

3. ECONOMIC AND SOCIAL INFRASTRUCTURE

Developments of economic infrastructure recorded a mixed performance during the first half of 2005. Telecommunications and port services continued to expand, while the energy sector suffered from historically high international oil prices. Passenger transportation did not show a noticeable progress. However, the Strategic Enterprise Management Agency (SEMA) has taken initiatives to reform several infrastructure services. In the sphere of social infrastructure, key reforms initiated during the latter part of the 1990s in the health and education sectors continued to be implemented.

Developments in Economic Infrastructure

Electricity

● **The installed capacity and generation of electricity showed moderate improvements during the first eight months of 2005.** The installed capacity expanded by 2 per cent to 2,480 MW during the first eight months of 2005 with the commissioning of a 100 MW thermal power plant at Embilipitiya. Electricity generation increased by 6 per cent to 5,753 GWh. The system loss of electricity declined marginally from 17.4 to 17 per cent as a result of several developments such as improvements in the distribution network, action taken to prevent illegal connections and the installation of electricity meters.

Total electricity generation in 2005 is projected to grow by 6 per cent to 8,632 GWh.

- **Hydropower generation increased by 2 per cent during the first eight-months of 2005.** The share of hydropower in the total generation increased to 37 per cent from 34 per cent in the first eight months of 2004. Water storage in hydro-reservoirs, which was around 65 per cent at the beginning of the year dropped gradually to 36 per cent by end August 2005, but subsequently increased to 55 per cent by end September.
- **The Ceylon Electricity Board (CEB) continued to report high operational losses despite the marginal improvement in hydropower generation.** According

Chart 3.1
 Electricity Generation (Gwh)

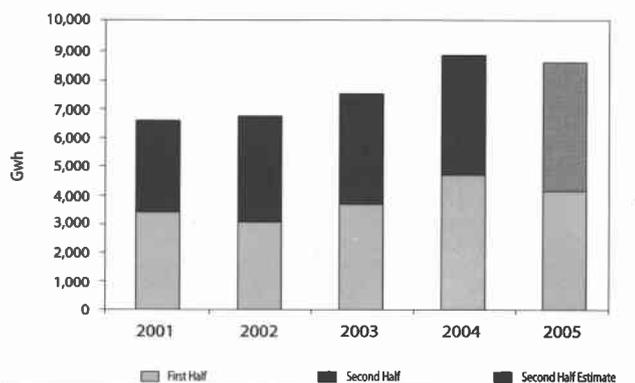
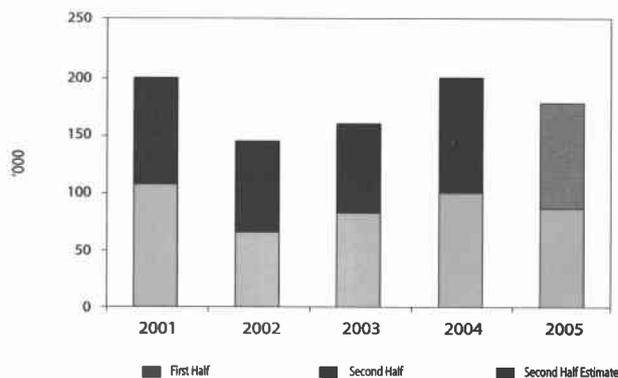


Chart 3.2
 New Electricity Connections



to provisional accounts, the net operating loss of the CEB was Rs.7.4 billion during the first half of 2005. Its operating losses in 2004 amounted to Rs.3.2 billion. The loss was mainly due to the increased cost of thermal power generation as a result of high oil prices, while electricity tariffs remained unchanged. The average cost of electricity generation was Rs.9.52 per unit, while the average tariff was Rs.7.70 per unit during the first eight-months of 2005.

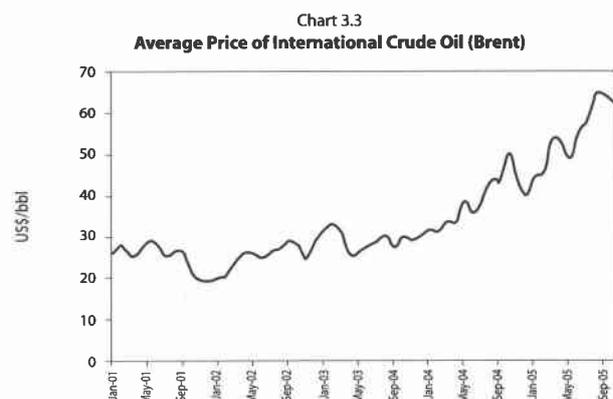
- **A serious power shortage is not anticipated in 2005 or 2006 given the expected normal weather conditions.** However, the electricity supply is still at risk since there are no major power generating projects to be completed in 2005 and 2006. In view of this, it is essential that the long-term generation expansion plan of the CEB is implemented. Meanwhile, the proposed first phase of the 300 MW coal power plant has been initiated with assistance from China. The construction work of the proposed 150 MW Upper Kotmale hydropower project has been scheduled to commenced by end 2005.

Petroleum

- **The surge in international oil prices continues in 2005.** International crude oil prices remained high during the first nine months of 2005, due to growing global demand especially from the US, China and India, supply disruptions in the Middle East and the Gulf of Mexico and limitations in the refinery capacity. The average crude oil price (Brent-spot market price) fluctuated between US dollars 44 and 64 per barrel during the first nine months of 2005.

The weighted average price of crude oil imported by Ceylon Petroleum Corporation (CPC) increased by 41 per cent, from US dollars 34 per barrel during the first half of 2004 to US dollars 48 per barrel during the first half of 2005.

- **Domestic petroleum prices were adjusted twice, in May and June 2005, but such adjustments were not adequate to cover the cost.** Prices of petrol, diesel and kerosene rose by Rs.12.00, Rs 8.00 and Rs.5.00 per litre, respectively, as a result of the adjustments. The continuing increase in international prices has led to a substantial disparity between the domestic market price of petroleum products and the cost of imports. By end August 2005, the domestic prices of petrol, diesel and kerosene were lower than the cost by Rs. 9.00, Rs. 7.00 and Rs. 28.50, respectively. As a result of the non-adjustment of fuel prices, oil distributors have claimed a subsidy payment of about Rs. 11 billion from January to August 2005 from the government.
- **Oil prices are projected to remain high during the fourth quarter of 2005.** Available projections show



that oil prices would remain around US dollars 60 per barrel during the remaining period of 2005. Oil prices will continue to be very sensitive to any further oil market tightness, political tension and speculation.

Road Transportation

- **The progress of construction of the proposed major highways has been slow.** The construction work of the Southern Expressway, with a length of 130.9 km and with an estimated cost of Rs. 29 billion, is in progress. The construction work relating to section of this highway from Kurundugahahetekma to Matara, funded by the Asian Development Bank (ADB), was commenced in early 2003 and is expected to be completed by end 2006. The construction work of the section from Kottawa to Kurundugahahetekma, funded by the Japanese Bank for International Cooperation (JBIC) was commenced in 2005 and to be completed by 2008. The feasibility study of the proposed Outer Colombo Circular Highway has also been completed. However, construction work is delayed considerably due to difficulties in the acquisition of land. Implementation of the Colombo-Katunayake expressway and the Colombo-Kandy expressway is yet to be commenced.
- **A community based feeder roads development programme, “Maga Neguma Programme” was initiated in mid 2004.** The Maga Neguma programme for 2005 was commenced in June 2005 covering the whole island. Under this programme, 1,256 km of

rural roads will be rehabilitated at an estimated cost of Rs. 625 million, in 2005.

- **The Road passenger transportation sector has to be improved further.** The operational kilometerage and the passenger kilometerage of Regional Bus Companies (RBCs) dropped by 9 per cent each, while those of private bus operators improved marginally during the first half of 2005. The average bus fleet in operation dropped marginally to 15,678 buses, comprising 11,789 private buses and 3,889 state owned buses. New registration of passenger buses declined by 8 per cent during the first half of 2005. To improve the passenger transport sector, further progress has to be made on several fronts such as the enforcement of regulations, avoiding overloading, improving the quality of driving, adherence to time tables, and improving infrastructure. Meanwhile the Sri Lanka Transport Board (SLTB) was re-established in September 2005 amalgamating all state owned bus companies.

Rail Transportation

- **The performance of Sri Lanka Railways (SLR) suffered during the first half of 2005.** The passenger kilometerage dropped by 1 per cent, but the operated kilometerage increased marginally. However, the freight ton kilometerage increased by 15 per cent. The magnitude of the losses of SLR continued to be high in recent years. However, the operating losses during the first six months of 2005 dropped by 5 per cent to Rs. 1.3 billion.

- **Several reforms in SLR took place in the first half of 2005.** Rail fares were increased by about 50 per cent from August 2005 and the structure of the rail fare system was also revised. With the implementation of this revision, the revenue of SLR is expected to increase by Rs 800 million or by 50 per cent per year reducing its burden on the government. The SLR was brought under a separate Ministry in August 2005.

Port Services

- **Port services continued to expand due to both capacity expansion and productivity improvements.** Total cargo handling grew by 10 per cent to 24 million metric tons during the first eight months of 2005 over the corresponding period of 2004. The container throughput increased by 12 per cent to 1.6 million Twenty-foot Equivalent Units (TEUs) during this period. The expansion in international trade as well as tsunami related imports have contributed to this growth, and the growth momentum is expected to continue during the remainder of the year.
- **The Port of Colombo recorded the highest volume of container handling in August 2005.** The domestic

container throughput increased by 12 per cent and transshipments increased by 13 per cent during the first eight months of 2005.

- **Port capacity and efficiency at the Port of Colombo need to be further improved to face growing international competition.** In this regard the construction of the proposed Colombo South Harbour is imperative to face the regional competition.

Communication Services

- **The telecommunications sector further expanded with improved competition and technology.** The unprecedented growth in mobile communication witnessed during recent years continued in 2005. The subscriber network of mobile telephones increased by 24 per cent during the first half of 2005, following a 59 per cent growth in 2004. Fixed access telephone connections also expanded by 3 per cent during the first half of 2005. With these developments, the telephone density (defined as the number of telephones per 100 persons), including cellular

Chart 3.4

Container Handling at the Port of Colombo ('000 TEUs)

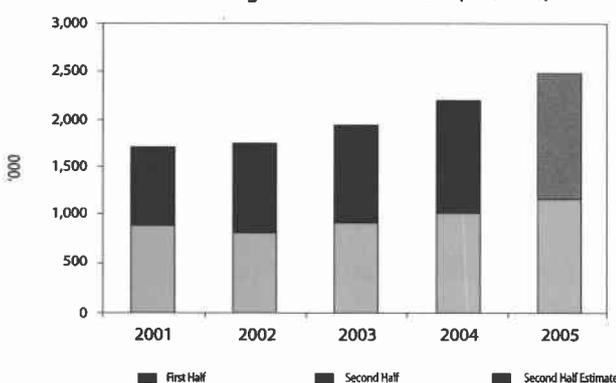
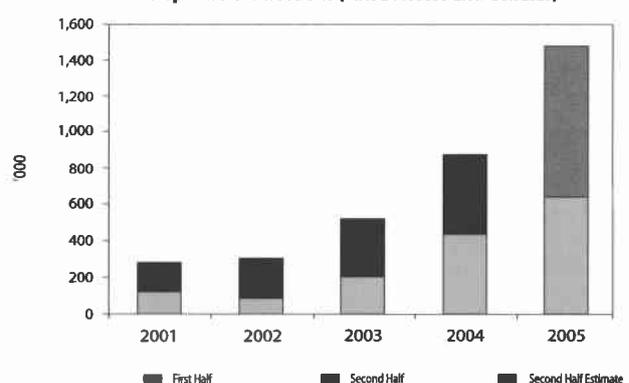


Chart 3.5

New Telephone Connections (Fixed Access and Cellular)



phones, increased to 19.1 by end June 2005 from 16.4 at end 2004.

- **The present growth momentum in the telecommunications sector is expected to continue with the rapid expansion in mobile services and wireless fixed access telecommunication services.**

Fixed access wireless telephone services are expected to expand rapidly, benefiting from the introduction of the Code Division Multiple Access (CDMA) technology. The overall expansion in the telecommunications sector is projected at around 46 per cent with fixed access lines rising by 16 per cent and cellular phones increasing by about 50 per cent in 2005.

- **The “SEA-ME-WE-IV” project (South East Asia-Middle East-West Europe-IV- submarine cable system) is expected to be completed by end 2005.** This would enhance the bandwidth of Sri Lanka’s telecommunication system, improving its quality.

- **The post office network, including private agency post offices stood at 4,653 by end June 2005.** Handling of inland mail articles by public sector post offices decreased marginally to 228 million articles, while handling of foreign mail articles decreased by 6 per cent to 34 million during the first half of 2005.

- **The Department of Posts (DOP) continued to introduce new services.** It continued to establish communication centres (Sannivedana Piyasa) in place of traditional post offices to develop communication

facilities, particularly in rural areas. By end June 2005, 131 such communication centres have been established islandwide.

Developments in Social Infrastructure

Health

- **With a life expectancy of 73 years, an infant mortality rate of 11.2 per 1,000 live births (2003) and a maternal mortality rate of 0.1 per 1,000 live births (2002), Sri Lanka’s health standards are considered satisfactory.** However, these achievements are now being threatened by a several unfavourable developments. Among these are recurring communicable and non-communicable diseases, demographic transition, high malnutrition among children, high incidence of accidents, substance abuse and weakness in the institutional set up and human resources management and financial constraints in the public health sector.
- **The government continues to play a significant role in the country’s health care system.** Of the total health care expenditure, government expenditure accounted for approximately 43 per cent (about 1.7 per cent of GDP in 2004), while the private sources accounted for 57 per cent of the expenditure. Major private financing sources were households, private sector employers, health insurance and Non-Government Organisations (NGOs).
- **Health reforms introduced in 1997 to address major issues in the health sector continued to be implemented in 2005, focusing on five thrust areas.**

These areas are, improving at least one hospital in each district, expanding services to areas of special needs, developing health promotional programmes, reforming the organisational structure including the development of alternative financing mechanisms and promoting resource sharing with the private sector.

Education

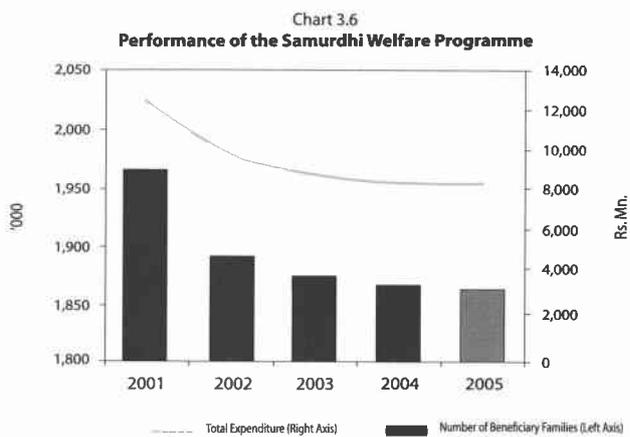
- **Sri Lanka's primary education is within the reach of targets set under the Millennium Development Goals (MDGs), with a literacy rate of 93 per cent, a primary school enrolment rate of 97 per cent, and with gender equality in education.** However, issues relating to regional disparity, teacher training, the mismatch between labour market requirements and educational achievements and the lack of basic infrastructure persist in the general education sector. Many schools, particularly those in remote areas continued to suffer from the above shortcomings. Fundamental language and numeracy skills among school children are reported to be very low. The average passing rate at the GCE O/L examination is also very low at around 37 per cent
- **Overall tertiary education enrolment is around 11 per cent of the eligible persons, of which, university enrolment is very low at around 3 per cent.** In 2004, about 44 per cent of the students who sat for the GCE A/L examination were qualified for university admission, but only 14 per cent were able to secure placements. University education in Sri Lanka, which is a public sector monopoly, fails to meet the

demand and also fails to supply a quality education compatible with global trends.

- **A large number of Sri Lankan students travel abroad for education.** In the classification of trade in services, this tantamounts to importing education services from abroad under mode 2 (consumption abroad), although there is a substantial opportunity to supply education facilities in Sri Lanka and export them under mode 2. Increasing the supply will effectively solve unemployment to a large degree among educated Sri Lankans.
- **The government has allocated more funds to the education sector in 2005 with a view to addressing some of these issues.** Estimated expenditure on education as a percentage of GDP in 2005 increased to 2.7 per cent from 2.1 per cent in 2004.

The Samurdhi Programme

- **The Samurdhi programme aims to improve the nutritional status of the poor communities by providing direct financial assistance and implementing programmes to enhance their**



income levels. About 2 million families directly benefited under the Samurdhi income supplementary programme in 2005. The total expenditure on the Samurdhi programme amounted to Rs. 4,296 million during the first half of 2005.

- **The Welfare Benefits Act No. 24 of 2002 provides the necessary legal framework for improving the targeting of welfare programmes.** The implementation of the Act envisaged targeting of Samurdhi benefits, improving the selection procedure and removing any unnecessary overlap with other welfare programmes. As an initial step, Samurdhi benefits were distributed to selected families in the Jaffna district in July 2005 based on a survey carried out in 2004. The survey is scheduled to be carried out in the Mannar and Mullaitivu districts.

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- **In addition to the Samurdhi income supplementary programme, the dry rations scheme for the benefit of displaced families in the North and the East continued during the first half of 2005.** Various community development programmes including rural infrastructure development, savings and credit, and skill development programmes were implemented under the Samurdhi programme.

Prospects for 2006

- **A substantial improvement in the economic infrastructure is a pre-requisite to achieve higher**

economic growth. Reforms in the process of implementation in selected economic infrastructure sectors under the Strategic Enterprises Management Agency (SEMA) are expected to continue in 2006.

- **The demand for electricity is projected to increase by 7 - 8 per cent in 2006.** There are no major new power plants to be completed in 2006. However, under normal weather conditions, a power shortage is not expected in 2006. As petroleum prices are expected to remain high in 2006 the cost of power generation will continue to be high. If electricity tariffs are not adjusted in line with the increased cost, the CEB would continue to report losses in 2006. The implementation of the proposed reforms in the electricity sector would enhance the efficiency of the power system and reduce the cost of power generation.
- **The telecommunications sector is expected to continue its growth momentum in 2006.** The introduction of CDMA technology will have a beneficial impact on expanding the fixed access service, particularly in rural areas. The number of subscribers to fixed access and cellular telephone services is estimated to grow by 15 per cent in 2006.
- **Port services are expected to expand by 10-12 per cent in 2006,** with the expansion of foreign trade, and gains from productivity improvements.