

# 3

## *ECONOMIC AND SOCIAL INFRASTRUCTURE*

*Infrastructure development continued to be at the forefront of the government's development agenda to facilitate the high growth momentum in the medium term. The development of economic and social infrastructure is deemed to increase the growth potential of an economy by increasing its productive capacity. An advanced infrastructure network determines the competitiveness of a market economy, improves the efficiency of the production process, strengthens investor confidence and determines the overall level of well being of the people. Benefits from the recently completed infrastructure projects were availed during the first half of 2012. The first phase of the Hambantota Port was completed and vehicle carrying ships have been calling on the port for import and transshipment operations. The construction work relating to other mega infrastructure projects such as Phase II of the Norochcholai Coal Power Plant, Northern Railway Project, the New Colombo South Port, Matthala International Airport, Colombo Outer Circular Highway, Colombo Katunayake Expressway and phase II of the Southern Expressway were in progress.*

## Developments in Economic Infrastructure

### Communication Services

- The telecommunications sector continued its growth momentum during the first half of 2012. During this period, the total mobile connections increased significantly by 6 per cent to 19.3 million compared to the corresponding period in 2011. The growth in mobile connections was mainly due to increased network coverage by service providers and the increasing number of service outlets in the Northern and the Eastern provinces and the resultant increase in consumer demand. However, the total number of connections of fixed access telephones declined by 3.4 per cent to 3.4 million, reflecting a continuous downward trend as consumers preferred competitive rates offered by mobile operators. Further, the number of internet and email connections increased substantially by 77.4 per cent to 1.1 million connections during the first half of 2012. The telephone density (telephones per 100 persons), including mobile phones, increased to 112 by end June 2012 from 105.1 at end 2011. The mobile phone density alone stood at 95 by end June 2012.
- An efficient telecommunications infrastructure is a prerequisite to facilitate the changing needs of the economy. Sri Lanka is aiming to host a Business Process Outsourcing (BPO) industry worth US dollars 1 billion by 2015. A key driver for the growth of this industry will be the capacity, reliability and efficiency of telecommunication

Table 3.1

Telecommunications Services

No. of Subscribers	End June 2011	End June 2012	% Change
Fixed access telephones ('000)	3,553	3,431	-3.4
Cellular telephones ('000)	18,176	19,272	6.0
Internet and E-mail connections ('000) (a)	646	1,146	77.4
Telephone density (with cellular)	104.12	111.96 (b)	7.5
Telephone density (without cellular)	17.03	16.92 (b)	-0.6

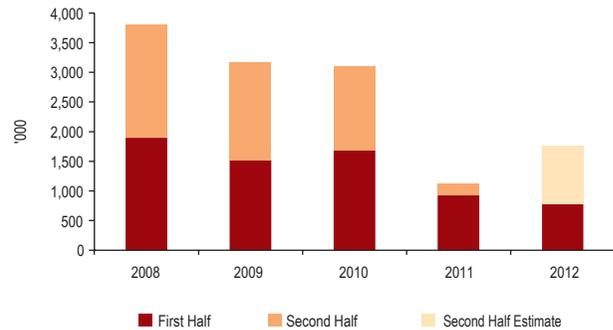
Sources: Telecommunications Regulatory Commission of Sri Lanka  
Department of Census and Statistics

(a) Including mobile broadband connections

(b) Increase in telephone density partly reflects the revision in mid year population as reported by the 2012 Census of Population by DCS

Chart 3.1

New Telephone Connections (Fixed Access and Cellular)



services. While Sri Lanka has an outstanding telephone network, its broadband services is yet to reach its maximum potential. It is anticipated that service providers will maximize the benefits of the high level of mobile penetration to tap into the potential demand for broadband services. The Telecommunications Regulatory Commission (TRC) has given approval to 453 Base Stations to expand the telecommunication network, to ensure higher telecommunication coverage in the country.

### Electricity

- The demand for electricity increased during the first eight months of 2012, largely due to the expansion of economic activities. Electricity generation registered a growth of 3.4 per cent to 7,853 GWh during the first eight months of 2012. During this period hydropower generation decreased substantially by 53.5 per cent to 1,717 GWh, reflecting decreased water levels in the reservoirs caused by erratic weather patterns. Accordingly, thermal power generation increased by 58 per cent to 6,032 GWh during this period. Reflecting the increase in economic activities, electricity consumption in the domestic, commercial and industrial sectors increased by 7.2 per cent, 8.1 per cent and 6.9 per cent, respectively, during the first seven months of 2012. The system loss, as a percentage of total generation, decreased from 12.7 per cent in the first half of 2011 to 10.6 per cent in the first half of 2012. CEB is actively involved in

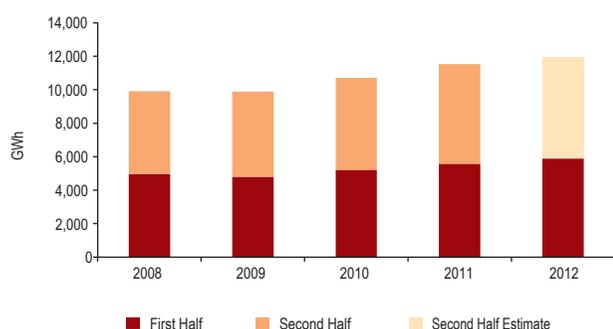
implementing measures to reduce system losses mainly through improving transmission and distribution networks while making coordinated efforts to prevent unauthorized connections.

- **The Fuel Adjustment Charge (FAC) was re-imposed with effect from 16 February 2012.** Along with the adjustment of domestic petroleum prices, including prices of petroleum products used for power generation, FAC was re-imposed to compensate for the increased cost of fuel. With the re-imposition of the FAC, the average tariff increased by 12 per cent to Rs. 15.16 per unit. The FAC of 40 per cent was imposed on households which consume more than 60 units a month, while FAC of 35 per cent and 25 per cent was imposed for monthly consumption below 60 units and 30 units respectively. FAC applicable to industrial and hotel categories and general purposes category was 15 per cent and

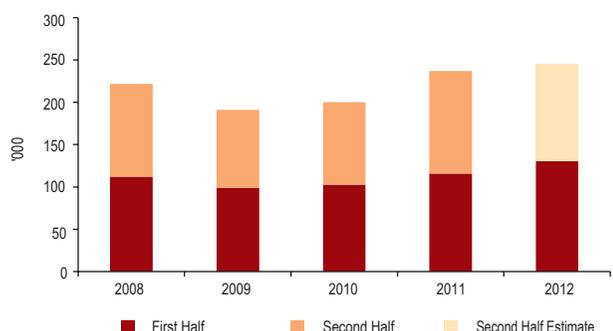
25 per cent respectively. However, the enhanced revenue generated through FAC was insufficient to compensate for the increased expenditure borne by CEB to generate electricity using high cost thermal power.

- **The electrification level in Sri Lanka is comparatively higher than its peer countries in the region and currently stands at around 92 per cent of total households.** The government of Sri Lanka has launched several new rural electrification projects island-wide and this will increase the electrification level to 93 per cent by end 2012. In addition to this, special emphasis has been paid on the electrification of conflict affected regions. Accordingly, a rural electrification scheme in Welioya division under the Conflict Affected Region Emergency Project (CAREP) is underway for provision of electricity to rural areas in Eastern Province. Further, a 24 MW thermal power plant is expected to be added to the national grid by early 2013 to ensure uninterrupted supply of electricity to this previously conflict affected region. In addition, transmission lines of 1,550 km under 111 schemes and transmission extension lines of 15 km under 14 schemes had been completed during the 1st half of 2012 under Rural Electrification projects. These schemes had benefitted 13,000 families. The Kilinochchi grid station was declared open in September, 2012 where a high tension electricity transmission line is being built from Vavuniya to Chunnakam via Kilinochchi. The project once completed in late 2013, will connect the Northern Province to the national grid after several decades.

**Chart 3.2** Electricity Generation (GWh)



**Chart 3.3** New Electricity Connections



- **The construction work of several power projects was in progress during the first half of 2012.** The Upper Kotmale Hydro Power Plant (150 MW) was added to the national grid by the end of June 2012. The second phase of the Norochcholai Coal Power Plant, which comprises of two 300 MW units, was in progress during the first half of 2012 and is expected to be added to the national

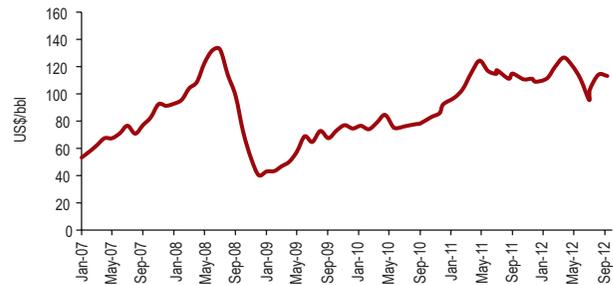
grid by 2014. The Uma Oya Hydro Power Plant, which is in the initial stages of construction, is also expected to add another 120 MW to the national grid by 2015. The construction of the 500 MW coal power plant in Trincomalee was also in the initial stages. Although approval from the Central Environment Authority is pending, the Power Purchase Agreement between CEB and the investor of the Trincomalee power plant and other project related documentation are currently in the process of being finalised. This power plant is expected to be completed and connected to the national grid by 2017. The addition of 1,100 MW of coal power will help reduce the generation cost in the medium term substantially. The addition of these new power plants to the national grid will help increase the total installed capacity of the country by around 37 per cent to 4,556 MW by end 2017. Apart from the above major power projects, a set of small power projects have also been introduced during the first half of 2012. At the same time, emphasis has also been placed on the development of appropriate renewable energy sources and on the promotion of energy conservation in the country in the medium term. Timely implementation of these power projects will help the high growth momentum of the country in the medium term.

## Petroleum

- **International crude oil prices remained moderately high during the first nine months of 2012.** Although international crude oil prices were in an increasing trend during the first four months of 2012, crude oil prices have shown a declining trend during the period May - September 2012. The average international crude oil price (Brent) during the first nine months of 2011 and 2012, remained largely unchanged at US dollars 113 per barrel. Signs of growing global demand in leading oil consumers such as USA and China and supply side uncertainties in the Middle East, mainly due to the imposition

Chart 3.4

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



of sanctions against Iran by the US and pockets of political tension in other countries, have led to a generally high level of oil prices in the international market. The average cost and freight (C&F) price of crude oil imported by CPC increased by 4.3 per cent to US dollars 113.73 per barrel during the first eight months of 2012. It is expected that crude oil prices will remain moderately high during the remaining period of 2012.

- **Domestic retail prices of petroleum products were revised upward due to the high prices that prevailed in the international market.** The domestic retail prices of petrol, diesel and kerosene were increased by Rs. 12.00, Rs. 31.00 and Rs. 35.00 per litre, respectively with effect from 12 February 2012. In addition, the prices of fuel sold to CEB for power generation were revised. The prices of high sulfur fuel oil, low sulfur fuel oil, diesel and Naptha were increased by Rs. 25.00, Rs. 23.00, Rs. 31.00 and Rs. 20.60 respectively to Rs. 65.00, Rs. 75.00, Rs. 115.00 and Rs. 90.00 per litre. However, CPC still incurs heavy losses on these products as it sells petroleum products to the thermal sector at highly subsidised prices. In the first eight months of 2012, local sales of petrol and diesel grew by 12 per cent and 22.2 per cent respectively while sales of kerosene fell by 13.8 per cent compared to the corresponding period of 2011.

- **Imposition of sanctions against Iran by the United States has had a significant impact on Sri Lanka's crude oil imports.** Adhering to the US sanctions, CPC took steps to reduce crude imports from Iran to 10 shipments in 2012 compared to the 13 shipments which were previously imported. Three shipments were imported from Saudi Arabia and Oman. However, the shift to other sources of crude oil has caused in the fall of the refinery margin as the current refinery is best suited to Iranian crude oil. In addition, compared to the 4-month credit facility provided by Iran other oil suppliers provide only 1-month credit facility. The change in the type of crude oil imports has created an urgent need to expedite the Sapugaskanda Oil Refinery Expansion and Modernisation (SOREM) Project. Modernization and capacity expansion of the refinery will help increase the output of high quality and more profitable products from different types of crude oil while increasing the refinery margin and it's ability to meet the growing domestic demand.

### **Oil Exploration**

- **Oil exploration activities continued during the first half of 2012.** Petroleum exploration in the Mannar Basin was in progress and offshore drilling in the block SL 2007-01-001 during August-December 2011 led to the discovery of two natural gas deposits by Cairn Lanka Private Limited (CLPL). Accordingly, CLPL submitted a notice of potential commercial interest of the discoveries to the Government of Sri Lanka (GOSL). Subsequently, CLPL entered into the second phase of exploration where 600 Sq km three dimensional (3D) seismic data were obtained by Cairn. Based on the interpretation of those data they plan to undertake further exploratory drilling in mid 2013. Meanwhile, GOSL is preparing to launch the second round of offshore exploration licensing next year by offering few blocks in the Mannar and Cauvery Basins.

### **Road Transportation**

#### **Road Development**

- **Road development in the country continues to receive priority in the government's infrastructure development agenda.** Improved road transportation is essential for efficient mobility, improving market access, reduction of regional disparity, reduce wastage of energy, productivity improvements which will support efficient supply chain management and for overall improvement in social welfare. During the first half of the year, several highways and expressways were under construction under the "Randora" infrastructure development programme of the government. Simultaneously, the government continued rural road development under the "Maga Neguma" programme to improve urban-rural linkages and thereby facilitate the achievement of a regionally balanced growth.
- **During the first half of 2012, the construction activities of major highway development projects continued.** Construction work of the Southern Expressway Section II, Pinnaduwa-Godagama section was in progress and it is expected that this section will be completed by mid-2013. Construction of Phase I and Phase II of the Outer Circular Highway project and land acquisition for Phase III was also in progress. Phase I of the project, which comprises 11 km from Kottawa to Kaduwela, is expected to be completed by mid-2013. Phase II of the project comprises of 8.9 km from Kaduwela to Kadawatha is expected to be completed by early 2015. Construction of the Colombo-Katunayake Expressway project was in progress and around 60 per cent of the project has been completed. The entire project will be completed by mid-2013. Feasibility studies are currently being conducted for the Hambantota – Mattala Airport Highway and Enderamulla to Kurunegala section of the Colombo-North/East Highway.

- **The reconstruction and rehabilitation of roads and bridges in the Northern and Eastern provinces was continued.** Under the Road Sector Assistance Project, rehabilitation and improvements on Kantaletto Trincomalee Section of the Ambepussa – Kurunegala – Trincomalee Road (A6) which commenced in 2011, continued during the period concerned, and is expected to be completed by end 2012. Under the Conflict Affected Region Emergency Project (CAREP), improvements to the Paranthan-Pooneryn Road (26km) and Mankulam-Vellankulam Road (38km) are to be completed by September 2013. Under the Northern Road Connectivity Project (NRCP), the rehabilitation of 165 km of National Highways, 129 km of Class ‘A’ Roads and 36 km of Class ‘B’ roads in the Northern and North Central provinces were carried out and a major portion will be completed by late 2012 and remaining by mid-2013.

### **Road Passenger Transportation**

- **Public passenger transportation showed a positive performance during the first half of 2012.** The total operated kilometrage of the Sri Lanka Transport Board (SLTB) increased by 2.5 per cent and total passenger kilometrage remained unchanged during the first half of 2012. The total number of buses owned by the SLTB stood at 7,662 while the average number of buses operated per day was 4,302. The number of buses owned and the average bus fleet operated by private operators increased by 2.4 per cent to 20,444 and 7.2 per cent to 17,129, respectively, during the first half of 2012.
- **During the first half of 2012, several road passenger transportation projects continued considering their socioeconomic importance.** Under the ‘Sisu Seriya’ project, 500 bicycles were distributed to school children in the Ampara, Batticaloa and Kilinochchi districts. The ‘Gami Seriya’ service also continued to facilitate the provision of transport facilities during uneconomic times and on uneconomic routes in remote areas. During the first half of

2012, 42 private bus services were engaged under this project. The subsidy granted to SLTB on account of operations on uneconomic routes and subsidised season tickets amounted to Rs. 1,335 million during the first half of 2012.

- **Bus fares were revised as per the national bus fares policy with effect from 14 February 2012.** The minimum bus fare was increased to Rs. 9.00 and fares for other categories were revised upwards by an average rate of 20 per cent.
- **Registrations of new motor vehicles decreased during the first eight months of 2012.** This was a result of the increase in taxes on many vehicle categories, increase in interest rates on leasing services, limits on banking sector credit and the increased cost of vehicle imports due to depreciation of the rupee against major currencies. During this period, the total number of vehicles registered fell by 14.2 per cent to 289,475. The number of motor cars, three wheelers and motorcycles registered fell by 35.1 per cent, 24.8 per cent and 13.5 per cent respectively. However, reflecting the growth in commercial and agricultural activities in the economy, registration of dual purpose and land vehicles recorded a growth of 37 percent and 14.3 percent respectively during the first eight months of 2012.

### **Rail Transportation**

- **The railway transportation sector showed a moderate growth in passenger transportation while goods transportation declined during the first half of 2012.** During this period, passenger kilometrage increased by 1.6 per cent while goods kilometrage decreased by 4.8 per cent. The completion and opening of the Southern railway line, several sections of which was closed for reconstruction, contributed towards the increase in passenger transportation.
- **Sri Lanka Railways (SLR) initiated several measures to upgrade its fleet to cater to the increasing demand for passenger and goods transportation.** Under the Southern Railway

upgrading project, 15 Diesel Multiple Units (DMUs) were added to the fleet of the SLR during the first half of 2012. They have been used in new intercity and normal services that were introduced along the coast line and main line. In addition, 3 new locomotives were also added to strengthen the rolling stock position of the SLR thereby ensuring reliability and punctuality of the train service. Further, in order to enhance freight transport services, fifteen new tank wagons were purchased and operated.

- **SLR continued implementation of several infrastructure development projects to improve rail transportation in the country.** During the first half of the year, reconstruction work in the Northern railway project was in progress. A Memorandum of Understanding (MOU) was signed with the Bank of Ceylon to fund the reconstruction of the Jaffna Railway Station. The construction of a second line from Negombo to Seeduwa was completed during the first half of 2012 and train operations commenced. The Southern Railway upgrading project was also completed and opened for passenger and goods transportation.

### Civil Aviation

- **The civil aviation sector registered a significant growth during the first half of 2012.** Increased tourist arrivals during the first six months of 2012 resulted in an increase in air passenger transportation. The total number of aircrafts handled at the Bandaranaike International Airport (BIA) increased by 13 per cent compared to the corresponding period of the previous year. Passenger traffic, which includes, transit passengers increased by 18 per cent to 3.5 million during the first half of 2012. Total volume of cargo moved through the airport increased by 33 per cent to 92,043 MT reflecting the increment in demand associated with tourism and business activities. The total seat capacity operated by SriLankan Airlines (SLA) increased by 12 per cent during the first six months of 2012 compared to the corresponding period of the previous year.

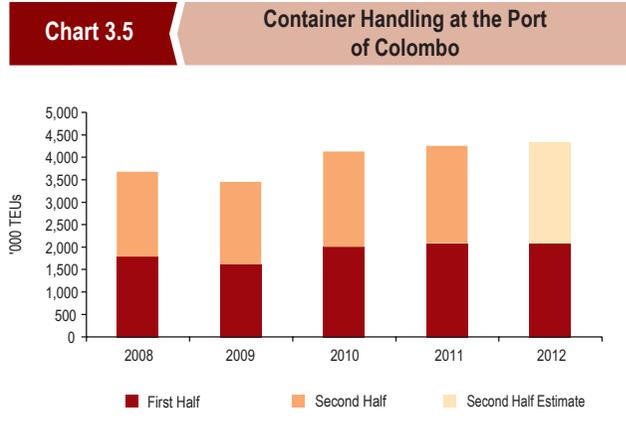
- **Several aviation development projects, to upgrade the infrastructure related to aviation services, are being planned.** The construction of a new terminal under phase II of the BIA expansion project is expected to commence in December 2012 with the target of being commissioned by December 2015. The new terminal will be built to the west of the current terminal of BIA and upon completion it alone will be able to handle 6 million passengers per year increasing the total passenger handling capacity to 12 million. The runway will also be overlaid and widened to facilitate new large aircrafts such as the Airbus A380. The construction work of phase I of the second international airport at Mattala in Hambantota was also under progress and is expected to be completed by end 2012. Phase I of the Mattala International Airport is expected to handle an annual passenger volume of 1 million and an annual cargo throughput of 45,000 MT. Stage II of the Mattala International Airport is expected to commence in 2013 and will be completed in 2017. Several leading international airlines have already expressed their interest to operate at the second international airport of the country. Recognising the importance of the development of domestic airport networks, priority has been given to the development of airports at Ratmalana, Ampara, Koggala, China-Bay and Jaffna. These will then be developed as “City Airports” aimed at developing the market for charter flights and private jet operators. Other domestic airports are to be developed for domestic passenger and cargo transportation.

### Port Services

- **Performance of port activities remained moderate during the first eight months of 2012 owing to the slowdown in global trade, particularly the slower growth in countries in the region.** Compared to the corresponding period of 2011, total cargo handling increased by 2 per cent to 43.7 million metric tonnes, while transshipment handling declined by 1.4 per cent to 2.1 million TEUs and container

handling remained unchanged at 2.8 million TEUs, reflecting the slowdown in regional trading activities.

- Sri Lanka Ports Authority (SLPA) took proactive steps to improve the productivity and competitiveness of the ports sector in Sri Lanka, taking into consideration the emerging global competition and capacity constraints faced by the ports sector.** It is vital to strategise port operations of the country to remain competitive and to emerge as a sustainable maritime hub. During the first six months of 2012, the SLPA expedited its activities at the Hambantota Port through the routing of all vehicle carrying vessels arriving at the Colombo port to Hambantota. This step was effective in easing long berthing delays. As a positive response towards the establishment of the Hambantota port, the British Admiralty, an international institution which provides nautical charts and navigational services, has also issued a notice to mariners regarding the opening up of the new port.
- The construction of the new port projects continued during the first half of 2012.** The construction of the new Colombo South Port Project was given priority to address capacity limitations at the existing Colombo port. The project had progressed in line with the time schedule and construction of the main breakwater, secondary breakwater and main channel dredging works were largely completed during the first half of 2012. The overall physical progress of the breakwater of the Colombo



South port was around 97 per cent by mid-2012. The first 600 m of the Colombo ‘South Container Terminal’ (SCT) is expected to be open for operations by May 2014. In order to serve growing demand for port services at the Colombo port, SLPA is planning to construct a 400 m long container berth in the newly proposed East Container Terminal. The construction of phase I of the Hambantota port was completed and SLPA had successfully floated a Request for Proposals (RFP) to establish port related businesses. Accordingly, seven investors were selected and approvals of the Cabinet of Ministers have been obtained. The construction of fourteen tanks with a total capacity of 80,000 cubic meters for storing or blending of marine fuels, aviation fuel and LPG has completed and will be commissioned in the near future. At the same time, the agreement for Phase II of the Hambantota port project has already been signed. The land works, commercial and fishery harbour buildings, access roads and internal road constructions of the Olivil port were completed. The SLPA is currently in the process of redeveloping Trincomalee as a metropolis growth centre.

**Table 3.2** Performance of Port Services

Item	2011 Jan.-Aug.	2012 Jan.-Aug.	% Change
Ship arrivals at ports of Sri Lanka	2,900	2,792	-3.7
Total cargo handling (MT '000)	42,880	43,730	2.0
Total container handling (TEUs '000)	2,823	2,823	0.0
Transhipments (TEUs '000)	2,081	2,052	-1.4

Sources: Sri Lanka Ports Authority  
South Asia Gateway Terminals (Pvt.) Ltd.

**Developments in Social Infrastructure**

**Health**

- A comprehensive annual health plan was developed by the Ministry of Health in line with its Health Master Plan to prioritise the**

**strategies of the Ministry of Health in its health care service delivery.** The annual health plan for 2012 was developed incorporating all areas indicated in the Health Master Plan. Strategies are being formulated to address the deficiencies existing in health care service delivery. However, it is important for the Ministry of Health to prioritise the areas which require more resources in order to maintain a high level of health standards of the country.

- **The re-emergence of certain communicable diseases, such as dengue, is threatening the health sector achievements.** The number of deaths from dengue rose to 75 while 15,976 dengue cases were reported in the first seven months of 2012. Worst affected districts were Colombo, Gampaha, Kurunagala and Kegalle. A significant increase in the death toll of dengue patients calls for an effective mechanism to eradicate dengue. Proper coordination and prioritisation of funding and human resources to handle preventive care services and the initiation of an effective national level dengue control programme are essential to eradicate dengue.
- **The health sector shows immense potential for further investments to develop it on par with the global standards to enable Sri Lanka to become a “value adding” provider of these services in the global market.** Considering the already available competitive advantages of the industry, such as a highly skilled and trained health care workforce, locational advantage, competitive prices and hospitality, there are opportunities to attract foreign demand for health services and for the industry to become a lucrative foreign exchange earner in the country. Implementation of proper accreditation policies to accredit the health care services provided by private health institutions would support the initiative of exporting health services by private health institutions in Sri Lanka.

## **Education**

- **A high quality education system can help produce skilled knowledge workers who are capable of driving sustained economic growth.**

The transition of the global economy into one which is more knowledge-centric requires Sri Lanka to gradually modify its education system to cater to the changing domestic labor market and to grow in line with the requirements of the global market. In line with this, the Education Sector Development Framework Programme (ESDFP) (2012-2016) adopted by the Ministry of Education specifically aims at transforming the Sri Lankan school system so as to lay the human capital foundation for the future “Knowledge Hub.”

- **During the first half of 2012, the government has engaged in many policy initiatives aimed at creating a robust general education system.** Ensuring equitable access to quality education continues to be at the forefront of the government’s agenda for the general education system in Sri Lanka. The ESDFP has been focusing on the successful completion of primary and secondary education, provision of education services which meet individual needs of children, soft skills training and equitable and efficient allocation of scarce resources among the multi-dimensional requirements of the education sector. Initiatives are also being made to extend the age limit of compulsory education from 14 years to 16 years to prevent children from dropping out of the education system due to economic reasons. In order to ensure inclusive education where students can receive high quality education irrespective of their location, the Ministry of Education is currently taking steps to establish 1,000 well developed schools under the “1,000 Secondary Schools” program. Accordingly, the learning environment of networks of primary feeder schools will also be improved.
- **While encouraging private sector investment in order to meet the growing demand for higher education, emphasis has to be placed on the upliftment of the quality standards of local universities.** During the first half of 2012, the University Grants Commission (UGC) had been actively conducting a comprehensive review process of non-state degree awarding institutes. The UGC has also been involved

in the preparation of a subject benchmark for IT allied subjects, such as Information System, Computer Engineering, Software Engineering and Computer Science that is being conducted in local universities. Guidelines are also being developed to align all IT related degrees with the Association for Computing Machinery (ACM) and Institute of Electrical and Electronics Engineers (IEEE). Measures have been taken to upgrade the Bachelor of Arts degrees offered by Sri Lankan Universities to introduce Information and Communication Technology (ICT) to facilitate the integration of IT relevant aspects to Arts stream.

- **The technical and vocational education and training sector performed satisfactorily during the first half of the year.** The development of competencies of middle level technical officers is the key objective of the Technical and Vocational Education and Training (TVET) sector. There are 2,421 public, private and NGO sector institutions registered to provide technical and vocational education in the country by end June 2012. Under the National Vocational Qualification (NVQ) system, 9,184 NVQ certificates were issued to students by the Tertiary and Vocational Education Commission (TVEC) during the first half of 2012. As the current higher education system in Sri Lanka is unable to serve a significant portion of school leavers who possess Ordinary Level and Advanced Level qualifications, the absorption of these individuals by the TVET sector can help them to acquire technical competencies to make them employable and thereby create a more productive labour force. Although Sri Lanka had previously been a provider of a large pool of unskilled labour, the steady expansion in the TVET sector and its increased outreach has helped Sri Lanka to become a provider of increasing numbers of semi-skilled and skilled labour for the foreign labour market. Focusing on the expansion of the courses provided by the TVET sector and continuous assessment of

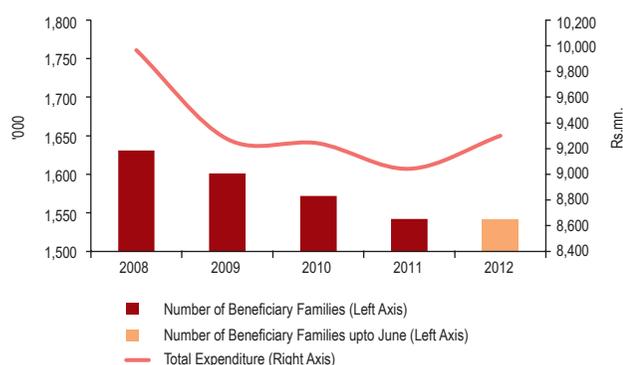
current programs to assess their appropriateness and suitability in international labor markets can help Sri Lanka to earn more foreign exchange as remittances in the near future.

### **Safety Nets and Poverty Alleviation**

- **The level of poverty has significantly reduced during the last few years benefitting from high economic growth, improvements in infrastructure and the implementation of various poverty eradication programmes throughout the country.** According to the last Household Income and Expenditure Survey (2009/2010), the Poverty Head Count Index (percentage of population below the poverty line) had significantly fallen to 8.9 per cent from 15.2 per cent in 2006/2007. Poverty in the estate sector had declined significantly while the decline in urban poverty was moderate. The government's policy towards eradication of poverty focuses on the enhancement of basic infrastructure at the regional level with the expectation that it will have a positive impact on income levels of low income earning households. Despite the favourable developments observed over the last few years with respect to poverty eradication, a proper poverty mapping programme is essential to identify poverty disparities among different geographical locations, and to help increase the effectiveness of the targeting of poverty alleviation programmes in the near future.
- **Various programmes aimed at eradicating poverty were continued during the first half of 2012.** Under the Ministry of Economic Development, the Samurdhi authority implemented many programmes throughout the country for poverty reduction. The Samurdhi Subsidy Programme, Nutrition Allowance Programme, Samurdhi Social Security Programme and 'Sipdora' scholarship programme continued during the period. The Samurdhi Social Security Programme continued with the view of preventing poor families from

Chart 3.6

## Performance of the Samurdhi Welfare Programme



falling into the lowest depths of poverty due to unforeseen events such as, deaths, hospitalisation and child birth. These disbursements amounted to Rs. 65.7 million during the period concerned. Apart from the above, the Samurdhi authority operates loan schemes for micro enterprises initiated by individuals and groups of poor in such communities. The Samurdhi Livelihood Development programme carried out under 'Divi Neguma' has provided necessary capital goods, equipment, plants, plant material, chicks and animals for beneficiary and low income people to initiate and develop their own self-employment projects.

### Prospects for 2013

- **Electricity generation is expected to grow by 6 per cent in 2013 with the expected high economic growth.** With expectations of fewer plant shutdowns in the future, the operation of the plants at maximum capacity and provided that normal weather conditions will prevail a supply shortage of electricity is not expected in 2013. With increased low cost hydro power and the coal power, the average generation cost is expected to decline, thereby helping to improve the financial situation of CEB and improve the competitiveness of the economy.
- **During the remaining period of 2012, international oil prices are expected to remain at moderately high levels.** This is due to expectations that the pace of growth in the world's largest consumers, US and China will be sluggish and due to the ongoing geopolitical tensions prevalent in the Middle East. Average international crude oil price is expected to be around US dollars 105-110 per barrel with the improved supply conditions in 2013.
- **Total container handling at the port of Colombo is expected to grow by 3.5 per cent in 2013, while cargo handling is expected to grow by 6.5 per cent.** With the expansion of the domestic economy and growth in international trade, port operations are expected to grow. In addition, the expected high growth of economies of neighbouring countries also would help to increase transshipment operations in 2013. The commercial operations at the Hambantota port will also add an impetus to the performance of the port sector.
- **Continuation of the current growth momentum is expected in the telecommunications sector in 2013.** Adoption of new technology, introduction of various value added services, offering of competitive rates by telecom operators and penetration to the North and East of the country would facilitate the continued growth in the telecommunications sector.
- **The domestic transportation sector is expected to continue its healthy growth momentum.** End of the conflict has helped link previously conflict affected regions with the mainstream economy, thereby fuelling passenger transportation for leisure and goods transportation as a result of improved supply conditions. In consequence of the peace dividend, it is expected that passenger transportation and goods transportation will continue to grow and thereby facilitate other economic activities of the economy.

