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## *ECONOMIC AND SOCIAL INFRASTRUCTURE*

*The government has taken measures to step-up investments in infrastructure by both public and private sectors and has commenced a series of projects including several mega infrastructure projects across the country. The continuous budgetary support for infrastructure development, despite fiscal constraints, is laudable, while more efforts to catalyze greater private financing through Public Private Partnerships (PPP) are needed. With these developments, strengthening the policy and regulatory framework underpinning key infrastructure sectors are important. In this respect, the issue of clear and stable policy guidelines and the establishment of a proper legal framework, especially for setting up of PPPs are rather important in the country's interest of using PPP as a major financing strategy.*

*Infrastructure services such as telecommunications and port services continued their growth momentum during the first half of 2008, while the energy sector suffered due to escalating oil prices. The construction work of several mega projects such as Southern Highway, Upper Kothmale Power Project, Norochcholai Coal Power Plant, Hambantota Port Development Project etc. was in progress during the first half of 2008.*

## Developments in Economic Infrastructure

### Electricity

- Electricity generation grew at a relatively lower rate of 2.3 per cent to 6,639 GWh during the first eight months of 2008. Hydropower generation increased by 20 per cent to 2,931 GWh, while the thermal power generation decreased by 9 per cent to 3,076 GWh. The increase in low cost hydropower generation somewhat mitigated the already deteriorated financial position of the Ceylon Electricity Board (CEB), in the wake of escalating oil prices.
- The financial position of CEB further aggravated during the first half of 2008, due to the increased cost of power generation with escalating oil prices and delay in tariff adjustment. The operating loss of CEB amounted to Rs. 11.3 billion during the first half of 2008,

Chart 3.1  
Electricity Generation (Gwh)

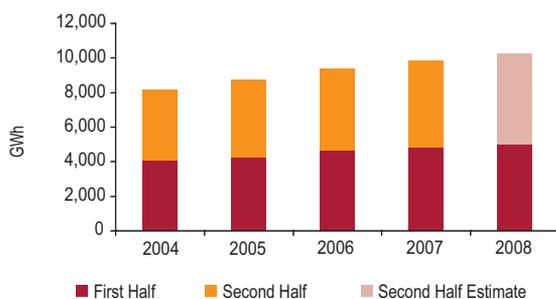
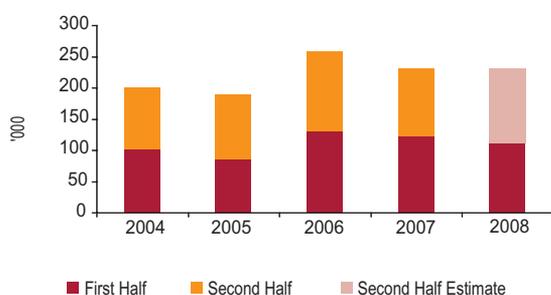


Chart 3.2  
New Electricity Connections



despite the recent increase in tariff, and the loss for the year 2008 is estimated to be around Rs. 45 billion. Electricity tariff was revised by an average rate of 35 per cent with effect from 15 March 2008, increasing the average tariff to Rs. 12.49 per unit. This revision was not adequate to cover the entire loss of CEB since the average cost of electricity generation had increased to Rs. 13.40 per unit during the first half of 2008.

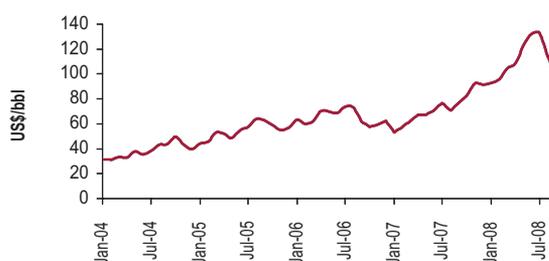
- CEB's short-term borrowings from banks and other outstanding liabilities to the Ceylon Petroleum Corporation (CPC) and to Independent Power Producers (IPPs) further increased to Rs. 26 billion during the first half of 2008. Expediting planned low cost power generation, reduction of system losses to an acceptable level and addressing the institutional and structural weaknesses of CEB on a priority basis are important to address the already worsened financial crises of CEB.
- The construction work of several power projects was in progress during the first half of 2008. The first phase (200 MW) of the Keralalapitiya Combined Cycle Power Plant (300 MW), is to be commissioned during the second half of the year. The construction work of the first phase of Norochcholai Coal Power Plant (300 MW) and Upper Kothmale Hydro Power Plant (150 MW) were also in progress during the first half of 2008 and are expected to be connected to the national grid by 2011.
- Urgent actions are needed for the conservation of energy and the development of renewable energy sources to deal with the present energy crises. Sri Lanka Sustainable Energy Authority (SLSEA) was established in 2007 with a view to ensuring energy security, increasing the portion of indigenous energy generation and curbing the growth of unnecessary energy intensity in the economy. SLSEA has taken several measures such as launching of mass-scale public awareness campaigns and the introduction of energy efficient building codes and mandatory

energy management methods, which should be rigorously enforced to conserve energy. However, the conservation of energy and the use of energy efficiently for economic development cannot be affirmed only through marginal and micro measures. Therefore, it is essential to shift fast to low cost power generation modes. Further, as stated in the National Energy Policy statement, the adoption of a flexible tariff policy, while minimizing subsidy elements are also important.

## Petroleum

- **International petroleum prices continued to increase during the first half of 2008 and reached record high levels by July 2008.** Geopolitical risks, limited spare capacity in oil production, disruptions to oil supplies in some oil exporting countries due to adverse weather conditions and conflicts, growing demand particularly from China and India due to rising income levels, and weakened US dollar mainly contributed to the oil price hike. The average international crude oil price (Brent) increased to US dollars 112 per barrel during the first nine months of 2008 and reached the highest price of US dollars 144 per barrel in July. The average price of crude oil imported by CPC stood at US dollars 116 per barrel during the first eight months of 2008. However, the price of crude oil declined significantly from the highest level

Chart 3.3  
Average Price of Crude Oil (Brent) in the  
International Market



of US dollars 144 per barrel in July 2008 to US dollars 96 per barrel by end September 2008 due to a restoration of supply from Brazil and Nigeria, coupled with a declining demand from USA and easing political tensions over Iran's nuclear programme.

- **Domestic petroleum prices were revised upward in line with the movement in international oil prices.** Accordingly, prices of petrol (90 octane), kerosene and auto diesel were raised by 34 per cent, 18 per cent and 47 per cent, respectively, to Rs. 157.00, Rs. 80.00 and Rs. 110.00 per litre, respectively, in two steps during the first half of 2008. The 15 per cent Value Added Tax (VAT) on petrol was reduced to 5 per cent with effect from January 2008 to ease the pressure on consumers. However, the full duty waiver of Rs. 20.00 per litre on importation of petrol was suspended in May 2008. The government continued to provide a kerosene subsidy targeting low-income groups by providing an additional financial grant to Samurdhi recipients.
- **CPC has initiated several programmes to reduce the cost of oil purchases.** Action was initiated to expand the Sapugaskanda oil refinery funded through an Iranian credit line. It is imperative to carry out a thorough feasibility study and cost estimation before starting the project to ensure the economy of the use of loan funds. The government of Iran has granted a 120 day interest free credit facility to CPC to purchase crude oil from Iran. CPC had utilized US dollars 725 million under this loan scheme by end June 2008.
- **The total sales of major petroleum products dropped by 14.8 per cent, during the first eight months of 2008 compared to the same period of the previous year.** Though, sales of petrol have increased marginally, sales of diesel and kerosene have declined significantly by 8.5 per cent and 11.2 per cent, respectively.

## Oil Exploration

- Sri Lanka has already carried out Two Dimensional (2-D) Seismic surveys for oil exploration in the Mannar Basin in 2001 and 2005. The analysis of Seismic data shows a significant potential for the presence of hydro carbons (oil and gas) in the surveyed area. International competitive bids in respect of 3 blocks out of 8 were called and a contractor was selected for oil exploration for one of the blocks. Accordingly, the first contract on oil exploration was signed between the Government of Sri Lanka and Cairns India Ltd. on 7 July 2008. Exploration work in the block is to be commenced by Cairns shortly. Fresh competitive bids are also due to be called for the remaining blocks.

## Road Transportation

### Road Development

- The construction work of planned highways, expressways, bridges and road rehabilitation projects remained at various stages of implementation in the first half of 2008. Southern Highway Project, which was started in 2003, is scheduled to be completed in 2010. Asian Development Bank (ADB) and Japan Bank for International Cooperation (JBIC) are providing loan facilities for this project. Land acquisition for the Colombo Outer Circular Highway was in progress during the first half of 2008. The contract for the construction of the proposed Colombo - Katunayake Expressway was awarded to a Chinese company at a cost of US dollars 310 million. The Road Development Authority (RDA) implemented several road rehabilitation and improvement projects funded by the World Bank and the ADB. Total expenditure on road construction and rehabilitation projects implemented with foreign loan facilities and local funds amounted to Rs. 17,337 million and Rs. 6,225 million, respectively, during the first half of 2008.

- Twenty-one flyovers are planned to be constructed to reduce the traffic congestion in Colombo and suburbs. Under this, the first phase of the Kelaniya flyover was completed within 60 days, significantly easing traffic congestion on the Colombo - Kandy road. The second phase was also completed in August 2008. Flyovers at Gampaha and Orugodawatte are presently under construction while the work of the flyover at Nugegoda also commenced in October 2008.

### Road Passenger Transportation

- Public passenger transportation showed a marginal improvement during the first half of 2008. The total number of buses owned by the Sri Lanka Transport Board (SLTB) increased by 4 per cent to 9,259. However, the average number of buses operated per day was only 4,180. The total operated kilometerage and passenger kilometerage of SLTB increased by 4 per cent and 2 per cent, respectively, during this period. The operated average bus fleets in the private sector is estimated to have increased by 7 per cent to 12,912 in the first half of 2008. However, new registration of passenger buses decreased by 62 per cent in the first half of 2008.
- Bus fares were revised as per the national bus fares policy during the first half of 2008. Passenger bus fares were increased by an average of 4.6 per cent in February 2008. The second fare revision was made in May 2008, where private sector bus fares were increased at an average of 27.2 per cent and state sector bus fares were increased at a lower rate of 17.4 per cent. The fuel price increase was the main contributory factor for the bus fare revisions during this period.
- The financial position of SLTB continued to weaken. The total revenue of SLTB, excluding reimbursements, increased by 18 per cent to Rs. 8,449 million during the first half of 2008. Its operating expenditure increased by 20 per

cent to Rs. 9,724 million mainly due to a 32 per cent increase in the fuel bill. Accordingly, the operating loss of SLTB increased by 32 per cent to Rs. 1,275 million during the first half of 2008 compared with the corresponding period of the previous year.

## Rail Transportation

- The performance of Sri Lanka Railways (SLR), in terms of the scale of operations, reflected a negative growth during the first half of 2008. Passenger kilometrage decreased by 3 per cent while goods kilometrage decreased by 15 per cent. The substantial increase in freight charges as well as reduction of the petroleum transportation caused the decline in goods transportation.
- Railway sector suffered from its inherited weaknesses. Inadequate investments on railway infrastructure, fast expansion of the road network making road transport more convenient to the public and freight business, disruption to the Northern line, which used to be a major source of revenue, lack of strategic management and financial flexibility to operate as an independent institution to become a commercially viable entity are some of the main issues faced by the railway sector.
- SLR has taken several measures to improve the railway sector. SLR has taken steps to refurbish 15 engines as half of its 65 engines, are more than 30 years old and are subject to frequent breakdowns. SLR is also planning to import 15 new power sets, each with six coaches, at a total cost of US dollars 38 million. SLR has planned to set up a workshop to repair coaches locally. SLR has formulated a policy framework focusing on improving security of the passengers, reliability of services, human resources development, strengthening financial viability and technical improvements. Further, SLR intends to electrify the railway line from Panadura to Fort and to develop 12 railway stations under the Coastal Railway Line Development Project with private sector participation.
- Railway fares were increased in June 2008 for the first time in three years. Despite reduction in the scale operations, the financial position of SLR showed a marginal improvement due to rail fare increases. Total revenue of SLR increased by 18 per cent to Rs. 1,452 million and the current expenditure decreased by 11 per cent to Rs. 2,716 million during the first half of 2008. Accordingly, the operating loss decreased by 31 per cent to Rs. 1,264 million during this period.

## Civil Aviation

- The civil aviation sector showed a modest improvement during the first half of 2008. The total number of passengers served at the Bandaranayake International Airport (BIA) increased by 2 per cent, while air freight decreased by 6 per cent during this period compared to the corresponding period of 2007. However, domestic air passenger transportation showed a sharp increase of 76 per cent during this period, mainly due to the increase in air passenger transportation between Colombo to Jaffna.
- Several programmes were implemented to further develop the civil aviation sector in the country. 'Eurocypria' airlines started their operations to Sri Lanka in January 2008 as a passenger charter operator and Cathay Pacific airlines recommenced their operations in Colombo after suspension of flights in March 2007. Sri Lanka participated in 4 bilateral air services negotiations with 4 countries. The Sri Lanka Aeronautical Authorities entered into a new agreement with Turkey and negotiations with Pakistan, Bangladesh and Kenya concluded with successful amendments to the existing agreements regarding enhancement of the available traffic rights. The Government of Sri Lanka took over the management of SriLankan Airlines from Emirates Airlines after the end of a 10 year management agreement in April 2008. However, Emirates continues to hold a 43.6 per cent ownership of the airline. With the expiry

of the management contract, the code share agreement between SriLankan and Emirates was terminated and SriLankan Airlines now operates to 41 destinations in 22 countries. However, 'Mihin Lanka', the budget airline, fully owned by the government, suspended its operations in May 2008 due to heavy operational losses and financial difficulties. Given the current weak position of the global aviation industry, any decision to restart this air line should be made after a proper cost - benefit analysis of its viability and sustainability without continued public funding.

### Port Services

- **Port services continued to expand during the first eight months of 2008.** Total cargo handling grew by 10 per cent to 33.8 million mt, while container handling too recorded a similar growth during this period. Transshipment handling grew by 13 per cent during the first eight months of 2008 over the corresponding period of the previous year.
- **Several measures have been introduced to further improve the volume and productivity of the port sector.** Implementation of new terminal handling equipment, commencing of a terminal management computer system project and implementing measures to increase the supervision to maximize the utilization of existing resources were among them. Meanwhile, further measures are being taken to reduce non-operational time of the port by reducing time taken for shift breaks.

Chart 3.4  
Container Handling at the Port of Colombo

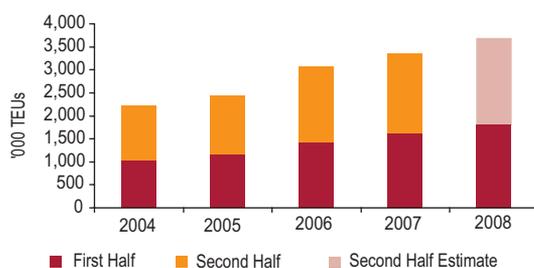


Table 3.1  
Performance of Port Services

Item	2007 Jan.-Aug.	2008 Jan.-Aug.	% Change
Ships arrived at ports of Sri Lanka	3,135	3,171	1.1
Total cargo handling (MT '000)	30,682	33,817	10.2
Total container handling (TEUs '000)	2,234	2,461	10.2
Transshipments (TEUs '000)	1,639	1,849	12.8

Source: Sri Lanka Ports Authority

- **Potential growth in the port sector is hindered by a lack of capacity and lower productivity.** The Port of Colombo has almost reached its full capacity for container handling thereby limiting its ability to attract the regional transshipment demand amid emerging competition. High berth occupancy of over 75 per cent indicates less capacity to accommodate new main line shipping services. The permanent closure of the northern entrance due to security reasons has created navigational delays and increased ship waiting and sailing time resulting in idling of terminal resources. Delays in replacing ageing equipment with new equipment, and inadequate draught for new generation ships are also among other issues.
- **Construction work of new port projects were continued in the first half of 2008.** The construction work of the Colombo Port Expansion Project (CPEP) has been given priority as capacity limitations at the port could lead to a loss of its market share in transshipment. The CPEP includes dredging, construction of a breakwater sufficient to accommodate three terminals, establishment of a new marine operation centre and relocation of the oil pipe line. It is planned to construct these terminals on Build Operate and Transfer (BOT) basis. The contractor of the Hambantota Port Development Project has already commenced the construction work under the supervision of an engineering team of Sri Lanka Ports Authority (SLPA) and the progress of the work is ahead of the schedule. The construction work of Galle and Olivil Port Development Projects were also in progress during the first half of 2008.

## Communications Services

- The growth momentum in the telecommunications sector continued in the first half of 2008. In line with global trends in telecommunications, all landline and mobile service providers have further expanded their network coverage and product range in data and voice transmission. The subscriber network of mobile telephones increased by 40 per cent while that of fixed access telephones expanded by 42 per cent during this period compared to the first half of the previous year. These developments led telephone density (telephones per 100 persons), including cellular phones, increased to 60 by end June 2008 from 54 at end 2007.
- The post office network, including private agency post offices, did not show a significant development during the first half of 2008. The total number of post offices stood at 4,740 by end June 2008 compared to 4,734 post offices at the end of 2007.
- The financial position of the Department of Post (DOP) indicated some improvements with the upward revision of postal charges in April 2007. DOP has also implemented several measures to contain expenditure and improve the revenue, which also has led to further strengthening its financial situation in the first half of 2008. As a result, operating loss of DOP dropped by 17 per cent to Rs. 1,788 million up to June 2008, in comparison to the operating loss of Rs. 2,162 million in the same period of 2007.

Chart 3.5  
New Telephone Connections  
(Fixed Access and Cellular)

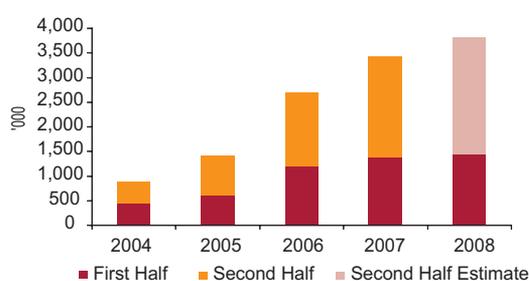


Table 3.2  
Telecommunications Services

No. of Subscribers	End June 2007	End June 2008	% Change
Fixed access telephones	2,215,430	3,145,957	42.0
Cellular telephones	6,447,042	9,000,000	39.6
Internet and E-mail services	150,000	223,123	48.7
Telephone density (with cellular)	43.29	60.09	38.8
Telephone density (without cellular)	11.07	15.56	40.6

Source: Telecommunications Regulatory Commission of Sri Lanka

## Developments in Social Infrastructure

### Health

- The Ministry of Healthcare and Nutrition has initiated a number of programmes to achieve the goals stated in the Health Master Plan. It aims to facilitate equity through ease of access to health services, improve productivity and ensure that resources allocated to the health sector deliver expected outcomes and contribute to the economic and social progress of the country.
- Government hospitals have been re-categorized in order to ensure equity and efficiency in delivery of curative healthcare services. Accordingly, different levels of services are provided at provincial, district and divisional levels other than teaching hospitals and those hospitals providing speciality care. Development of infrastructure facilities and posting of specialist doctors are also determined on the basis of the category of the hospital. This has prevented ad-hoc improvements being made to hospitals and allows policy makers to adhere to a planned development in the sector.
- The re-emergence of certain communicable diseases and a rising trend of non-communicable diseases are threatening the achievements in the health sector. Attention of the Health Ministry has seriously focussed on eradicating non-communicable diseases in the country through various awareness programmes. Declaration of National Nutrition Month, launching of mass-

scale awareness programmes from primary school levels and obesity prevention programmes have been successfully launched and the progress is being continuously monitored. Prevention of non-communicable diseases will reduce the health budget in the long - run to a great extent.

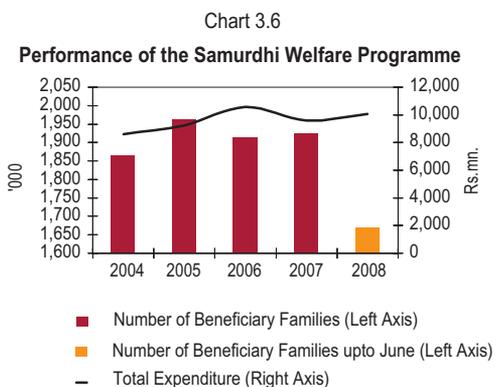
## Education

- Sri Lanka has reached a satisfactory level of educational achievements in the South Asian region. Among these, high literacy rate, high level of primary school enrolment and gender parity in access to education are significant. Free education policy from grade one to university level would have contributed to the continuous progress in the education sector in Sri Lanka. The Government has focused its attention on the development of primary education, school health and nutrition, ICT education, teacher training, Non-Formal Education, school library programme and education publications to further enhance primary and secondary education achievements. However, disparities of education services in the centre and periphery continue to exist.
- Overall performance of the technical and vocational education sector continued to expand. New enrolments for training programmes conducted by various vocational training institutions have been increased. New policies and programmes have been introduced by the Technical and Vocational Education Commission (TVEC) during the first half of 2008. Actions have also been taken to develop 9 technical colleges, one in each province, in order to conduct National Vocational Qualifications (NVQ) levels 5 and 6 courses, and establish a University of Vocational Technology (UNIVOTEC) to encourage youth entering vocational training.

- The University Grants Commission (UGC) has taken several measures to uplift the university education in Sri Lanka. Establishment of new departments in existing universities, restructuring of departments, introducing new undergraduate and postgraduate degree programmes, approving Sri Lanka Institute of Development Administration (SLIDA) to award MBA degrees are the key initiatives taken by the UGC to develop the university education system in 2008.

## Samurdhi Programme

- The main objective of the Samurdhi programme is to provide financial assistance to low income families in order to enable them to maintain at least a minimum standard of living, while encouraging them to improve their income levels and thus bring them into the mainstream of economic activities in the country. A total number of 1.7 million families benefited from the Samurdhi programme during the first half of 2008. The total expenditure amounted to Rs. 3,811 million during this period while the total allocation for the year 2008 is Rs. 10,085 million.
- A new entry system has been introduced to streamline the Samurdhi programme in 2007. Necessary measures were taken to select eligible beneficiaries by a 'Jana Sabha' with a broader representation of villagers to avoid weaknesses



in the entry and exit procedure in the previous system. Families eligible for this programme are selected from wealth ranking instead of looking at income levels.

- **The Commissioner General of the Samurdi and the Samurdhi Authority of Sri Lanka continued to implement various programmes for the benefit of Samurdhi recipients during the first half of 2008.** Such major programmes included Samurdhi Income Supplementary Programme, Nutrition Allowance Programme, Dry Ration and Kerosene Subsidy Programmes. In addition, the Samurdhi Authority of Sri Lanka implemented several rural development programmes such as Animal Husbandry, Fisheries and Nutrition Programme, Marketing Development Programme, Livelihood Development Programme and Agriculture Development Programme aiming at raising income levels of Samurdhi families.
- **Loans granted by Samurdhi Banks to Samurdhi beneficiaries have increased considerably.** Samurdhi Banks have disbursed 2.9 million loans amounting Rs. 32.8 billion by end June 2008 in comparison to 2.7 million loans amounting to Rs. 29.3 billion at end June 2007.

### **Prospects for 2009**

- **Electricity generation is expected to grow by 4 - 5 per cent in 2009.** The first phase of the Kerawalapitiya Power Plant (200 MW) is to be added to the national grid in the second half of 2008 and the second phase (100 MW) in 2009. With this power plant in place, a supply shortage is not expected in 2009, under normal weather conditions.
- **Considering the current trend of oil prices in the international market, it is expected that prices in 2009 would be somewhat lower than that in 2008.** Hence, a significant adjustment in local prices is not anticipated in 2009.
- **Total container handling at the Port of Colombo is expected to grow by 12 per cent in 2009 while cargo handling is expected to grow by 10 per cent.** Capacity and productivity improvement is necessary to achieve these targets. Increases of berth and yard capacity, installation of new equipment, a new terminal management system and a further reduction of non-operational time are key measures to be taken to improve productivity in container and cargo handling.
- **Growth momentum in the telecommunications sector is expected to continue in 2009.** Adoption of new technology, introduction of various value added services and competitive rates offered by telecom operators would facilitate the continued growth in the telecommunications sector.

