

# 3

## *ECONOMIC AND SOCIAL INFRASTRUCTURE*

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*The provision of essential economic and social infrastructure continued while the development of mega scale physical infrastructure slowed during the first nine months of 2015. The government continued to review the economic and financial viability of all projects that were in the pipeline in order to ensure maximising social benefits of public spending on infrastructure development. Of the mega scale projects that were commissioned in previous years, the Northern railway line was completed in January 2015 while Phase II of the Outer Circular Highway was opened for traffic in September 2015. The government paid more attention on improving social infrastructure during the period under review to ensure that the increased level of per capita GDP is reflected in the standards of living of the general public. In addition to the provision of health and education needs by the government alongside the private sector, increased demand for high quality urban housing and transport facilities has attracted attention of the government. Going forward, although Sri Lanka has achieved much through economic and social infrastructure development, there are several challenges looming in the horizon. These include the need to develop strategies to optimise the utilisation of the infrastructure already in place, devise strategies to finance continued development of economic and social infrastructure with less burden on the public, and reorient policies to meet the demographic challenges ahead. In addition, fulfilling the growing demand for soft infrastructure, including access to finance, law enforcement, cultural activities, recreation facilities, environmental protection and the provision of emergency services, are also indispensable in the drive towards achieving an inclusive and holistic growth.*

## Developments in Economic Infrastructure

### Communication Services

- The telecommunication industry continued to expand during the first half of 2015 with improved telephone density and rapid growth in internet services. The number of mobile telephone connections increased by 15.3 per cent, while fixed wireline telephone connections recorded a 3.1 per cent growth during the first half of 2015 in comparison to the corresponding period of 2014. However, fixed wireless connections continued their declining trend recording a drop of 3.3 per cent in the first half of 2015, thereby resulting in a decline in total fixed telephone connections by 0.7 per cent in comparison to the corresponding period of 2014. The fixed telephone penetration (connections per 100 persons) and the mobile telephone penetration stood at 12.8 and 115.5, respectively. With regard to internet services, the total internet connections grew by 30.6 per cent during the first half of 2015 raising internet penetration (connections per 100 persons) to 17.4. This was largely supported by the accelerated growth of 35.2 per cent in mobile internet connections.

**Table 3.1** Telecommunication Services

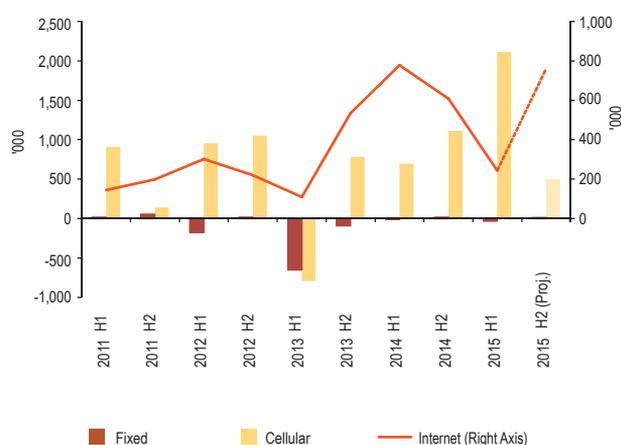
No. of Subscribers	End June 2014	End June 2015 (a)	Change %
Fixed Access Telephones ('000)	2,696	2,677	-0.7
Cellular Telephones ('000)	21,012	24,235	15.3
Internet Connections ('000) (b)	2,788	3,641	30.6
Total Telephone Penetration	114.14	128.28	12.4
Mobile Telephone Penetration	101.16	115.52	14.2

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

- (a) Provisional
- (b) Including mobile internet connections

- The government and Google Inc. signed an agreement to cover the entire island with 4G internet under the 'Google Loon project'. This was launched towards end July 2015 in partnership with the Information and Communication Technology Agency (ICTA). The successful implementation of this project will provide Sri Lanka with universal internet access, and is expected to enhance accessibility to high-speed, affordable internet across the island. This project, which uses high-altitude balloons placed in the stratosphere, will reduce network infrastructure cost of domestic internet service providers, enabling the provision of low cost internet access. The project is expected to be completed by March 2016 and ICTA plans to establish 10,000 WiFi hotspots across the country coupled with this project.

**Chart 3.1** New Telephone Connections (Fixed Access and Cellular) and New Internet Connections



- The promising developments in the country's telecommunication industry will enhance economic activities and the doing business environment while opening up the industry for competition based on innovation and service delivery rather than on coverage. This will effectively eliminate the access network and coverage superiority as the differentiation determinant in the industry, and the service providers are likely to focus more on new business models with high value addition such as end-to-end solutions and further improvements in mobile payments technology. Universal internet access would significantly enhance financial inclusion, while enabling increased

socio-economic integration. In addition, it will lead to the evolution of e-learning solutions, facilitating improved access to education opportunities for underprivileged communities. Financial institutions will also be able to offer simple and secure services with enhanced consumer awareness regarding different financial products on offer leading to more convenient and cost effective service delivery. Eventually, this may result in substantial savings in terms of labour and other resource inputs, which may be used for other productive endeavors. Further, the universal access to internet will facilitate expanding the Information Technology Enabled Services (ITES) such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) around the country, which have a high growth potential in the period ahead.

## Petroleum

- Prices of petroleum in the international market have nearly halved in the first nine months of 2015 compared to the corresponding period in the previous year.** The daily average of international crude oil price (Brent) during the period under review stood at US dollars 56.6 per barrel compared to US dollars 107.1 per barrel in the corresponding period of 2014. During the first nine months, Brent prices showed significant volatility with prices ranging from US dollars 43.07-67.79 per barrel. Crude oil prices continued their declining trend from the second half of 2014 until January 2015, but increased thereafter until May 2015, mainly due to geopolitical uncertainties in the Middle East. However, prices declined since then with Libya resuming oil exports, the OPEC group maintaining its production levels unchanged, increased US oil production, the slower pace of recovery in the US, which is the world's largest petroleum consumer, as well as the slowdown of the Chinese economy, which is the second largest consumer. Low levels of oil prices were further
- Domestic retail prices of petroleum products were reduced substantially at the beginning of 2015, passing the benefit of lower international oil prices to domestic consumers.** In January 2015, domestic prices of petrol, diesel and kerosene were reduced by Rs. 33, Rs. 16 and Rs. 22 per litre, respectively. Further, the price of Low Sulphur Furnace Oil was revised downward from Rs. 90 to Rs. 80 per litre while keeping the price of High Sulphur Furnace Oil unchanged at Rs. 80 per litre. The implementation of the proposed cost reflective transparent pricing formula will ensure that the domestic prices respond to international oil prices appropriately while reducing the financial burden on state owned business enterprises (SOBEs).
- Substantial downward revisions in domestic petroleum prices along with the increased vehicle fleet as a result of low tariffs applicable on certain categories of imported**

**Chart 3.2** Average Price of Crude Oil (Brent) in the International Market and Crude Oil Import Price of CPC



supported by the easing of sanctions against Iran. Meanwhile, the average price of crude oil imported by Ceylon Petroleum Corporation (CPC) decreased by 46.6 per cent to US dollars 59.10 per barrel during the first nine months of 2015 compared to US dollars 110.67 per barrel during the corresponding period of 2014.

vehicles and low interest rates, increased the domestic demand for petroleum from the transportation sector. During the first eight months of 2015, domestic sales of super diesel increased significantly by 45 per cent while auto diesel sales increased marginally by 0.4 per cent, in comparison to the first eight months of 2014. However, total diesel sales declined by 14 per cent during this period, owing to lower demand for thermal power generation caused by increased hydro and coal power generation. Super petrol sales (Octane 95) and Octane 92 petrol sales grew by 44 per cent and 16.5 per cent, respectively, in the first eight months of 2015 reflecting increased usage of private vehicles. Kerosene sales also registered a 7 per cent growth during the first eight months of 2015, compared to the same period in 2014.

- **Around two thirds of petroleum consumed in the local market is imported as refined products owing to the capacity limitation of CPC’s oil refinery at Sapugaskanda.** Further, the amount of crude oil processed by the refinery also declined by 4.8 per cent during the first nine months of 2015 in comparison to the corresponding period of 2014 due to maintenances more than a month. Therefore, it is essential to expedite and prioritise the Sapugaskanda Oil Refinery Expansion and Modernisation (SOREM) Project. A land area of 35 acres surrounding the oil refinery was acquired and a draft report on the Environmental Impact Assessment (EIA) was prepared in 2012. Expediting the SOREM project would increase the output of high quality, more profitable products from different types of crude oil and facilitate bunkering activities in the ports and aviation sectors, while supporting the retention of a significant amount of foreign exchange within the economy. It would also be necessary to expedite the efforts to commercialise the oil and gas discoveries in the Mannar basin.

### Electricity

- **Total electricity generation increased by 5.7 per cent to 8,675 GWh during the first eight months of 2015 from 8,207 GWh in the corresponding period of 2014.** Hydropower generation (excluding mini hydro generation) during the first eight months of the year increased by 57.8 per cent to 2,908 GWh. Increased rainfall during the first few months of 2015 raised the share of hydropower in total power generation, although some decline in the share of hydropower was observed during the middle of the year with drought conditions prevailing in the main reservoir areas. Coal power generation increased substantially by 72.5 per cent to 3,328 GWh during the first eight months reflecting the enhanced capacity of the Norochcholai coal power plant. The cumulative effect of increased hydro and coal power generation helped to limit power generation through fuel oil by 59.0 per cent to 1,541 GWh during the first eight months of the year. Meanwhile, generation of electricity through non-conventional renewable energy (NCRE) sources, including mini hydro generation, increased by 31.9 per cent to 899 GWh. Accordingly, the share of hydro, fuel

**Chart 3.3 Electricity Generation Mix (Jan-Aug)**

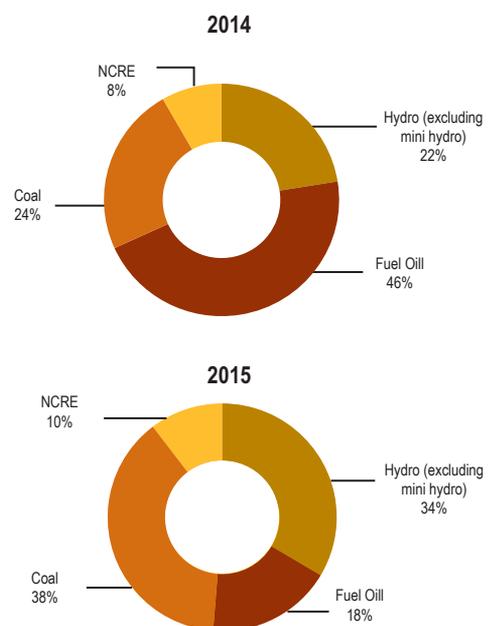


Table 3.2

## Electricity Sales

Item	2013	2014	2014 Jan-Aug	2015 Jan-Aug (a)	Change %
Total Sales by CEB (GWh)	10,621	11,063	7,314	7,781	6.4
Domestic	3,488	3,521	2,334	2,556	9.5
Religious	58	63	42	44	5.1
Industrial	3,344	3,498	2,290	2,377	3.8
General Purpose (b)	2,148	2,328	1,545	1,633	5.7
Hotel	168	192	127	140	10.0
Bulk Sales to LECO	1,308	1,352	904	960	6.1
Street Lighting	108	108	72	72	-0.2

Source: Ceylon Electricity Board

(a) Provisional

(b) Data from 2013 include sales to government category

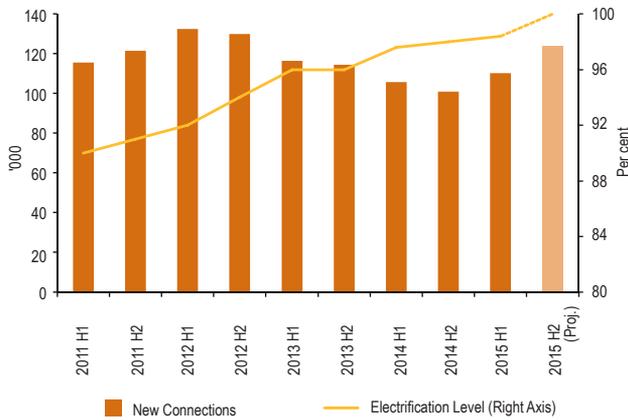
oil, coal and NCRE power generation during the first eight months of 2015 stood at 34 per cent, 18 per cent, 38 per cent and 10 per cent, respectively. Meanwhile, the financial position of Ceylon Electricity Board (CEB) improved significantly during the period as a result of the favourable power generation mix. Electricity consumption in the domestic, industrial, general purpose (including government) and hotel sectors increased by 9.5 per cent, 3.8 per cent, 5.7 per cent and 10.0 per cent, respectively, during the first eight months of 2015 reflecting the continued growth of economic activity. Thus, the total electricity sales increased by 6.4 per cent to 7,781 GWh during the first eight months of 2015 from 7,314 GWh in comparison to the corresponding period of 2014. Further, the transmission and distribution losses, as a percentage of total generation, stood at 10.3 per cent.

- **The completion of the Norochcholai coal power plant has strengthened the low cost power generation capacity of the country.** Currently, coal power, which is around four times cheaper than the fuel oil power generation, can meet more than 50 per cent of the total electricity requirement of the country when the plant is operated at full capacity. The resultant lower average unit cost of electricity helped to sustain the reduction of electricity tariffs effected in late 2014, supporting the competitiveness of

the economy. However, optimal use of hydro and coal power sources through minimised overflows in reservoirs and improved timing of maintenance stoppages would be vital in enhancing the financial viability of CEB. Meanwhile, coal power generation is currently facing issues in relation to storage capacity limitations, which needs to be addressed on a priority basis.

- **CEB continued its efforts to reach the target of 100 per cent electrification in the country through the implementation of several new electrification projects, particularly in remote areas.** CEB's efforts have helped the completion of 223 rural electrification projects covering all districts, providing electricity to 34,967 houses during the first half of the year and raising the level of electrification of the country to 98.4 per cent by end June 2015 compared to 97.6 per cent at end 2014. The construction of 500 MW coal power plant in Trincomalee is expected to be completed and added to the national grid by end 2019. In relation to the developments in NCRE generation, 4 mini hydro power plants and 1 wind power plant have been commissioned during the first half of 2015, adding approximately 9 MW and 10 MW, respectively, to the national grid. As at end June 2015, there were 89 ongoing NCRE projects with a total capacity of 222 MW that CEB had signed contracts with. Meanwhile, an optional tariff on time of use was introduced with effect from September 2015 for domestic

**Chart 3.4** New Electricity Connections and Electrification Level



users of 3-phase (30 A or above) power supply with the view of encouraging the utilisation of electricity during off peak hours for purposes such as charging electric vehicles.

### Road Development

- The government continued to review the terms and conditions of the contracts relating to new major road development projects, while expediting overdue payments to the construction sector involved in the development of road infrastructure. The government partly settled overdue payments to domestic contractors and instructed them to resume work of the ongoing projects. For 2015, Rs. 179.4 billion has been allocated to Road Development Authority (RDA) for carrying out road related development activities compared to Rs.136.7 billion allocated for 2014. However, net expenditure on road development stood at Rs.70.6 billion during the first half of 2015 compared to Rs.92.4 billion incurred during the corresponding period of 2014. Total expenditure on the maintenance of the national road network (including bridges) during the first half of 2015 stood at Rs. 2.6 billion.
- The extension of the national expressway network continued while the construction of new expressway projects was commenced.
- Phase II of the Outer Circular Highway (OCH) was opened to the public in September 2015. The consultants and contactors have already been mobilised for the construction of phase III of the OCH, which runs from Kadawatha to Kerawalapitiya. Once the OCH is completed, it will connect all expressways radiating from Colombo to different directions, reducing traffic congestion in the city of Colombo. The construction of the Central Expressway Project (CEP) was inaugurated in August 2015. The Central Expressway that extends to 178.8 kilometres has been proposed from Kadawatha to Dambulla via Gampaha, Mirigama and Kurunegala with an expressway link to Kandy at Pothuhera. The extension to the Southern expressway linking Matara and Hambantota (96 km) was launched in July 2015. This extension is to be completed in four phases connecting Matara, Beliatta, Wetiya, Andarawewa and Hambantota.
- A number of road construction and rehabilitation projects continued, with special emphasis on the conflict affected regions in the Northern and Eastern provinces. The rehabilitation of roads under the Road Sector Assistance Project II (phase II), National Highways Sector Project, Southern Road Connectivity Project and China Development Bank funded Priority Roads Project-3 continued during the first half of 2015. In addition, bilateral assistance has been received from Japan, Korea, Saudi Arabia, and Kuwait on different road sector development projects. A number of multilateral arrangements, such as the OPEC Fund for International Development (OFID), along with international financial and development agencies, such as the World Bank and the ADB, also provided financial assistance for road projects. Meanwhile, the assistance of the United Kingdom and France on the reconstruction and rehabilitation of bridges continued during the first half of 2015. In the

conflict affected areas, all commissioned road projects are expected to be completed under the Northern Road Connectivity Project (NRCP). Most of the roads under the Northern Road Rehabilitation Project (NRRP), including the Puttalam-Marichchikade-Mannar road, have been completed. In the Northern and North Central Provinces, around 61 km of 'A' class roads and around 56 km of 'B' class roads are expected to be rehabilitated with additional financing.

### Road Passenger Transportation

- The service quality of the road passenger transportation system remained weak, in spite of quantitative improvements.** The total operated kilometrage of buses owned by Sri Lanka Transport Board (SLTB) increased by 22 per cent while their total passenger kilometrage also increased by 18.5 per cent during the first half of 2015 compared to the corresponding period of 2014. The total number of buses owned by SLTB increased by 1,232 to 8,255 during the first six months of 2015, partly due to the importation of the last consignment of buses under the project to purchase 2,200 new buses. The bus fleet was further increased through the procurement of small buses to serve the remote areas. The average number of buses operated per day improved by 734 to 5,127 during the first six months of the year. The bus fleet owned by private operators also increased to 20,628 by end June 2015 compared to 19,994 at end June 2014. Correspondingly, the average number of buses operated also increased to 18,566 by end June 2015 compared to 17,142 at end June 2014. The operated kilometrage of private buses increased by 18.5 per cent, while passenger kilometrage also increased by 7.5 per cent, during the period under review.
- The SLTB and the National Transport Commission (NTC) continued its efforts to improve the provision of selected transport services, which are otherwise neglected.** Under the Sisu Seriya service, which aims to provide reliable, safe, cost effective and dedicated service to school children and parents, 1,243 private sector buses and 750 SLTB buses were in operation as at end June 2015. The government has allocated Rs.580 million for the Sisu Seriya project in 2015. In addition, the Nisi Seriya and Gami Seriya projects for uneconomical routes and time slots continued, while season tickets were issued to school children, university students and students in vocational educational institutes. The amount of subsidy allocated to NTC on account of Nisi Seriya and Gami Seriya projects was Rs.35 million while the amount of subsidy allocated to SLTB on operations in uneconomical routes, subsidised season tickets and passes for armed forces amounted to Rs. 7.1 billion during 2015. In addition, SLTB commissioned 900 more electronic ticketing machines, increasing the total number of electronic ticketing machines to 3,700 as at end June 2015. NTC embarked on a project to promote the usage of bicycles by school children as a safe, reliable, and low cost transport option in light of the inadequacy of public transportation services in rural areas. Under this programme, Rs. 40 million has been allocated from the budget and 500 bicycles were distributed during the first half of 2015.
- The registration of new motor vehicles recorded a significant growth during the first nine months of 2015 compared to the corresponding period of 2014.** During this period, the total number of vehicles registered increased by 82.4 per cent to 491,632. The registration of motor cars and buses increased by 200.1 per cent and 60.7 per cent, respectively, while the registration of three wheelers increased by 69.6 per cent. This increase in vehicle registration is largely driven by low interest rates applicable on leasing facilities and reduced taxes on the importation of motor cars with an engine capacity below 1,000cc. Consequently,

Table 3.3

## New Registration of Motor Vehicles

Item	2013	2014	2014 Jan-Sep	2015 Jan-Sep (a)	Change %
New Registration of Motor Vehicles	326,651	429,556	269,550	491,632	82.4
Buses	1,805	3,851	2,031	3,264	60.7
Motor Cars	28,380	38,780	24,982	74,966	200.1
Cars Less than 1,000cc	4,186	5,781	3,307	38,922	1,077.0
Three Wheelers	83,673	79,038	57,202	96,987	69.6
Dual Purpose Vehicles	24,603	20,799	14,819	29,442	98.7
Motor Cycles	169,280	272,885	160,890	273,691	70.1
Goods Transport Vehicles	5,872	5,121	3,648	5,459	49.6
Land Vehicles	13,038	9,082	5,978	7,823	30.9

Source: Department of Motor Traffic

(a) Provisional

the registration of motor cars with an engine capacity below 1,000cc increased by 1,077 per cent in the first nine months of 2015 compared to the corresponding period in 2014.

### Rail Transportation

- **Improvements to rail transportation continued during the first half of 2015 although the quality of the service still remains below the desired levels.** During the first half of the year, the rail passenger kilometrage increased by 9.1 per cent while the goods kilometrage declined by 3.1 per cent. The length of the railway system in Sri Lanka expanded to 1,567 km by end June 2015 with the completion of Northern railway line during the first quarter of 2015, in comparison to 1,449 km at end 2014. The completion of the Northern railway line enabled railway operations on the Northern and Thalaimannar lines connecting Madhu to Thalaimannar and between Pallai and Kankesanthurai. Further, the installation of a new railway signalling system for the Northern railway line was also completed while the construction of railway stations along the Northern line continued with the restoration of stations in Jaffna, Chunnakam and Kankesanthurai and the restoration of Thalaimannar pier railway station on Mannar line. Sri Lanka Railways (SLR) continued the

improvement of railway platforms and overhead bridges. In addition, SLR is in the process of preparing a strategic railway development plan for 2016-2020 while initiating discussions to carry out feasibility studies in association with ADB for the railway electrification project, the establishment of an Internal Container Depot (ICD) and the construction of a new railway track from Dematagoda to Battaramulla.

### Civil Aviation

- **The country's civil aviation sector displayed a healthy growth during the first half of 2015.** Air passenger movements through the Bandaranaike International Airport (BIA) increased by 7.5 per cent to 4.1 million reflecting the increase in tourist arrivals, while transit passengers increased by 10.6 per cent to 0.6 million during the first half of 2015 compared to the corresponding period of the previous year. The total volume of cargo moved through the BIA increased by 20.1 per cent to 107,020 MT and the total number of aircraft handled at BIA increased by 11.0 per cent to 28,205 during the first half of 2015. Since the suspension of regular operation of SriLankan Airlines (SLA) to Mattala Rajapaksa International Airport (MRIA) in February 2015, MRJA handled only 536 aircraft during the period under review. MRJA handled 1,566 passenger movements while handling 2,074 transit passengers during

this period. The country was being served by 27 international airlines (including three charter airlines, one cargo airline, SLA and Mihin Lanka (ML)) by end June 2015, while six domestic airlines are also in operation.

- **Re-fleeting of the national carrier continued during the first half of 2015.** Under this programme, one new A330-300 airbus was added to the fleet during the first half of 2015 while three more A330-300 airbuses are expected to be delivered by end 2015, which will replace the existing A340-300 aircraft. The gradual replacement of the existing aircrafts by acquiring a new fleet would result in superior service quality and enhanced fuel efficiency. Meanwhile, SLA's operating loss has declined significantly as an outcome of the drop in operating expenditure supported by declined fuel prices and an increase in total revenue supported by expansions in operations to key routes and increased passenger load factor.
- **Construction work of the Phase II Stage 2 of the BIA expansion project is expected to commence in early 2016 and scheduled to be completed by early 2019.** Total estimated cost of the project is Rs 74 billion, and would be funded by the government of Japan. A world class multilevel terminal with two pier passenger terminals is expected to be built under the project, which will enhance the current capacity of 6 million passenger movements per annum to 15 million. This also includes the construction of a multi-story car park and a new railway terminal linking BIA to the city of Colombo. Meanwhile, a project for overlaying the runway improving the surface condition for the safe operation of aircrafts is in the pipeline as per the recommendations of the International Civil Aviation Organisation (ICAO). The project includes widening and overlaying the existing runway and taxiways, building new rapid exit taxiways and bypass taxiways, installing a new airfield ground lighting system and modifying the existing apron of the aerodrome of BIA.

## Port Services

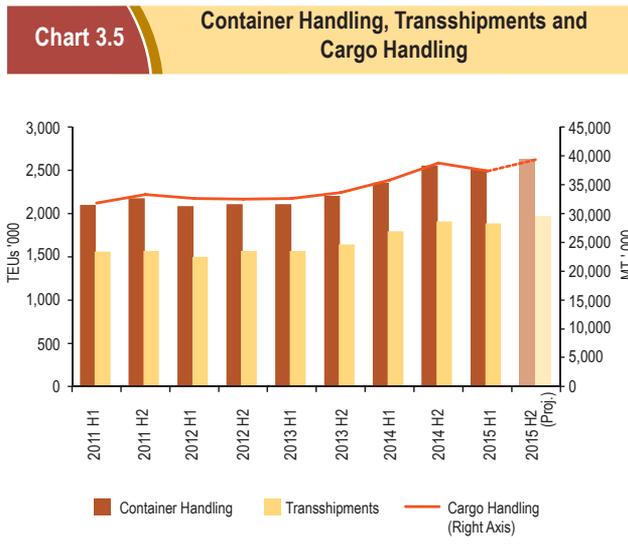
- **The growth of port sector activities continued during the first nine months of 2015, mainly reflecting the increased activities of the newly commissioned Colombo International Container Terminal (CICT).** Container throughput handled by the port of Colombo increased by 6.1 per cent to 3,888,185 TEUs during the first nine months of 2015 from 3,665,879 TEUs in the corresponding period in 2014. The port of Colombo recorded a growth of 9.6 per cent in domestic container throughput and a growth of 5.0 per cent in transshipments during the period under review. Total cargo handled during the first nine months of 2015 increased by 3.9 per cent to 57.9 million MT from 55.7 million MT in the first nine months of the previous year. Ship arrivals to the major four ports during January- September 2015 compared with the corresponding period in 2014 showed a growth of 11.9 per cent to reach 3,529 ships. The number of container ships arriving at the Colombo Port also increased by 12.6 per cent to 2,710 during the first nine months of 2015. Total vehicle handling at the Hambantota port increased by 14.6 per cent to 140,609 during the first nine months in 2015 compared to the same period in 2014. Domestic vehicle handling increased by 137.3 per cent in the first nine months compared to the same period in the previous year, although vehicle transshipments, which are handled only at the Hambantota port, declined by 13.4 per cent during the first nine months of 2015.

**Table 3.4** Performance of Port Services

Item	2014 Jan-Sep	2015 Jan-Sep (a)	Change %
Ships Arrivals at Ports of Sri Lanka	3,155	3,529	11.9
Total Cargo Handling (MT '000)	55,682	57,858	3.9
Total Container Handling (TEUs '000)	3,666	3,888	6.1
Transshipments (TEUs '000)	2,842	2,985	5.0

Source: Sri Lanka Ports Authority

(a) Provisional



- The expansion of port sector infrastructure in Sri Lanka facilitated the improvement in container volumes amidst competition from regional ports while catering to increasing demand for services in the international shipping industry. As per the Master Plan of the Colombo Port Expansion Project, 98 per cent of the construction of a berth was completed under the Phase I of the East Container Terminal (ECT) development plan by end June 2015. ECT development plan consists of 3 container berths alongside a water depth of 18 metres. The container handling equipment is yet to be installed and it may be appropriate to adopt a Public-Private Partnership (PPP) arrangement for terminal development in line with the experience of other countries. Meanwhile, proposals have been called to widen the existing access roads and internal roads in the Colombo Port. The installation of port handling equipment, which includes gantry cranes, has been completed under Phase I of the Hambantota Port Development Project. The ongoing construction of Phase II of Hambantota port is expected to be completed by November 2015. Magampura Port Management Company (MPMC), a subsidiary of SLPA that provides bunkering facilities, served bunker fuel only to 7 ships during the first half of 2015, forcing SLPA to call for Expressions of Interest (EOI)

from international strategic partners to operate bunkering facilities at the Hambantota Port as a joint venture. Meanwhile, the Port of Galle, which is being developed as a tourist port to attract more yachts and pleasure crafts, saw the completion of stages I and II of the construction of a Yacht Marina, and the construction of revetment while the excavation of marina basin under the stage III are in progress.

- The Colombo Port City Project (CPCP), which is a flagship foreign direct investment project, was put on hold by the government due to certain environmental concerns. The Agreement on CPCP was entered into between the government and the China Harbour Engineering Company Ltd (CHEC) in September 2014 and the construction work of the project was commenced immediately afterwards. The approval for the Environmental Impact Assessment (EIA) for the construction and infrastructure development has been granted by the Coast Conservation and Coastal Resource Management Department (CC&CRMD) subject to 42 conditions. At the beginning of 2015, the government appointed a project review committee on the proposed (CPCP) to evaluate the viability of the project and to ensure that the necessary environmental approvals are in place.

## Developments in Social Infrastructure

### Health

- The government continued to support its long standing policy of providing free universal health services to the nation. This policy has resulted in a steady improvement in Sri Lanka's health indicators since independence, particularly in relation to maternal and infant mortality and life expectancy. Limiting the maternal mortality rate to 32.5 per 100,000 live births by 2013 and the infant mortality rate to

8.6 per 1,000 live births by 2014 are significant achievements for an emerging economy like Sri Lanka, although further improvements in these indicators as well as in reducing neonatal mortality are necessary. Life expectancy has risen steadily to around 74.3 years by 2013 while the total fertility rate has declined to around 1.9 per family which is below the replacement level. These indicate the rising challenge of demographic transition and the need to reorient the focus of social infrastructure provision, including health services, to serve the emerging structure of the population in an efficient manner.

- **Improvements in human resources and physical infrastructure in the health sector continued during the first half of 2015.** In government hospitals, there were 18,792 qualified doctors, a doctor for every 1,116 persons, and 32,225 qualified nurses, a nurse for every 651 persons, by end June 2015. There were 601 government hospitals with 76,781 beds in the country, recording 3.7 beds for 1,000 persons by end June 2015. Several physical infrastructure development projects were in progress in the health sector during the first half of 2015. The construction of a cardiology and cardiothoracic complex at the Lady Ridgeway Hospital and the construction of a four storied theatre complex at the Kegalle District General Hospital were completed while two regional blood centres at Mullaitivu and Killinochchi District General Hospitals were declared open during the period. In addition, the construction of a bunker for the linear accelerator at Karapitiya Teaching Hospital to control radioactive exposure and an accident service and trauma care building complex at the Ragama Teaching Hospital are two of the large scale projects that are ongoing. Meanwhile, there were 93 government Ayurvedic Hospitals with 4,763 beds, with 22,455 registered Ayurvedic physicians as at end June 2015.
- **Several policies were formulated by the Ministry of Health with the view of improving the quality of health services during the first half of 2015.** National Medicines Regulatory Authority Act (NMRAA) was approved by the Parliament in March 2015 with a view to ensuring the availability of high quality medicinal drugs and safe and effective devices to the general public at affordable prices. Further, a national policy on the prevention and control of cancer was approved by the Cabinet of Ministers during the first half of 2015. This policy prioritises addressing the leading causes of preventable cancers in Sri Lanka, emphasises the need to improve awareness of possible cancer symptoms and signs among the general public and primary care practitioners. Meanwhile, the decision to display pictorial warnings covering 80 per cent of cigarette packets in order to enhance awareness among the public on the hazards of cigarette smoking was enforced by the government during this period. In addition, a national policy on alcohol control was approved by the Parliament, which focuses on regulating the promotion of consumption and production of alcohol.
- **With the rapid ageing of the population and success in combatting major communicable diseases, the disease burden of the country is moving rapidly towards non communicable diseases (NCDs).** Considering the socioeconomic implications of the rising prevalence of NCDs, nearly 742 healthy lifestyle centres (HLCs) have been established island wide. HLCs provide screening facilities for persons in an age range of 40-65 years for fasting blood sugar, Body Mass Index (BMI), cholesterol and blood pressure. However, the unavailability of a policy on marketing and advertising of unhealthy food items to children, opening of unhealthy food outlets at the boundaries of schools, and the exam-oriented education system, which discourages physical activity, have been identified as major challenges

in improving health conditions amongst school children and youth. Meanwhile, major outbreaks of any communicable disease were not reported during the first half of 2015, except the ongoing dengue and measles epidemics, but both were in lesser magnitude when compared to 2014. The suspected dengue cases declined to 23,139 during the first ten months of 2015 in comparison to 36,659 cases reported during the corresponding period of 2014. The Epidemiology Unit of the Ministry of Health introduced a web based national communicable disease surveillance system in January 2015, which would contribute immensely to improving the efficiency and accuracy of the communicable surveillance data leading to effective control and prevention of diseases.

- **The private sector continued to play a vital role in healthcare service delivery.** There were 223 registered private hospitals with 5,381 beds in the country, including 6 Ayurvedic hospitals with 72 beds. Further, there were 433 registered medical and channelling centres, 793 registered medical laboratories, and 1,901 full time and part time medical clinics operational in Sri Lanka. The regulation and assessment of the quality of service delivery of private institutions engaged in health services need to be strengthened as the demand for such services has increased with increased per capita income levels and limitations of the government health service. The changing preferences with ease of accessibility to leading medical consultants and advanced technologies as well as the increasing popularity of health insurance have raised the demand for private sector health services.

## Education

- **The Ministry of Education (MoE) continued to develop the medium-term strategic plan for 2016-2020, using a rolling planning approach and based on the Education Sector**

**Development Framework Programme (ESDFP).** In addition, the government took initial steps to form a national education policy covering school education, university education, and vocational and technical education. Accordingly, a Cabinet subcommittee has been formed to consider essential reforms to the entire education system of the country in accordance with current and emerging needs. Meanwhile, the indicators of general education continued to improve. Accordingly, the net enrolment ratio of age group 5-14 in primary education, improved to 99.2 per cent as per the School Census conducted by MoE for 2014 compared to 98.4 per cent recorded in 2013. The gross survival rate, which measures the participation in primary and secondary education (through grade 1 to grade 11), improved to 85.1 per cent in 2014 compared to 84.3 per cent recorded in 2013. Continuous efforts have been made to improve the school curricula, in particular in implementing rationalised curricula for grades 6 to 10 in the school system. Meanwhile, a number of foreign assisted projects continued in 2015, including Transforming the School Education Programme (TSEP) by the World Bank, Education Sector Development Programme (ESDP) by the Asian Development Bank (ADB), Education for Social Cohesion by German Development Cooperation (GIZ), and Child Friendly School Approach by the UNICEF.

- **Further improvements in human and physical infrastructure development were observed in the general education sector during the first half of 2015.** Under the 1,000 secondary schools development programme, 28 new technological laboratories were completed during the period, increasing the total number of completed laboratories to 976. These laboratories consist of ICT facilities with network and other components such as printers and multimedia projectors. Further, 53 technology faculties were

completed at selected schools during the period, increasing the total technology faculties to 62. These faculties will be established in 251 schools within the said 1,000 secondary schools and facilitate the recently introduced technology stream at GCE Advanced Level. With regard to human resources, 5,264 teachers, including 133 teachers for Advanced Level technology stream, were recruited during the first half of 2015. The schools evaluation programme, based on the indicators of educational standards, continued during the first half of 2015 under the guidelines modified in 2014. Under the programme, approximately 9,350 teachers have been evaluated externally in the first half of 2015.

- **The Ministry of Higher Education (MoHE) continued to engage in facilitating the transformation of the higher education system, enabling the operation of state and private sector universities simultaneously through quality-driven competition.** During the first half of 2015, approval was granted to KAATSU-Highly Advanced Medical Technology Training Centre to award Bachelor of Science degrees in Medical Science, Acupuncture and Nursing, while the South Asian Institute of Technology and Medicine (SAITM) has been approved for the granting of Bachelor of Science degrees in mechatronic engineering and civil engineering. Accordingly, 52 degree programmes at basic, postgraduate diploma, and master's level by 15 institutes have been recognised by the MoHE by end June 2015. Another seven institutions have applied for degree awarding status and individual institutional review panels have been appointed to examine the capacity of these institutions before awarding the accreditation by the University Grants Commission (UGC). Meanwhile, a number of undergraduate degree programmes, external degree programmes and postgraduate degree programmes to be

conducted by government universities have been approved by the UGC in 2015. In addition, UGC approved the establishment of the Department of English and Linguistics and Department of Public Policy in the Faculty of Humanities and Social Sciences at University of Ruhuna.

- **The progress of Technical and Vocational Education sector has been challenged by the lack of skilled trainers.** As at end June 2015, there were 940 vocational training centres registered with the Tertiary and Vocational Education Commission (TVEC), offering 2,277 accredited courses. TVEC issued 25,476 National Vocational Qualification (NVQ) certificates during the first six months of 2015. There were 117,818 students registered with public Technical and Vocational Education and Training (TVET) institutions in 2014 and 95,735 students were undergoing training. A large number of students registered and completed TVET programmes at private sector institutions as well. In addition to the lack of skilled training personnel, skills mismatch in the vocational front and the lack of female participation continue to be the issues in the TVET sector. Introduction of the Technology stream at the Advanced Level examination and the provision of NVQ certificates at level 2 and 3 for successful school children, could address these issues over time.

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

- **Over time, Sri Lanka has witnessed a declining trend in poverty supported by various poverty alleviation programmes, such as Janasaviya/Samurdhi/Divinaguma subsidy programme and Nutrition Allowance programme.** According to the Household Income and Expenditure Survey (HIES) 2012/13, the poverty head count ratio (PHCR), which is the percentage of population earning less than

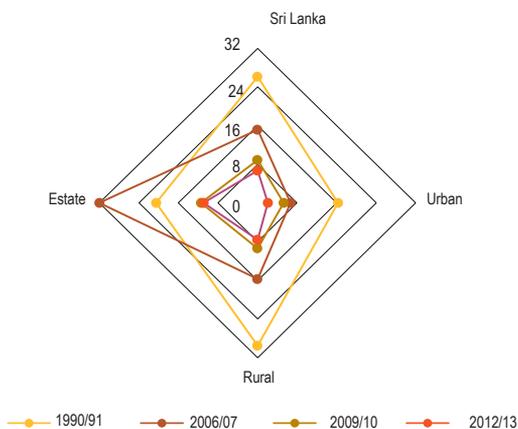
the official poverty line (OPL) of Rs. 3,624 per person per month for the survey year, has fallen to 6.7 per cent from 8.9 per cent recorded in HIES 2009/10. In spite of these developments, the level of poverty in some remote areas, particularly in the Northern, Eastern and Uva provinces, remains a major concern, requiring urgent targeted intervention. Further, as highlighted in the CBSL Annual Report 2014, although the PHCR has improved, the number of families that are just above the poverty line remains high. According to the World Bank, the percentage of population that earn less than US dollars 2 per day stood at 19.6 per cent in 2012/13. Therefore, the formulation of suitable strategies specifically designed to prevent such persons from slipping back to poverty is essential.

- **The Department of Divineguma Development (DDD) steers the Samurdhi/Divineguma subsidy programme as the foremost social safety net programme in the country.** This programme aims to provide financial assistance to low income families, while encouraging them to uplift their income levels through the creation of opportunities enabling them to integrate with mainstream economic activities. Under the Samurdhi/Divineguma subsidy programme, Rs. 19.3 billion was granted during the first

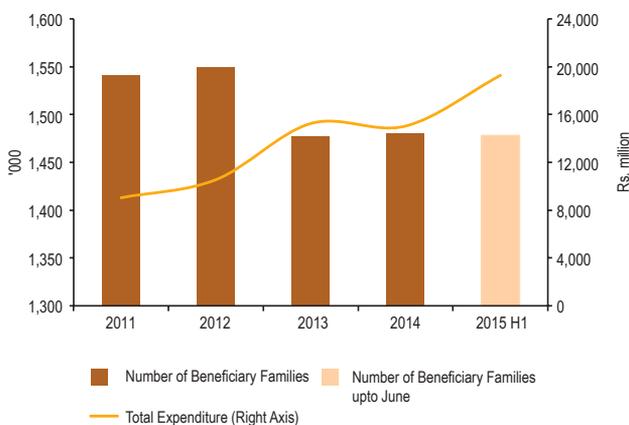
half of 2015, which supported 1.48 million households. The Samurdhi Social Security Fund, which aims at reducing the vulnerability of the poor in exigencies, also granted Rs. 142 million among 28,435 families during the first half of 2015. The Nutritional Allowance Programme, which was initially granted to pregnant and lactating mothers of low income families, was extended to cover all income levels, granting nutrition packs to the value of Rs 1.5 billion among 385,000 beneficiaries from March to June 2015.

- **Better targeting of poverty alleviation programmes would accelerate the eradication of poverty, thus increasing the overall standards of living of the population.** Although the country has made substantial progress in surpassing the Millennium Development Goal (MDG) of halving the level of poverty by 2015, the government still provides Samurdhi/Divineguma benefits to over 28 per cent of households. Strengthening the screening processes in relation to enrolment as well as the possible exit from these programmes is necessary to enhance their effectiveness and to ensure that the most vulnerable segments of the population would get the maximum benefit through such programmes.

**Chart 3.6 Poverty Headcount Ratio (Per cent)**



**Chart 3.7 Performance of the Samurdhi / Divineguma Subsidy Programme**



## Expected Developments

- Electricity generation is expected to grow by around 6 per cent in 2016 due to increasing economic activities and prevailing low tariffs. With increased low cost power sources, particularly coal power, the average generation cost is expected to remain low. Further, a supply shortage of electricity is not expected in the remaining months of the year and in 2016 due to increased coal power generation. The financial performance of the CEB is expected to remain favourable if coal power generation operates at its full capacity and normal weather conditions prevail during the remaining part of 2015 and in 2016.
- During the remaining period of 2015 and in 2016, international oil prices are expected to remain at low levels mainly due to increase in supply supported by higher production levels of the OPEC group and easing of sanctions against Iran. This will be further supported by the drop in demand due to the slowdown of the Chinese economy and the slow pace of global economic recovery. The CPC's financial position is expected to improve during the upcoming period mainly in the presence of low international oil prices.
- The successful implementation of the 'Google Loon' project is expected to boost access to internet across the country while supporting economic activities through improved doing business environment. Mobile telephone connections are also expected to grow in line with internet growth. However, the total fixed telephone connections are expected to stagnate as the fixed wireless connections are expected to continue their declining trend. With these developments, Information Technology Enabled Services (ITES) such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) will expand further enabling Sri Lanka to improve its position as an IT service destination.
- The development of economic and social infrastructure is expected to continue while enhancing the utilisation of the infrastructure that is already in place. Ongoing expansion of major ports, airports and expressways is expected to continue while new strategies are expected to improve the utilisation of recently completed ports and airports. Further, introducing reforms to the education and health sectors and implementing other policy initiatives, which have already been announced by the government, are crucial in the social infrastructure provision. In addition, more emphasis is needed on developing soft infrastructure, which is indispensable in the drive towards all-inclusive economic growth.

