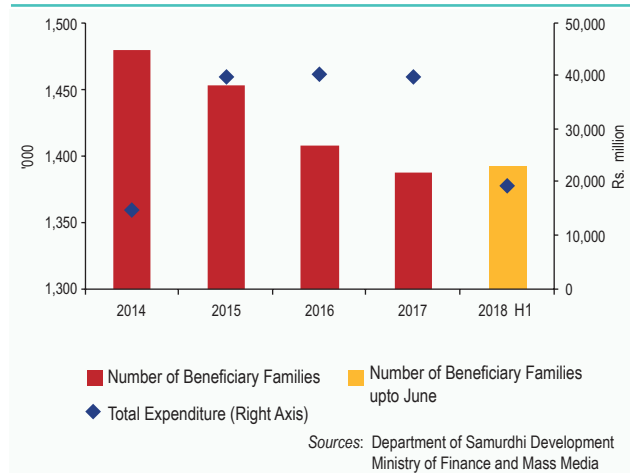
Figure 3.6
Poverty Headcount Ratio (PHCR)



with the Colombo district recording the lowest PHCR of 0.9 per cent compared to the highest PHCR of 18.2 per cent recorded in the Kilinochchi district. Meanwhile, in absolute terms, the number of people who fell below the poverty threshold stood at 843,913. However, a considerable share of the population is also just above the poverty line and are at the risk of falling below the poverty line in case of adverse shocks such as natural disasters. According to the World Bank, extreme poverty in Sri Lanka, i.e. the percentage of the population living below US dollars 1.90 per day (in 2011 Purchasing Power Parity terms), stood at 0.7 per cent in 2016. Meanwhile, moderate poverty, which has the threshold of US dollars 3.20 per day (in 2011 Purchasing Power Parity terms), was 9.5 per cent in 2016, indicating that around 2 million people fall below the international threshold of moderate poverty.

- **During the first half of 2018, funds amounting to Rs. 19.7 billion were distributed to nearly 1.4 million beneficiaries under the Samurdhi subsidy programme, while Rs. 436 million was distributed to 87,706 beneficiaries under the Samurdhi Social Security Benefit Scheme.** Meanwhile, the Ministry of Women and Child Affairs continued to provide nutritional food packages to expectant mothers at a cost of Rs. 2.3 billion during the first half of 2018. However, amidst these initiatives, the prevalence of stunting, underweight and wasting among children below the age of 5 years remained over

Figure 3.7
Performance of the Samurdhi/Divineguma Subsidy Programme



15 per cent, according to the Demographic and Health Survey – 2016 of the DCS. Meanwhile, the Department of Samurdhi Development has implemented an empowerment plan in order to alleviate poverty by 2030, in accordance with the Sustainable Development Goals (SDGs). Accordingly, 218 projects were implemented with the aim of empowering beneficiary families at a cost of Rs. 58.9 million during the first half of the year.

Expected Developments

- **While it is imperative that formula based pricing for domestic petroleum prices continues, substantial losses and the growing debt stock of the CEB warrant an early implementation of a cost-reflective tariff mechanism for electricity as well.** Electricity tariffs have not been revised since 2014 and remain below cost recovery levels. Continued losses of the CEB not only pose challenges to its financial viability, but also affect the liquidity management and financial performance of other related entities. Heavy borrowings by the CEB also weaken the balance sheets of state banks and crowd out other required investments in the economy. Therefore, implementation of a cost-reflective tariff mechanism is essential at this juncture to ensure the financial viability of the CEB as well as to resolve other macroeconomic issues caused by the losses of this SOBE.

3

- **The Welfare Benefit Board at the Ministry of Finance and Mass Media, in partnership with the Ministry of Social Empowerment, and ICTA, is in the process of developing a social registry, with the aim of strengthening the capacity of the government to monitor and better target welfare programmes, and thereby improve efficiency, equity and transparency of the social security and safety net system.** The social registry is a single registry of citizens, who are eligible or potentially eligible for welfare programmes, and the selection of beneficiaries is expected to be based on multidimensional data available in the registry such as economic characteristics and family structure. This registry will cover numerous government funded social welfare programmes implemented by state institutions. With the social registry, welfare beneficiaries can be identified in a fair and transparent manner, thus ensuring that benefits reach intended households. The registry will be updated periodically, allowing the addition of new beneficiaries to the welfare benefits system and enabling households who do not need benefits to gradually exit from the system. Further, a grievance handling system will also be developed in tandem with the social registry, with an appeal mechanism and a system to report on undeserved beneficiaries who receive benefits.
- **Several major road development projects are to be implemented in the medium term.** Currently, plans are underway in relation to the construction of Ruwanpura expressway, port access elevated highway, the extension of the Marine Drive from Dehiwala to Panadura and the extension of the Baseline road beyond Colombo-Horana Road to Ratmalana. The proposed 74 km-long Ruwanpura expressway will link the Southern expressway from Kahathuduwa and extend up to Pelmadulla. Meanwhile, the port access elevated highway is proposed to connect the outer circular highway with the New Kelani Bridge and will be implemented in two phases. Phase I will link New Kelani Bridge to Rajagiriya, while Phase II of the highway will be constructed from Rajagiriya to Athurugiriya. These road development projects aim at reducing the traffic congestion in the Colombo city and suburban areas while strengthening regional connectivity. Nevertheless, it is essential to implement measures to improve public transportation systems in order to reduce traffic congestion and fuel consumption, supporting improved productivity in economic activities of the country.