

Sri Lanka
State of the Economy Report 2010

Chapter 10
Infrastructure Challenges in Post-conflict
Development

by
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10. Infrastructure Challenges in Post-conflict Development

10.1 Introduction

In post-conflict Sri Lanka, there is a clear need for the rapid development of infrastructure facilities for the country to accelerate economic growth and deliver improved standards of living. This is particularly important in the context of the rehabilitation and reconstruction of the previous conflict-affected regions of the Northern and Eastern Provinces. These regions demand fast recovery from decades of conflict-induced deprivations that have created socio-economic inequities with the rest of the country. Improved infrastructure is, therefore, necessary not only to bolster the medium to long term economic growth prospects for the country, but also as a short term palliative to develop and improve livelihood opportunities in the North and East (N&E) of the country.

Amidst the wide range of infrastructure demands covering almost all aspects of basic infrastructure facilities, Sri Lanka faces the biggest challenge in financing these investments with continuously tight fiscal constraints. With the end of the military conflict, the government has launched a massive infrastructure drive to bridge the urban-rural infrastructure gap and meet the reconstruction needs of the Northern and Eastern Provinces of the country. This policy brief attempts an assessment of the direction of infrastructure development in Sri Lanka, focusing on key programmes and sectors of infrastructure initiatives. In particular, it pays special attention to government initiatives directed at rural infrastructure development and on the conflict-affected areas of the country.

10.2 Policy Context

The current infrastructure development policy of Sri Lanka attempts to support the government's thrust to achieve a regionally balanced economy that gives special attention to address economic and social disparities across the urban and rural areas. This was brought in with the launch of the Ten-Year Horizon Development Framework (2006-2016) which included the initiation of the 'Randora' (infrastructure development) programme at the national level. In addition to these, the government also introduced the 'Gama Neguma' (village development), 'Gemidiriya' (village strengthening) and 'Maga Neguma' (road development) programmes operating at the regional level.

Randora covers a wide array of infrastructure services, including economic infrastructure, irrigation, education and health, industries, and urban development and development of townships. Implementation of these projects is taking place at the national and regional levels. National level projects encompass development of expressways, power generation, transmission systems, large-scale water supply and sanitation projects, sewerage systems, major aviation and port development projects.

Gama Naguma is an accelerated development programme for rural upliftment and village re-awakening which gives priority to unsolved problems in areas where development is lagging behind vis-à-vis other areas. Its main objective is a comprehensive development of villages through active community participation. It has a wide spectrum of

Table 10.1
Government Investment in Infrastructure

Year	Economic Services		Social Services		Total	
	Rs. bn.	% of GDP	Rs. bn.	% of GDP	Rs. bn.	% of GDP
2006	106.8	3.6	48.4	1.6	155.2	5.3
2007	141.2	3.9	55.0	1.5	196.2	5.5
2008	168.9	3.8	60.2	1.4	229.1	5.2
2009	256.4	5.8	53.9	1.2	330.4	7.0

Source: CBSL, *Annual Report 2009*.

priority areas including infrastructure. The programme aims to mobilize all rural development efforts to one development programme through a spectrum of initiatives including, ensuring good governance at the local level and widening the scope of service delivery of the local authorities; bringing ICT to the village; conservation and management of forest resources; facilitating construction and improvement of the standard of housing in villages; and small and cottage industry development. The infrastructure component is intended to carry out projects for the provision of rural roads, electricity and water, reconstruction of canals, construction of small scale rural buildings, and small scale infrastructure development which can make direct and indirect contributions towards economic activities in villages.

The Maga Neguma programme was initiated with the objective of assisting local government bodies to develop rural roads. It consists mainly of building community based feeder roads to address pressing problems of transport. The programme is implemented with community participation. About 90 per cent of the project cost will be financed by the government and remaining 10 per cent will be borne by the beneficiaries.

The Gemidiriya is aimed at building accountable and self-governing local institutions that can manage sustainable investments, using the Community Driven Development (CDD)

approach. It has a long-term objective of supporting the strategy of rural poverty reduction, promoting sustainable and equitable rural development through improving access for the poor to basic social and economic infrastructure and services, and providing necessary support for productive activities. Its infrastructure component is primarily geared to improving access for the poor to basic social and economic infrastructure and services. While many of the above programmes are to be phased in to cover the N&E, infrastructure development in the former conflict-affected provinces are given special emphasis through the 'Negenahira Navodaya' and 'Uthuru Wasanthaya' programmes.

Government efforts to raise financing infrastructure have clearly been significant over the period 2006-09, despite the constraints imposed by spending for a heightened military conflict. Private sector participation has been slow but this is to be expected. Active participation of the private sector will inevitably be linked to the progress by the government in restoring large scale infrastructural needs in energy, transportation, communication, etc. To this end, public investments to improve economic services in particular have been marked in recent years. By contrast, spending on social infrastructure has declined as a percentage of GDP. Thus, the overwhelming focus has been on efforts to improve constraints in areas such as energy and transportation, as opposed to higher

Table 10.2
Sector-wise Investments on Roads (Rs. million)

Item	2006	2007	2008	2009
Expressway development	6,767	7,706	14,922	24,672
Construction of bridges and flyovers	1,108	1,759	9,916	16,263
Highways development	5,434	8,737	11,278	16,073
Rehabilitation of tsunami-affected roads	1,443	6,302	8,848	10,316
Roads	966	3,628	7,082	8,711
Widening and improvement of roads	3,001	4,582	6,053	5,449
Maintenance of roads and bridges	2,933	3,410	3,103	3,049
Land acquisition	2,320	3,021	2,718	2,999
Maga Neguma rural roads development	1,800	2,442	3,796	2,987
Bridges	477	2,674	1,765	1,605
Other roads	1,065	1,911	2,792	3,492

Source: Ministry of Finance and Planning, *Annual Report 2009*.

allocations for infrastructure investments in schools and hospitals. Undoubtedly, fast-tracking poverty reduction and rural development requires improvements in power supply, road networks and transport systems, telecommunication capacity, port and aviation facilities, etc. Nonetheless, investment in developing the country's social capital - through improved education and health facilities - are as important.

A breakdown of public investments by key areas of investment highlights that the priority areas receiving the largest chunks of financing are national infrastructure development projects consisting of roads, bridges, power generation, ports, irrigation, water supply, etc. (Table 10.2). Investments in roads and bridges alone accounted for 25 per cent of the budgetary allocation in 2009. By contrast, allocations for health and education together accounted for only 8.5 per cent of the total. The government's commitment to uplift rural infrastructure is also apparent, with over 17 per cent of total public investment earmarked for this purpose in 2009.

¹ *Business Today*, January 2010.

10.3 Overall Infrastructure Plan

The overall infrastructure plan of the government has two directions; first, the rural infrastructure plan that focuses on developing the lagging regions of the country, and second, the infrastructure plans intended to rehabilitate the conflict-affected N&E regions of the country. Overarching these is the national infrastructure plans for the country as a whole.

10.3.1 National Level Infrastructure Development

As previously mentioned, road development is given high priority by the government. It has been estimated that about 33 per cent of the fuel consumption of the country is wasted due to the poor road conditions.¹ Besides such costs, a poor road network hampers not only access to markets - particularly the connection of rural villages to urban cities - but also adds to transport costs, and ultimately to the international competitiveness of Sri Lanka's export industries.

Table 10.3
Major Investments in Curative Healthcare (Rs. million)

	2006	2007	2008	2009
Hospital development projects	1,802	2,468	4,269	5,194
Hospital rehabilitation	1,685	1,983	1,831	2,899
Medical equipment and machinery	1,767	1,825	902	3,241
Hospital furniture	92	101	65	250
Vehicles to hospitals	94	-	168	96
Total	5,440	6,377	7,235	11,680

Notes: Includes only central government expenditure.

Source: Ministry of Finance and Planning, *Annual Report 2009*.

During the last few years, the development of the road sector - especially the rural road development network - has received considerable attention. In addition, the construction of several national highways has also been initiated. The Southern highway with four lanes is set to be open for public transport in 2013, the Colombo-Katunayake highway will commence transport in 2012, while the construction of the Colombo Outer Circular road which is under way will connect the Southern highway and the Colombo-Katunayake highway. Several flyovers at the entry points to Colombo city were constructed during the last two years. Under the Maga Neguma programmes, the provincial road network is being developed. It has supported the construction of many entry roads, reconstruction of damaged roads, carpeting of roads, and repairing of tsunami destroyed roads.

Although there seems to be continuous development in the road network, there are deficiencies. Lack of coordination among implementing agencies that can create overlapping and duplication of development work, inadequate capacity of implementing agencies and contractors that lead to cost overruns and insufficient funds for maintenance and improvement of the quality of the road network are some of the key areas of

concern. Thus, lack of adequate planning for an integrated road and transport system in the country remains a key challenge that needs to be addressed.

By contrast, capital investment in the key social sectors of health and education remain limited, despite rising demand for improved services. In health services, the challenges in the fields of both preventive and curative health care are on the rise. Changing epidemiological trends, the rising trend of non-communicable diseases such as diabetes, hypertension, heart diseases, etc., and resurgence of certain communicable diseases such as dengue and swine flu are several key challenges that Sri Lanka faces.

Despite the rising demands, total public investment in health amounted to 1.5 per cent of GDP and 6 per cent of total government expenditure in 2009. This is of course in addition to the steady growth in investment by the private sector in the health sector that has taken place over the years. Much of the public investment has been confined to hospital development projects and rehabilitation of existing hospitals.

The development of human capital is recognized as one of the key factors needed for sustained high economic growth in a coun-

² Ministry of Finance and Planning, *Annual Report 2009*.

Table 10.4
Expansion of Educational Facilities

	2005	2008
No. of schools	9,723	9,662
No. of national schools	324	330
No. of provincial schools	9,399	9,332
No. of navodya schools	388	515
Fee-levying private schools	26	36
Non fee-levying private schools	34	34
Special schools	25	24
No. of schools with computer labs	1,147	2,431
No. of schools with English medium classes	359	449

Source: Ministry of Education, *Annual Report 2009*.

try. With the liberation of the Northern and the Eastern Provinces, the need for recommencing general education for all school aged children who were affected by the conflict has been identified as a priority. The Ministry of Education has already allocated Rs. 40 million for the rehabilitation of schools in Vavuniya and Mannar districts.²

In addition, programmes under the Education Sector Development Framework continued its operations to promote equitable access to basic and secondary education to improve the quality of education and enhance quality of resource allocation within the education sector. Investment in general education is mainly aligned under four major themes; promoting equitable access to basic and secondary education, improving quality of education, enhancing efficiency and equity of resource allocation and maintaining an effective system of service delivery. Funds are channelled primarily under these themes.

Although the education sector in Sri Lanka in the recent past has shown marginal improvements, there are important challenges that need to be addressed. Promotion of equitable access to quality education with

required infrastructure facilities, teaching tools, equipment and with better qualified teachers in under-served areas, development of motivation, skills and commitment of teachers ensuring delivery of quality education equally in all schools, ensuring good governance and management in delivery of education at the provincial level, rehabilitation and reconstruction of education and infrastructure of the Northern and Eastern Provinces to address education needs of the children affected by war, etc., are key areas.

10.3.2 Rural Infrastructure

The policy focus of developing the economy by strengthening villages as a centre of development has been the thrust of the rural infrastructure initiatives of the government. The main programme - Gama Neguma - has expanded to nearly 13,000 Grama Niladari (GN) divisions by implementing about 30,000 projects at a cost of Rs.13 billion. The rural road development programme - Maga Neguma - has involved the rehabilitation of around 1,350 km of rural roads in 2008/09, with most roads being concreted to ensure durability.³ The government also continued to develop several small scale infrastructure projects in the rural sector through programmes such as Gami Pubuduwa,

³ *Ibid.*

Table 10.5
Summary of Public Investment on Rural Infrastructure (Rs. million)

	2008	2009
Rural Infrastructure	50,130	57,000
Gama Neguma	11,695	13,294
Provincial grants	9,104	9,660
North and East community development	7,472	7,385
Uthuru Wasanthaya	0	4,050
Gemidiriya/Samurdhi	1,674	1,772
Tsunami area developments	1,439	1,616
Jathika Saviya	1,670	1,400
Decentralized budget	1,034	1,080
Fishing community development	666	724
Plantation community development	901	677
Trinco integrated project	497	550

Source: Department of National Budget.

Gemidiriya and fishing community development, etc.

The Gama Neguma programme has taken the bulk of capital investment in rural infrastructure development since its inauguration in 2006 in 119 GN divisions. It was launched country-wide in 2008 and expected to cover all 14,034 GN divisions in three stages. Individual projects are prepared through the 'Jana Sabha' in each GN division and imple-

mented adhering to an annual plan. These are phased in according to the priority accorded by a village development plan. In 2009, for example, 27,772 projects were approved for implementation in 13,440 GN divisions. Of these, 26,530 projects were estimated to have been completed during the year at a cost of Rs. 9,023 million benefiting over 5 million people.⁴ (Ministry of Finance and Planning, *Annual Report 2009*).

Table 10.6
Expenditure on Gemidiriya Sector-wise Development (2009)

Sector	Expenditure (Rs. mn.)	People's Participation (Rs. mn.)	Beneficiaries (Nos.)
Infrastructure Development	8,099	1,773	4,860,312
Roads and bridges (2840.3km)	5,965	1,387	3,491,686
Housing	306	83	141,656
Power and energy	584	35	188,905
Irrigation	323	106	375,051
Social and sports	202	32	224,599
Water supply and sanitation	309	82	196,882
Others	410	48	241,533

Source: Ministry of Nation Building and Estate Infrastructure Development.

⁴ *ibid.*

Table 10.7
Estate Infrastructure Development (2009)

	Expenditure Rs. mn.
Housing	213
Roads and bridges	81
Water supply	6
Education	2
Cultural	18
Social development	19

Source: Ministry of Nation Building and Estate Infrastructure Development.

Given the high incidence of poverty in the estate sector relative to most other parts of the country, several focused programmes are implemented in this sector. The objective is to improve the living standards of the people in plantations in lagging districts such as Nuwara Eliya, Ratnapura, Kegalle, etc. These include programmes to upgrade health and education facilities, estate housing, roads and bridges, and access to water supply and sanitation, vocational training, etc. These programmes are typically carried out with community participation. In 2009, a sum of Rs. 339 million was set aside with the bulk of expenditures intended to improve housing conditions in the estate sector.

10.3.3 Infrastructure Development in N&E

The 'Negenahira Navodaya programme' was launched in 2007 with short to medium term goals for implementation. In the short term, the focus was on de-mining, livelihood recovery, reconstruction of damaged social and economic infrastructure, and industrial development. In the medium term, attention is to be on ensuring sustainable development of the region.

Table 10.8 shows the budgetary requirements for the four years under six key strategies with total estimated funds worth Rs. 197,219 million, out of which 52 per cent is intended to be funded by foreign aid.

Table 10.8
Financing Negenahira Navodaya

Sector (Rs. mn.)	Total	GOSL	Foreign Aid	Private
Resettlement of returnees	21,466	5,366	16,099	
Revitalizing productive sectors and regional economy	33,850	19,687	6,562	7,600
Improving economic infrastructure	83,850	20,951	62,855	
Strengthening social infrastructure and fostering social services	17,895	4,473	13,421	
Human settlement development	38,047	7,085	2,361	28,600
Public institution capacity building	2,154	539	1,615	
Total	197,219	58,102	102,915	36,200
Share of financing (%)	100	29	52	18

Source: Ministry of Nation Building and Estate Infrastructure Development, "Eastern Revival Programme".

Economic infrastructure development has been a major component of the programme. The focus has been on improvement of electricity supply, roads, transport, ports, water supply and sanitation and rural infrastructure. Most of the other infrastructure programmes - such as Gama Neguma, Maga Neguma, etc., - have been extended to the Eastern Province initiatives. According to the latest progress review of the programme, 70 per cent of the foreign aid has been utilized for development work which is a relatively high ratio as compared with the foreign aid utilization rate for the rest of the country.⁵

The 'Uthuru Wasanthaya' programme is being implemented in two stages; a 180-day programme and a medium term plan for 2010-11. Presently, the 180-day programme is operational with a focus on de-mining,

resettlement of IDPs, reconstruction of damaged economic and social infrastructure, livelihood recovery and employment generation.⁶ In this programme, priority is given to Jaffna, Mannar and Vavuniya districts for the resettlement of IDPs.

The strategies introduced under the programme are:

- Construction of an environment suitable for resettlement of the displaced persons
- Generation of livelihood and employment
- Allocation of resources to all communities for balanced regional development
- Reconstruction and rehabilitation of infrastructure facilities
- Poverty alleviation

Table 10.9
Expected External Assistance for Select Sectors in N&E: 2010/11

Sector	Donor	Amount US\$ Mn.	Province
Roads	China	423	North
	EDCF/Korea	102	North
	World Bank	40	N&E
	ADB	154	N/NCP
	JICA	43	East
Railways	India	733	North
Energy	ADB	90	East
Water & sanitation	Australia	119	East
	JICA	53	East
	ADB	90	North
Health	India	1	North
	JICA	25	North
Education	India	2	East
	KOICA/Korea	2	East
	KOICA/Korea	2	East

Source: Ministry of Finance and Planning, *Annual Report 2009*.

³ *Business Today*, May 2010.

⁴ Kelegama, S., 2010, "Reconstruction and Rehabilitation of the North and East of Sri Lanka: Programmes and Constraints", *Economic Review*, Feb/Mar 2010.

The major ongoing infrastructure projects under the programme are the rehabilitation of harbours, roads, and tanks. Unlike in the case of the Eastern Province, the programme for the Northern Province is funded primarily by the government - at a cost of Rs. 3,907 million of a total budgetary requirement of Rs.6,556 million. The balance is expected to be funded by foreign assistance.

10.4 Foreign Financing

The improved economic outlook for Sri Lanka in its post-conflict phase - together with the reconstruction and rehabilitation of the N&E - can be expected to see the country mobilizing an increased volume of foreign capital inflows. These may be in the form of foreign direct investment (FDI), bilateral and multilateral loans, overseas development assistance (ODA), etc.

Indeed, new foreign financing disbursements reached US\$ 2.2 billion in 2009, surpassing the previous highest level of US\$ 2 billion recorded in 2008. Over 75 per cent of the new commitments in 2009 were for infrastructure development, such as power generation, port development, roads and bridges. Besides multilateral assistance from agencies such as the Asian Development Bank (ADB) and the World Bank, Sri Lanka has depended heavily on bilateral assistance from countries such as China and India. For instance, China is funding large scale infrastructure projects in energy, harbours, airports and railways. India too is funding improvements to railways, power, etc. Some of the foreign assistance is earmarked in particular for the N&E (Table 10.9). Again, it is clear that much of the emphasis of foreign assistance is in line with government priorities, concentrating in sectors such as roads, as opposed to capital investment in social sectors such as health and education.

10.5 Conclusion

Sri Lanka faces twin challenges of reconstruction and rehabilitation of the N&E whilst addressing infrastructural deficiencies in the rest of the country. Bottlenecks in basic facilities including roads, energy, health, education, etc., have been accumulating due to lack of investment over many years. Having recognized significant regional imbalances, the policy thrust on infrastructure development has been focused on strengthening linkages between rural and urban sectors through better quality infrastructure services.

Infrastructure development in the country requires large volumes of investment. Public investment at present stands at around 6.5 per cent of GDP - relatively high by recent historical standards and set to remain high over the medium term. Undoubtedly financing infrastructure development will pose a heavy burden on government finances. To date, private participation has been very limited, confined to some sectors such as energy, telecommunications and ports. This is despite the introduction of various initiatives such as tax concessions to the private investors for investment in rural areas, especially outside the Western Province.

Getting the private sector into areas such as roads is more difficult. Involving private investors in such infrastructure investments has proven to be difficult in the past, not least because investors are uncertain whether they can earn a reasonable return on their investments. The extent to which the government can successfully encourage public-private partnerships will also depend to an extent on implementing regulatory reforms to protect the interests of both investors and consumers.