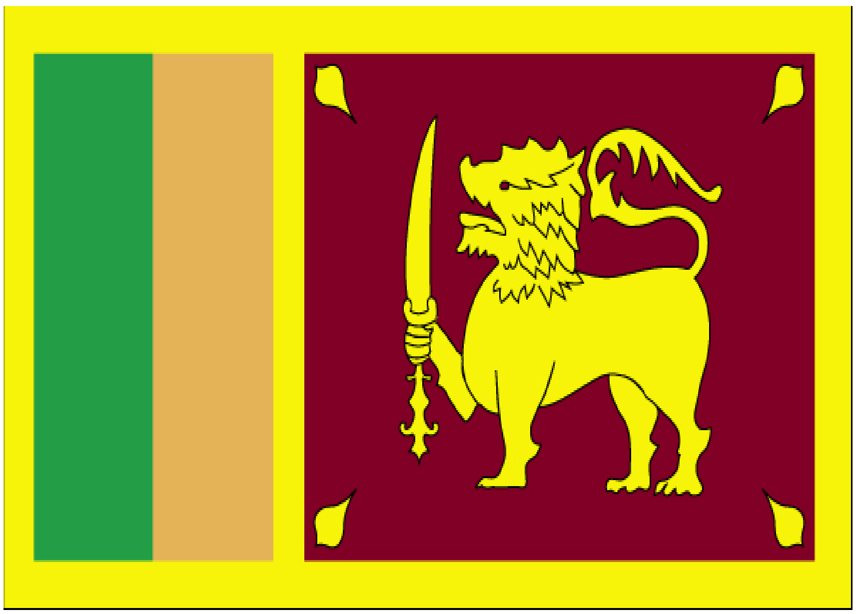
SRI LANKA
COUNTRY REPORT



Third Asia Pacific Ministerial conference on Public – Private Partnership (PPP) for infrastructure development at Tehran , Islamic Republic of Iran

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Country Report

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1 Socio - Economic Profile of Country

Area and Population

The Democratic Socialist Republic of Sri Lanka is an island republic lying in the Indian Ocean off the South eastern tip of the Indian subcontinent. The Arabian Sea lies to the west, the Bay of Bengal to the Northeast, and the Indian Ocean to the south. Colombo, situated on the western coast, is the largest city and the commercial capital of Sri Lanka. The administrative capital is Sri Jayawardenapura (Kotte), located about 16 km east of Colombo.

Area:

The area of Sri Lanka is 65,610 sq. km. The island stretches over 440 km from north to south and 220 km from east to west. The Central highlands occupying the central province and a part of Uva Province include numerous plateaus, valleys and mountains with altitude culminating at 2524 m above sea level (Piduruthalagala). It forms a natural barrier to cross –country inter-provincial land transportation. Surrounding plains cover the largest part of the Island with elevation not more than 90m above sea level. Numerous national reserves and sanctuaries intended for the protection of forests and wildlife cover a total area of about 13 percent of the country’s land area.

Population:

The population of Sri Lanka was estimated at 18.73 million as on July 2001 censes and is estimated 19.46 million by the middle of year 2004 yielding a density of 299 persons per square km. The population density is significantly greater in the western and southern areas, where the majority of Sri Lankan live. The population grew 8.8% from 1994 to 2004 at an average 1.2% per year.

Future Population

Population is expected to grow at a rate of approximately 1.1% over the years until 2006 and subsequently start to reduce the pace. According to the Population growth forecasts published by the Registrar General's Department, the anticipated population growth projections are shown in Table 1.2

Table 0-1 Population Growth Forecasts

Year	2004	2006	2011	2016	2021
Population (x1000)	19,462	19,982	20,876	21,693	22,329
Annual Growth	1.1%	1.1%	0.88%	0.77%	0.58%

Source: Registrar General Department

Economic Growth Patterns and Distribution

Economy of Country

Starting from 1977, the Sri Lankan Government introduced open economic policies centered on reduction of fiscal deficit, liberalized trade, privatization, deregulated foreign investments and export based industrialization. Policy reform programme has had its dividends in terms of increased growth rates and reduced unemployment rates in the following decade. Ensued by continuing reform, increased privatization and a stress on export-oriented growth, GDP marked a healthy 7 percent growth in 1993. Economic growth has been uneven in the following years as the economy faced a multitude of global and domestic economic and political challenges. Overall, average annual GDP growth was 5.2 percent from 1991 to 2000. In 2001, GDP growth was negative 1.5 percent the first contraction since independence. By this time, the economy had been hit by a series of destructive terrorist attacks, domestic economic problems, political instability as well as external factors such as terrorist attacks in the United States.

Sri Lanka is at a threshold of economic growth and development in the aftermath of three decades of war and conflict. Slogans such as "winning the economic war", making the nation the "wonder of Asia" have been frequently used to describe the priority that economic development has received in recent years. Sri Lanka's current strategy as articulated in the Mahinda Chintana: Vision for the Future is to achieve growth rates of above 8 per cent per annum and thereby aim at doubling the current per capita income to reach around US $ 4000 by 2016.

Observing Sri Lanka's growth rates during the last decade, the following facts become clear. The average growth that the country achieved during 2000-2005 was 4 per cent (could have been more if not for the -1.6 per cent very low growth the country saw in 2001), whereas during 2006-2010 Sri Lanka achieved an average growth of 6.4 per cent (could have been more if not for 3.5 per cent growth in 2009). The high growth rate in the latter period was a significant achievement despite the war inflicting the economy from 2006 to part of 2009. A closer examination shows that the following factors contributed to the high growth during the period: rapid growth of the global economy during this period, especially during 2006-2008; increasing public investment to average close to 6 per cent of GDP and the fiscal stimulus associated with it; improved connectivity associated with rapid progress in infrastructure: road development, telecom and electricity sectors; stimulus from underdeveloped areas of the North and East rapidly taking off in the aftermath of the war, etc. The GDP growth is given in Table 1.3. This growth is visible in all economic sectors, specifically in industries and trading.

Transport Sector

Public transport accounts for nearly 73% of the total motorized passenger transport and serves as the only means of transport for majority of the population. Of this, bus transportation accounts for nearly 68%, with state owned bus service share of 23% and private operator share of 45% provided by small scale operators. Sri Lanka Railway accounts for only 5%, carrying 120mn passengers per year. Despite attempts made during the recent past, the quality and service of passenger transport have largely been neglected. Increase in public transport modal share will reduce traffic delays and congestions on roads and need for expensive road infrastructure developments.

Nearly 99% of ***freight movements*** are handled by the road transport. The freight market share of the Sri Lanka Railway has come down to 1% in the recent past, which was 32% in 1979 showing a drastic decline in the efficiency and competitiveness of SLR in handling freight.

All three commercial ***ports*** had been connected by railway lines. However, no trains operate at present to or from the Colombo Port. It is evident that more than 30% of the agriculture produce are being go waste before reaching the consumer. Marked differences between farm gate prices and retail prices prove the inefficiency in perishable produce transportation. This highlight the problems of high transport costs in most sectors of the economy, indication greater investment in the development of the ***logistics*** for goods transport and the supply chain.

At present there is no coordinated effort made for ***inter-modal transportation***. Three-wheelers and school and office vans are also providing substantial services to communities that do not have direct access to bus or rail. There is a breakdown of inter-modalism between trains and buses. Systems such as park and ride have also not been developed to date. A case in point is the lack of suitable public transport to ***the international airport*** at Katunayake

Sri Lanka has a reasonably well connected ***road network*** that contributes to the mobility. Road density per km^2 is one of the highest in the region. Most of the National and Provincial roads and majority of urban roads are paved roads. Nearly 30% of these roads have been rehabilitated or are in the process of being rehabilitated. Majority of the balance roads are in unsatisfactory condition or lacking required capacity or proper geometric standards thus contributing to unnecessary delays and accidents. New roads cannot be built in urban areas or be widened hence the growth of urban centers largely relies on the efficiency of public transport.

Sri Lanka ***Railway*** manages a 1412 km length of rail network with 323 stations that covers most part of the country except the southeast. The main railway lines radiate from Colombo and branch off at regular intervals. However, except for 116 km double-track lines around Colombo, rest of the network is single-track line.

Unsustainable increase in private ***vehicle ownership*** in urban cities has created several problems in increased traffic congestion, road accidents and air pollution in the city centers. Dependence on road transport tends to raise total ***energy consumption***, increase air pollution, and have other adverse effects on the environment.

At present Sri Lanka have a set of sound regulations on ***environmental*** impact assessments on transport infrastructure. But regulatory control of fuel emission and noise standards for all vehicles are yet to be fully implemented. Toxic gas emission in high traffic conditions and noise pollution are at a peak level in urban city centers contributing to adverse health effects. Time and resources wasted on roads have seriously affected the economy, environment and the society. On the other hand ***non motorized transport*** modal share is very low in urban areas and is also reducing in rural areas.

The number of ***road accidents*** and fatalities has increased over the years. Major causes for these are poor condition of infrastructure, traffic congestion in the urban areas, indiscipline behavior of road users including drivers, riders, passengers and pedestrians. Facilities available for pedestrians and other non-motorized transport modes are minimal making them the most vulnerable road users.

Present approach to transport ***pricing*** appears to need revision. It needs to reflect economic pricing and user pay principles in general. At the same time, the ***subsidies*** offered by the State are largely to state sector service providers. There is poor effectiveness of the subsidies reaching the intended targets due to the inefficient delivery systems.

The ***freight transport*** operation is deregulated. Para- transit, which includes a wide cross section of services ranging from school services to rural vehicles, are also fully deregulated. The high rate of accidents, low productivity and collusive behavior are reasons why some degree of regulatory control may be required for these sectors.

A number of weaknesses contribute to the poor performance in ***planning and implementation*** in the transport sector. There is no single body with the responsibility for the transport sector. Existence of multiple agencies in transport service and infrastructure provision, with poor coordination, leads to fragmentation of the legal authority to plan and the lack of authority to enforce agreed upon plans, which causes duplication of effort and haphazard decision-making.

Lack of ***policy and coordination*** between the Ministries and the Provincial Councils further exacerbates this situation. Since there is no single authority for the sector, poor alignment between planning, policy making, and the budgeting process takes place.

However, the most critical short coming is the ***lack of professionalism*** in the sector. With the disbanding of the Central Transport Board and the formation of private bus operators, the organizational requirements for people with professional qualifications for transport operations were also lost. This has been further exacerbated with the formation of the NTC and followed by provincial regulators where the stipulations for building up professionals in regulation and planning have been minimal.

Principles of Investment in Transport sector

Since the growth of the economy and social development is directly dependant on the transport sector, the Government will ensure that a minimum required level of resources would be invested regularly in order to provide for the sustainability and growth of the sector. Capital investment of 1 ½ % for next 5 years and 1% GDP thereafter will be met. In terms of investment, the Government will avoid duplication of infrastructure.

It is the policy of the Government to make required transport infrastructure and services available to satisfy the diverse public and corporate needs. The Government will allow investment opportunities to private sector in all areas of transport infrastructure and service provision under regulations that would guide such investments, other than in areas in which the Government would have a strategic interest or reason. The Government ownership in the strategically important enterprises in the transport sector will be continued. The Government while retaining its present infrastructure and areas of service provision will continue to invest in such operations in order to reduce monopolistic or oligopolistic behaviors in the market. It will also invest in areas where private sector is unwilling or where the market fails in delivering the desired objectives.

The government will take a leading role in transport infrastructure investments. Regular allocation will be provided for periodic maintenance and rehabilitation of assets. In addition, funds will be provided for procurement of new assets for extension of network and future development. The decisions regarding investments will be made on the evaluation of cost – benefit analysis. All procurements will be made on adhering to competitive bidding procedure in a transparent manner, except, in special cases. In every effort will be taken to maximize the contribution for the development of local industry and technology in obtaining foreign investment. All procurement plans would contain necessary mechanisms to ensure sustainability of investment. Especially, such plans should conform to proper maintenance and repair requirements

Public Private Partnership

In the past decade, Sri Lanka has successfully harnessed PPPs for creation of new assets and improving services in ports, power and telecom sectors. However, number of PPPs reaching the stage of implementation declined due to weakening of political commitment and the lack of expertise in structuring transactions. Lack of Government to Government funding had also deterred PPP options for investment.

Recent Policy and Institutional Developments

The Government's interest in PPPs to finance selected large scale infrastructure projects has been rekindled, as set out in the Mahinda Chinthana, the 10 year strategy of the current Government. This policy clearly outlines the Government's intention to involve the private sector in the infrastructure development as well as to improve the performance of the State owned Enterprises.

An independent multi-sector regulator has been approved with authority to step in to any infrastructure sectors by changing the appropriate sector legislation. The Government is now focusing its efforts on setting up a framework to pursue PPP options in many sectors. A unit within the Ministry of Finance to deal with new investments is being created. The detailed procurement guidelines are currently revised.

Sector-specific PPP Initiatives

Ports: The most successful PPP in Sri Lanka has been in the Port sector. The Queen Elizabeth Quay (QEQ) was transferred to a private consortium on a Build, Own, Operate and Transfer (BOOT) concession over 10 years ago. The US$ 240 million investment was partly financed by ADB, IFC and former CDC. The terminal will be transferred back to the Government after 30 years. The private sector operation has had a remarkable impact in improving the performance of the Government owned terminal, which is adjacent to the QEQ. Also helped increase market share of the Colombo port.

The Government has also moved ahead with its plans to develop the Colombo South Port. Based on the feasibility study completed with technical assistance from the ADB, development of four terminals are expected to be offered to the private sector and the request for proposals for the first terminal is expected shortly.

Highways: The Government has earmarked several highways which will be financed and operated by the private sector and is in the process of amending the legal framework for the collection of tolls. The model concession agreements for pursuing these projects on an annuity basis have already been developed with assistance from ADB. The Government is also keen to pursue performance based maintenance contracts in the national road network and is in the process of implementing a pilot. Colombo-North East Highway is one of the project the government is expecting to implement with PPP. Feasibility study including financial analysis is in progress at present.

Railways: The Department of Railways has leased out a part of its track and locomotives. It has plans to set up Internal Container Depots together with Ports Authority and private sector. Plans have been underway to invite the private sector in the operation of passenger and cargo transport from the International Airport to the city.

In terms of FDI Sri Lanka is lagging behind its counterparts in the region with only US $ 240 Million of FDI in 2005. 2006 seems better with US $ 600 million achieved up to November 2006. India boasts of US $ 6.000 Billion, Bangladesh US $ 800 million & Pakistan US $ 2.2 Billion. Lack of infrastructure in terms of road access, ports, industrial parks, high costs of power are some of the major obstacles identified in achieving the targets. Budget constraints, long drawn procurement processes, delays in completion of contracts, management inefficiencies, lack of clear policies, labour resistance are some reasons attributable for the slow growth in terms of infrastructure. On average the Government spending on infrastructure is only about 5% of GDP annually. The investment in infrastructure in 2004 has amounted to Rs. 90.3 Billion & for 2005 (provisional) it is Rs.137.9Billion. (Source; Central Bank of Sri Lanka Annual Report-2005). Board of Investment of Sri Lanka (BOI) has set up an ambitious goal of FDI of US$ 1billion for 2007. Further the Government's priority of developing the rural sector can only be achieved if the infrastructure is in place in terms of roads; power & industrial zones.

Contract management & regulation is another essential factor in the PPP Process. However much the structuring of the project was done, lack of proper regulation will result in not achieving the objectives of the project .