PUBLIC–PRIVATE PARTNERSHIP MONITOR
SRI LANKA

DECEMBER 2024

ASIAN DEVELOPMENT BANK

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6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 8632 4444; Fax +63 2 8636 2444
www.adb.org

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Notes:
In this publication, "$" refers to United States dollars.
ADB recognizes "China" as the People's Republic of China, "Korea" as the Republic of Korea, and "Ceylon" as Sri Lanka.
All photos in this publication are from ADB unless otherwise stated.

On the cover: The newly constructed breakwater and control tower of the Colombo port; the switchyard of Mahiyanganaya Grid Substation at Dambarawa – Mahiyanganaya; a Control Room Operator at the Mahiyanganaya Grid Substation clears the records; and a Hakmana Methodist Central College student selects books at the school library (photos by Pushpa Kumara).

Cover design by Claudette Rodrigo.

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Foreword

The Public–Private Partnership Monitor, a key publication of the Asian Development Bank (ADB), presents a detailed review of the current state of the public–private partnership (PPP) enabling environment for select countries including Sri Lanka. The PPP Monitor for Sri Lanka includes more than 500 qualitative and quantitative indicators to profile the national PPP environment, the sector-specific PPP landscape (for fourteen identified sectors), and the PPP landscape for local government projects. The PPP Monitor also features an interactive online version allowing users to compare the key PPP parameters and features across DMCs. We value the contribution and inputs by the National Agency for Public–Private Partnership, Sri Lanka which greatly enriched the analysis and findings presented in this document.

The evolution of Sri Lanka's PPP framework began in the 1990s, with 179 projects reaching financial close between 1990 and 2023. Most of these initiatives have focused on the power and port sectors, marking key areas for private sector engagement. Despite this early push, Sri Lanka has not yet realized the full potential of private sector investment in infrastructure. Given the current fiscal challenges in the country, PPPs are now more essential than ever for infrastructure and social projects in Sri Lanka. Increased private sector participation can relieve the fiscal strain on the government while accelerating project execution and enhancing technical, operational, and cost efficiencies.

The economic crisis has widened the infrastructure funding gap and well-structured PPPs delivered within a robust enabling environment will drive sustainable infrastructure development. The absence of a consistent, updated, and fully functional PPP enabling framework is one of the main reasons hindering private sector participation in infrastructure in Sri Lanka. Progress in strengthening the PPP framework has been gradual, impacted by intermittent disruptions over the past 25 years. Consistency in policy and a robust regulatory framework are crucial to encourage private sector involvement in large-scale infrastructure projects. This can also create pathways for alternative, long-term project financing that is much needed in Sri Lanka.

ADB has been working closely with Sri Lanka to create a strong enabling environment for PPPs in the country. Fostering private sector development by promoting green growth and PPPs is one of the key strategic objectives and priority areas in ADB's Sri Lanka Country Partnership Strategy 2024-2028. Since 2023, ADB has been supporting the operationalization of the National Agency for Public Private Partnership (NAPPP), with a focus on strengthening governance, advancing PPP advocacy, and building capacity within NAPPP and relevant ministries. Additionally, ADB is supporting the water sector by developing PPP capacity, creating standardized templates, screening projects, and building a project pipeline as part of the Water Supply and Sanitation Reform Program. Publications like ADB's PPP Monitor serve as valuable diagnostic tools, highlighting gaps in legal, regulatory, and institutional frameworks to support Sri Lanka's readiness to effectively implement PPPs.

ADB will continue to support Sri Lanka on its PPP journey. We hope that this PPP Monitor will pave the way for continued dialogue between the public and private sectors and stimulate the adoption of PPPs in Sri Lanka, with the end goal of closing the gaps in the infrastructure sector.

F. Cleo Kawawaki
Head, Office of Markets Development and Public–Private Partnership
Asian Development Bank

Acknowledgments

The *Public–Private Partnership Monitor—Sri Lanka* was prepared by the Office of Markets Development and Public–Private Partnership (OMDP), in close coordination with the South Asia Department and the Sri Lanka Resident Mission, of the Asian Development Bank (ADB).

A team of markets development advisory specialists from the OMDP led the effort, refining and streamlining the analytical framework to capture the national, subnational, and sectoral PPP-related landscape presented in this document. Contributions and review by ADB country specialists, private sector development specialists, sector specialists and PPP specialists from the relevant sector departments, the South Asia Department and the Sri Lanka Resident Mission were instrumental in the quality control of this document. Contributions and inputs by the National Agency for Public–Private Partnership, Sri Lanka greatly enriched the analysis and findings presented in this document.

The PPP Monitor uses the data published by the governments of ADB's developing member countries (i.e., official websites, reports, publications, laws, and regulations); the data published by other multilateral development agencies; and the data derived from industry publications and databases such as those of the World Bank, European Bank for Reconstruction and Development, Organisation for Economic Co-operation and Development, World Economic Forum, International Monetary Fund, Inframation Group, IJGlobal, Economist Intelligence Unit (Infrascope Index), Global Infrastructure Hub, TheGlobalEconomy.com, Bloomberg, S&P Global, Trading Economics, and the PPP Knowledge Lab.

Definition of Terms

Term	Definition
Public–private partnership (PPP)	Contractual arrangement between public (national, state, provincial, or local) and private entities through which the skills, assets, and/or financial resources of each of the public and private sectors are allocated in a complementary manner, thereby sharing the risks and rewards, to seek to provide optimal service delivery and good value to citizens. In a PPP, the public sector retains the ultimate responsibility for service delivery, although the private sector provides the service for an extended time. Within ADB operations, all contracts such as performance-based contracts (management and service contracts), lease–operate–transfer, build–own–operate–transfer, design–build–finance–operate, variants, and concessions are considered as forms of PPP. The following are excluded: • Contracts involving turnkey design and construction as part of public procurement (engineering, procurement, and construction contracts). • Simple service contracts that are not linked to performance standards (those that are more aligned with outsourcing to private contractor staff to operate public assets). • Construction contracts with extended warranties and/or maintenance provisions of, for example, up to 5 years post completion (wherein performance risk-sharing is minimal as the assets are new and need only basic maintenance). • All privatization and divestitures.
Availability- or performance-based payments	Method of investment recovery in PPP projects, when payments to the private party are made by the government contracting agency over the lifetime of a PPP contract in return for making infrastructure or services available for use at acceptable and contractually agreed performance standards.
Build–lease–transfer	A PPP type whereby a private sector developer is authorized to finance and construct an infrastructure or development facility, and upon its completion hands it over to the government contracting agency on a lease arrangement for a fixed period after which ownership of the facility is automatically transferred to the government contracting agency.
Build–own–operate	A PPP type whereby a private sector developer is authorized to finance, construct, own, operate, and maintain an infrastructure or development facility from which the private sector developer is allowed to recover its total investment, operating and maintenance costs, plus a reasonable return thereon by collecting tolls, fees, rentals or other charges from facility users. Under this PPP type, the private sector developer which owns the assets of the facility may assign its operation and maintenance to a facility operator.
Build–operate–transfer	Build–operate–transfer (BOT) and similar arrangements are a specialized concession in which a private firm or consortium finances and develops a new infrastructure project or a major component according to performance standards set by the government. Under BOTs, the private sector developer provides the capital required to build a new facility. Importantly, the private operator now owns the assets for a period set by contract—sufficient to give the developer time to recover investment costs through user charges.

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Table *continued*

Term	Definition
Build–transfer	A PPP type under which the private sector developer undertakes the financing and construction of a given infrastructure or development facility, and after its completion hands it over to the government contracting agency, which pays the private sector developer on an agreed schedule its total investments expended on the project, plus a reasonable rate of return thereon. This arrangement may be employed in the construction of any infrastructure or development project, including critical facilities which, for security or strategic reasons, must be operated directly by the government contracting agency.
Commercial close	Indicates the signing of the PPP contract between the government contract agency and the identified private sector developer. Usually occurs after the terms and conditions of the draft PPP contract are negotiated and agreed between the government contracting agency and the identified private sector developer.
Competitive bidding	A process under which the bidders submit information detailing their qualifications and detailed technical and financial proposals, which are evaluated according to defined criteria—often in a multistage process—to select a preferred bidder. Competitive bidding may also include competitive negotiations and license schemes.
Concession	A PPP type which makes the concessionaire (established by the selected private sector developer) responsible for the full delivery of services in a specified area, including operation, maintenance, collection, management, and construction and rehabilitation of the system. Importantly, the private sector developer is responsible for all capital investment. Although the concessionaire is responsible for providing the assets, such assets are publicly owned even during the concession period. The public sector is responsible for establishing performance standards and ensuring that the concessionaire meets them. In essence, the public sector's role shifts from being the service provider to regulating the price and quality of service.
Direct agreement	An agreement normally made between the concessionaire (established by the private sector developer), the government contracting agency, and the lenders. The agreement usually gives the lenders step-in rights to take over the operation of the key PPP contracts.
Direct appointment	A type of PPP procurement under which the PPP contract is awarded on the basis of a direct agreement with a private sector developer without going through the competitive bidding process.
Feed-in tariff	A policy mechanism designed to accelerate investment in renewable energy technologies by offering long-term purchase agreements for the sale of renewable energy electricity.
Financial close	An event whereby (i) a legally binding commitment of equity holders and/or debt financiers exists to provide or mobilize funding for the full cost of the project, and (ii) the conditions for funding have been met and the first tranche of funding is mobilized. If this information is not available, construction start date is used as an estimated financial closure date.
Government contracting agency	The ministry, department, or agency that enters into a PPP contract with the private sector and is responsible for ensuring that the relevant public assets or services are provided.
Government guarantee	Agreements under which the government agrees to bear some or all risks of a PPP project. It is a secondary obligation which legally binds the government to take on an obligation if a specified event occurs. A government guarantee constitutes a contingent liability, for which there is uncertainty as to whether the government may be required to make payments, and if so, how much and when it will be required to pay. In practice, government guarantees are used when debt providers are unwilling to lend to a private party in a PPP because of concerns over credit risk and potential loan losses. Government guarantees can also be used to benefit equity investors in a PPP company when they require protection against the investment risks they bear.

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Table *continued*

Term	Definition
Government pay (offtake)	Represents the payment made by the government contracting agency to the concessionaire (established by the private sector developer) for the infrastructure assets provided and services delivered through a PPP project. These payments could be: usage-based—for example, shadow tolls or output-based subsidies; based on availability—that is, conditional on the availability of an asset or service to the specified quality; upfront subsidies based on achieving certain agreed milestones.
Independent power producers (IPPs)	Private entities (under an unbundled market), which own and/or operate facilities to generate electricity and then sell it to a utility, central government buyer, and end users. IPPs may be privately held facilities, cooperatives, or nonenergy industrial concerns capable of feeding excess energy into the system.
Independent power purchase agreement (IPPA)	An agreement whereby a producer of electrical energy, which is not a public utility, makes electric energy available for sale to utilities or the general public. A scheme whereby a producer of electrical energy, which is a private entity, owns and/or operates facilities to generate electricity and then sells it to a utility, central government buyer, or end users. The IPP invests in generation technologies and recovers their cost from the sale of the electricity.
License scheme	A procurement method only applicable for energy projects, where government issues a license to generate and sell power to the national grid.
State-owned enterprise	A company or enterprise owned by the government or in which the government has a controlling stake.
Swiss challenge	A process in public procurement when a government contracting agency that has received an unsolicited bid for a project publishes details of the bid and invites third parties to match or exceed it.
Unsolicited bid	A proposal made by a private party to undertake a PPP project. It is submitted at the initiative of the private party, rather than in response to a request from the government contracting agency.
User charges	A method of investment recovery in PPP projects when payments to the private party are fully derived from tariffs paid by users or off-takers over the lifetime of a PPP contract, in return for making infrastructure or services available for use at acceptable and contractually agreed performance standards.
Viability gap funding	A scheme wherein the projects with low financial viability are given grants (or other financial support from the government) up to a stipulated percentage of the project cost, making them financially viable as PPPs.

Abbreviations

AASL	Airport and Aviation Services (Sri Lanka) Ltd
ADB	Asian Development Bank
AHEAD	Accelerating Higher Education Expansion and Development
AKL	AES Kelanitissa
BIA	Bandaranaike International Airport
BII	Bureau of Infrastructure Investment
BOI	Board of Investment of Sri Lanka
BOO	build–own–operate
BOOT	build–own–operate–transfer
BOT	build–operate–transfer
BPM	business process management
BUC	Balangoda Urban Council
CAASL	Civil Aviation Authority of Sri Lanka
CANC	Cabinet Appointed Negotiating Committee
CEA	Central Environmental Authority
CEB	Ceylon Electricity Board
CIAR	Colombo International Airport Ratmalana
CICT	Colombo International Container Terminal
CPC	Ceylon Petroleum Corporation
CRA	credit rating agency
CSC	Ceylon Shipping Corporation
CSE	Colombo Stock Exchange
CSRP	Colombo Suburban Railway Project
CWICT	Colombo West International Container Terminal
ECT	East Container Terminal
EDB	Export Development Board
EOI	expression of interest
EPC	engineering, procurement, and construction
ESRA	Electricity Sector Reforms Act

FSRU	floating storage and regasification unit
GDP	gross domestic product
GOSL	Government of Sri Lanka
ICT	information and communication technology
ICTA	Information and Communication Technology Agency
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IPPA	independent power purchase agreement
ISO	independent system operator
IT	information technology
JICA	Japan International Cooperation Agency
LECO	Lanka Electricity Company (Pvt) Limited
LLDF	Local Loans and Development Fund
LOI	letter of intent
MASL	Mahaweli Authority of Sri Lanka
MOE	Ministry of Education
MOF	Ministry of Finance, Economic Stabilization and National Policies
MoPE	Ministry of Power and Energy
MRIA	Mattala Rajapaksa International Airport
MRO	maintenance, repair, and overhaul
MSMEs	micro, small, and medium-sized enterprises
MSW	municipal solid waste
MTF	Mahapola Higher Education Trust Fund
MTH	Ministry of Transport and Highways
NAPPP	National Agency for Public–Private Partnership
NCRE	non-conventional renewable energy
NHDA	National Housing Development Authority
NIBM	National Institute of Business Management
NMRA	National Medicines Regulatory Authority
NSBM	National School of Business Management
NWSDB	National Water Supply and Drainage Board
PC	project committee
PPP	public–private partnership
PSIP	Private Sector Infrastructure Project
PUCSL	Public Utilities Commission of Sri Lanka
RDA	Road Development Authority
RFP	request for proposal

RMTF	Road Maintenance Trust Fund
RPC	regional plantation company
SAGT	South Asia Gateway Terminal
SDPA	Strategic Development Projects Act
SLA	SriLankan Airlines
SLASSCOM	Sri Lanka Association for Software Services Companies
SLCERT	Sri Lanka Computer Emergency Readiness Team
SLIIT	Sri Lanka Institute of Information Technology
SLINTEC	Sri Lanka Institute of Nanotechnology
SLMC	Sri Lanka Medical Council
SLPA	Sri Lanka Ports Authority
SLRs	Sri Lankan Rupees
SLSEA	Sri Lanka Sustainable Energy Authority
SLTDA	Sri Lanka Tourism Development Authority
SMEs	small and medium-sized enterprises
SNG	subnational government
SOERU	State-Owned Enterprise Restructuring Unit
SR	Sri Lanka Railways
STEM	science, technology, engineering, and mathematics
TEU	twenty-foot equivalent unit
THC	terminal handling charges
TRCSL	Telecommunications Regulatory Commission of Sri Lanka
TVEC	Tertiary and Vocational Education Commission
TVET	technical and vocational education and training
UDA	Urban Development Authority
USAID	United States Agency for International Development
UNDP	United Nations Development Programme
VAT	value-added tax
WRB	Water Resources Board

Currency Equivalents

(As of 19 April 2024)

Sri Lankan Rupee (SLRs1) = $0.003319

$1 = SLRs301.27

Guide to Understanding the Public–Private Partnership Monitor

The Public–Private Partnership Monitor (PPP Monitor), a key publication of the Asian Development Bank (ADB), profiles PPP-enabling environments in ADB's developing member countries (DMCs) across Asia and the Pacific. The PPP Monitor features, for the first time, a data-driven, interactive online version that allows users to compare and contrast the key PPP parameters and attributes across the featured DMCs. While the featured countries are a small sample, more countries will be continually added to the PPP Monitor, which is expected to become a knowledge base for assessing a country's PPP environment for the government and the business community. The new PPP Monitor builds on the success of the first and second editions of the PPP Monitor.

The PPP Monitor provides a snapshot of the overall PPP landscape in the country. This downloadable guide also assesses more than 500 qualitative and quantitative indicators that have been structured per topic—the national PPP landscape and the sector-specific PPP landscape (for eight identified infrastructure sectors and a separate section for other sectors). The PPP Monitor also captures the critical macroeconomic and infrastructure sector indicators (including the Ease of Doing Business scores) from globally accepted sources.

Each of the topics and associated subtopics presented below are characterized by qualitative and quantitative indicators. Qualitative indicators take the form of a question to which "Yes," "No," "Not Applicable," or "Unavailable" answers can be given. Quantitative indicators are represented in the form of numbers, ratios, investment value, and duration.

Time Periods

The research was carried out during 2022–2023 with the aim of reflecting the status as at the end of 2023. Therefore, some indicator data may have changed between this period and the report publication date.

In country- and sector-level sections, quantitative data in relation to the number of projects reflect the cumulative number of projects over the periods 1990–2021, 1990–2022, and 1990–2023.

I. Overview

Sri Lanka has a history of public–private partnerships (PPPs) from the 1990s, which have resulted in 179 financially closed projects valued at an excess of $5.3 billion.[1] However, the success of the institutional frameworks surrounding these PPPs has been more mixed and hampered by two related problems: (1) the preference for public-funded infrastructure projects resulting in the gradual erosion of the PPP institutional framework and (2) halting and inconsistent attempts to rebuild a single, comprehensive PPP framework.

Sri Lanka's initial PPP framework was formulated during the early 1990s, when the government was faced with budgetary constraints due to the civil war. During this time, the Bureau of Infrastructure Investment (BII), under the Board of Investment of Sri Lanka (BOI), was operationalized as the agency responsible for promoting, coordinating, facilitating, and implementing infrastructure projects as PPPs. The 1998 Guidelines on Government Tender Procedure—Part II: Private Sector Infrastructure Projects on Public–Private Partnership Basis (i.e., 1998 PSIP Guidelines) provided the legal basis for the development and implementation of PPPs.[2] The guidelines were amended through supplements to include the following:

- A mechanism for handling unsolicited proposals.
- The introduction and subsequent removal of the Swiss challenge process of procurement (refer to Definition of Terms).
- The replacement of the BOI and the BII with the National Agency for Public–Private Partnership (NAPPP) as the main government agency facilitating interests in the Sri Lanka PPP environment.

During 2005–2015, the Government of Sri Lanka (GOSL) favored funding major infrastructure projects through public financing and PPPs remained on the backburner. The BII, which was set up for PPP project implementation was gradually made nonoperational and ceased to exist in 2006.[3]

In 2016, however, due to increasing fiscal constraints, the GOSL revisited PPPs as an alternative procurement option for infrastructure projects. With the support of the World Bank, the GOSL began developing a new PPP framework, and the PPP unit was established in January 2017 and the NAPPP in July 2017. This agency was created as an independent institution designed to select and implement PPP projects and to provide guidance to the line ministries and agencies in respect of PPPs. The NAPPP developed draft PPP Guidelines in 2018 to provide the legal basis and a new legislative framework for PPP implementation in Sri Lanka. Once approved by Cabinet, these draft PPP Guidelines were expected to replace the 1998 PSIP Guidelines; however, the draft PPP Guidelines never received Cabinet approval, and the 1998 PSIP Guidelines continue to govern PPP implementation.

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1 Approximate total value taken, based on publicly available information, does not take into consideration the value of two new IPP thermal power plants added to grid as per CEB Statistical Digest 2023.

2 Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

3 Asian Development Bank (ADB). 2006. *Sri Lanka: Private Sector Development Program Loan*.

To expedite Cabinet approval of the draft PPP Guidelines and to operationalize the new PPP legal and regulatory framework, discussions were held again in June 2019, this time with the participation of National Procurement Commission officials. Various modifications of the policy and guidelines were identified, and the issue of ownership of the guidelines was discussed. However, following a change in government in early 2020, the NAPPP was made nonoperational, and the individual line ministries and public agencies were given the responsibility of handling the PPP process independently, without a centralized custodian of PPPs.[4]

To support the development of robust and sustainable PPPs and meet the International Monetary Fund requirements of improved governance and transparency, the national budget presented to the Parliament in August 2022 proposed the re-establishment of the NAPPP to identify and facilitate PPP investments and the establishment of the State-Owned Enterprise Restructuring Unit (SOERU) to facilitate the restructuring of government-owned business entities.[5] Both entities were established in the fourth quarter (Q4) of 2022 and made operational via Cabinet approvals.

The NAPPP, established under the Ministry of Finance (MOF) will serve as the central agency to support all PPP projects in the country. According to the Public Finance Circular No. 2/2019, NAPPP functions include the following:

(i) Act as a facilitator in implementing PPP projects by government institutions.
(ii) Identify and structure suitable PPP projects for government institutions.
(iii) Prepare required guidelines for PPP projects with the concurrence of the National Procurement Commission.
(iv) Assist line ministries and government agencies to invite bids, evaluate, negotiate, and select investors.
(v) Assist line ministries to procure required local and international experts to carry out pre-feasibility studies and procurement of transaction advisors for PPPs through funding from the World Bank made available to the NAPPP.

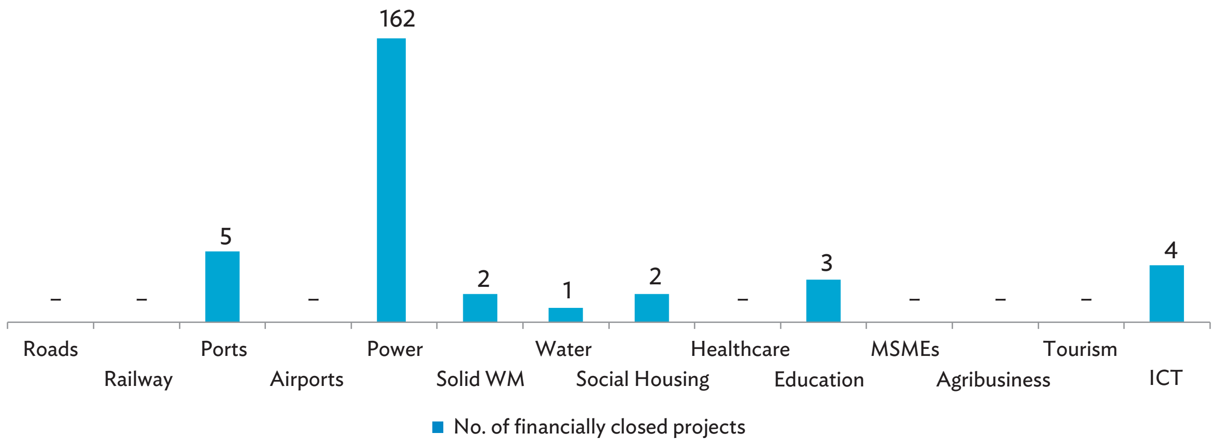
While the execution of PPP projects remains the responsibility of individual line ministries, NAPPP's role is to oversee the entire PPP project lifecycle, from initial screening and preparation to tendering and execution. As part of its mandate, NAPPP will also play a crucial governance role by enforcing PPP legislation, operational guidelines, and regulatory frameworks as well as developing a national PPP project pipeline and providing guidance to line agencies on screening processes and capacity-building efforts. In line with its mandate, NAPPP is currently in the process of drafting a new PPP law.

Meanwhile, SOERU, which is also established under the MOF, is working toward implementing strategic economic reforms to state-owned enterprises (SOEs) to enhance competition, productivity, and efficiency across the economy. The SOERU has appointed consulting firms to provide transaction advisory services to divest four state-owned entities operating in the insurance, petroleum, leisure, and real estate.[6] Meanwhile, the divestment of three state-owned entities operating in healthcare, telecom and airlines is also being handled by government-appointed transaction advisor, the International Finance Corporation (IFC).

During 1990–2023, 179 PPP projects reached a financial close,[7] with most of these concerning power (162 projects) and ports (five projects). The total value of these financially closed PPPs exceeds $5.3 billion. Many power projects have had low investment values per project, with only a few having an investment value of over $15 million. Currently, ports have the highest PPP investment value, primarily due to one project

4 Sri Lanka National Procurement Commission. 2019. *Progress Report for the Second Quarter of the Year 2019*.
5 The Parliament of Sri Lanka. 2022. *Interim Budget Speech—2022*.
6 Approximate total value taken, based on publicly available information, does not take into consideration value of two new IPP thermal power plants added to grid as per CEB Statistical Digest 2023. Ministry of Finance, Economic Stabilization & National Policies. 2022. *State Owned Enterprise Restructuring Unit*. https://www.treasury.gov.lk/web/sru/section/divestitures (accessed July 2024).
7 World Bank. 2022. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); CEB. 2021. *Statistical Digest 2021*; Industry research; ADB estimates.

Figure 1: Public–Private Partnership Projects that Achieved Financial Closure, 1990–2023



"–" defines no projects, data not available, or not applicable according to databases; ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: The breakdown of the above is reflected in each sector write-up. The PPPs have been identified based on public sources such as the Private Participation in Infrastructure (PPI) database by the World Bank, other public articles, and primary research. ADB's definition of PPPs has also been considered when categorizing infrastructure projects as PPPs.

Sources: World Bank. Private Participation in Infrastructure (PPI)—Sri Lanka (accessed July 2024); ADB. 2019. Public–Private Partnership Monitor, Second Edition; Industry research.

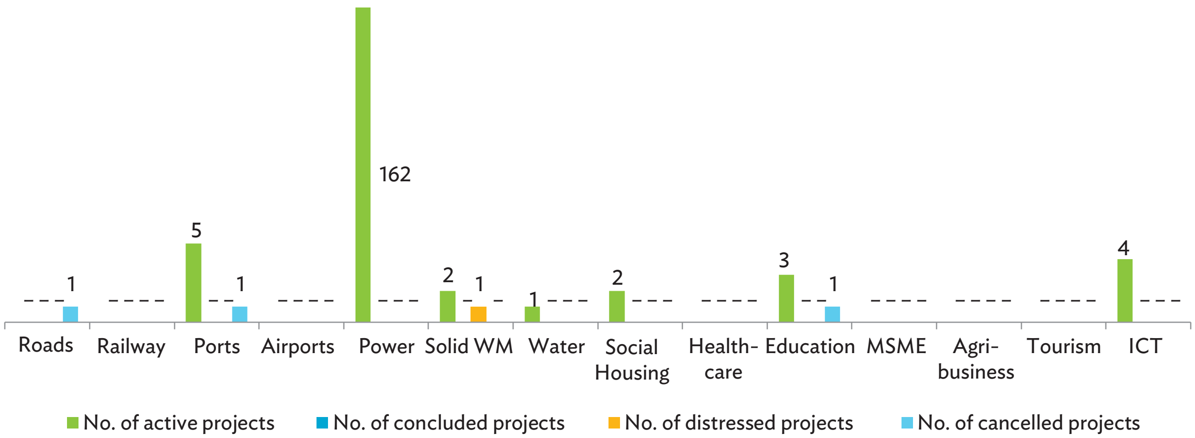
contributing to most of the total ports investment value (Hambantota Port's Lease–Operate–Transfer concession of $1.1 billion).[8] As a result of the successful execution of PPP projects related to power via independent power purchase agreements, approximately 25% of the country's electricity is currently generated through PPP projects.[9] Likewise, PPPs for ports have been pivotal in improving the quality and effectiveness of the country's port operations. The terminals developed through PPPs presently manage around 70% of port traffic.[10]

As per publicly available information, the majority of the financially closed PPP projects are active, while three projects have been cancelled, and one is distressed.

- Projects that were proposed as PPPs and subsequently cancelled: (1) the Southern Expressway development roads project, (2) the East Container Terminal ports project, and (3) the Higher Institute of Technology education project. These projects were developed to be procured as PPPs, but the road and ports projects were eventually procured as government-funded engineering, procurement, and construction contracts while the education project did not progress. The main reason for these cancellations were changes in the GOSL policy. Each of the projects is explained in detail under their respective sector write-ups.
- The waste-to-energy plant by Fairway Holdings is identified as a distressed PPP project, due to the adverse financial situation of the private promoter. Details of this project are mentioned under the solid waste management write-up.

[8] Hambantota International Port Sri Lanka. About Us.
[9] Ceylon Electricity Board. 2023. Long Term Generation Expansion Plan 2023–2042.
[10] Central Bank of Sri Lanka. 2022. *Annual Report 2022—Economic and Social Infrastructure.*

Figure 2: Status of Public–Private Partnership Projects Across Sectors, 1990–2023



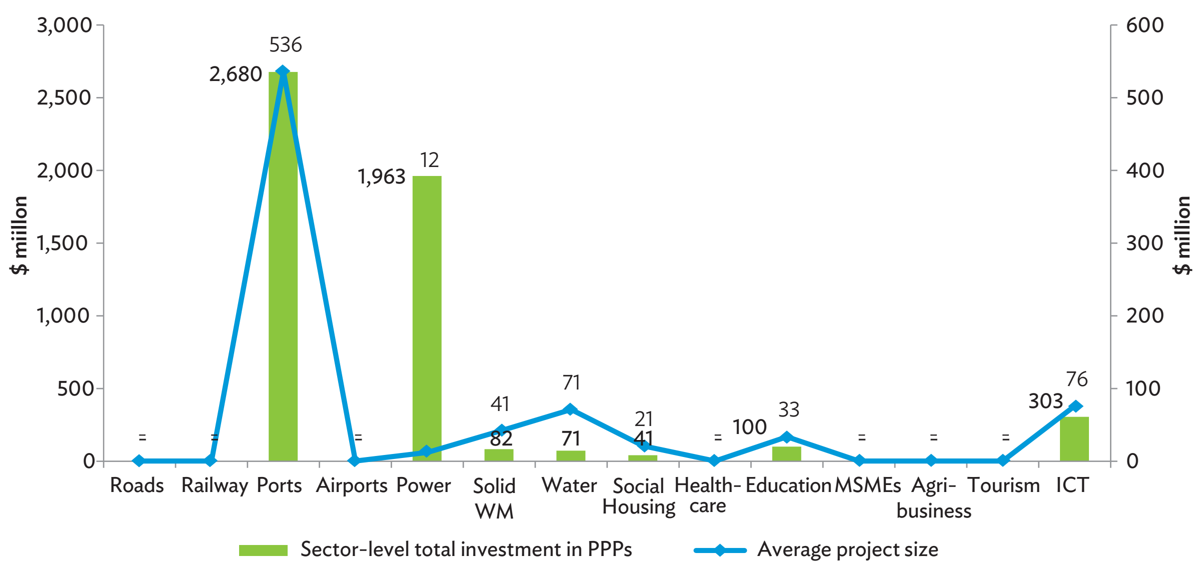
ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "–" defines no projects, data not available, or not applicable according to databases.

* Does not include two thermal power plant additions in 2023, as project value not available in public domain.

Sources: World Bank. Private Participation in Infrastructure (PPI)—Sri Lanka (accessed July 2024); ADB. 2019. Public–Private Partnership Monitor, Second Edition; Industry research.

Figure 3: Investment in Public–Private Partnership Projects by Sector, 1990–2023
($ million)



ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "–" defines no projects, data not available, or not applicable according to databases.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); ADB. 2019. Public–Private Partnership Monitor, Second Edition; Industry research.

Table 1 gives private investors who made the largest initial investments in PPPs in Sri Lanka. It must be noted, however, that some of these investors have now exited these projects, via a sell-out of their stake to the lead consortium player or to another third party. This investor list only considers high-value PPP projects (more than $15 million) that also meets the ADB definition of a PPP investment (refer to Definition of Terms).

Table 1: Top Private Sector Investors for Public–Private Partnership Projects in Sri Lanka, 1990–2021

Private Sponsor	Country of Origin	Total Investment		Number of PPP Projects
		$ million	SLRs billion	
China Merchants Port Holdings Company Ltd	People's Republic of China	1,620	488	2
John Keells Holdings PLC ^	Sri Lanka	890	283	2
Adani Group ^	India	650	211	1
P&O Nedlloyd B.V ^	Netherlands	240	72	1
Evergreen Group ^	Taipei,China	240	72	1
Aitken Spence PLC	Sri Lanka	173	52	4
Hayleys PLC ^	Sri Lanka	132	40	5
LAUGFS Gas PLC	Sri Lanka	120	36	1
AES Corporation ^	United States	104	31	1

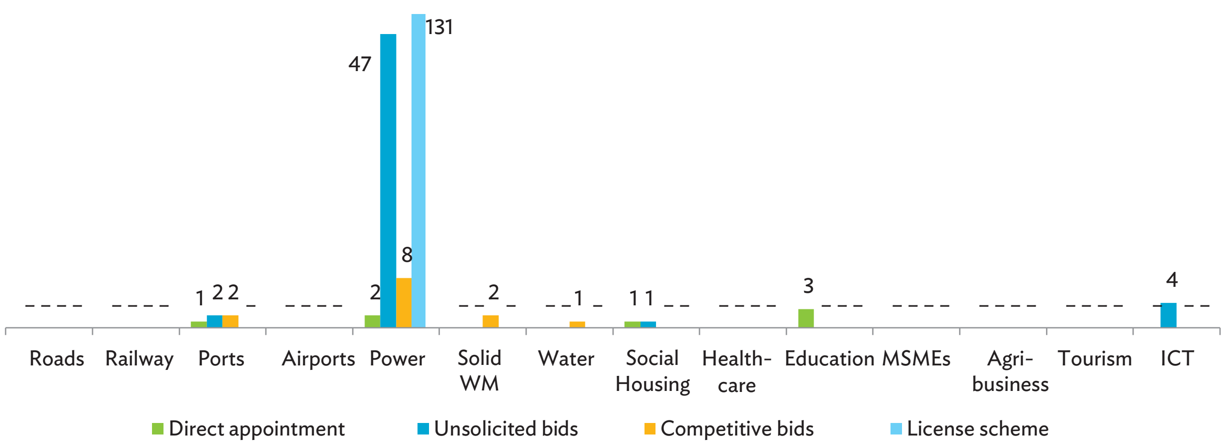
SLRs1 = $0.003319

^ These companies have common shareholding in certain projects: Colombo West International Container Terminal (Adani Group, 51% and John Keells Holdings, 34%); South Asia Gateway Terminal (John Keells Holdings, 26%, P&O Nedlloyd B.V., 26%, and Evergreen Group, 10%); and AES Kelanitissa (AES Corporation, 75% and Hayleys PLC, 25%).

Sources: World Bank. Private Participation in Infrastructure (PPI)—Sri Lanka (accessed April 2024); ADB. 2019. Public–Private Partnership Monitor, Second Edition; International Finance Corporation. 2010. IFC Project Information & Data Portal; The Diplomat. 2020. The Hambantota Port Deal: Myths and Realities.

Procurement of PPP projects in Sri Lanka is done primarily through license schemes[11] (131 projects) and, to a lesser degree, unsolicited bids (54 projects). Competitive bids (13 projects) have traditionally been low. During 1990–2023, the highest number of PPP projects procured through license schemes was for power projects, as they were procured via independent power purchase agreements (considered under the license scheme definition provided by ADB).

Figure 4: Various Modes of Procuring Public–Private Partnership Projects, 1990–2023



ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

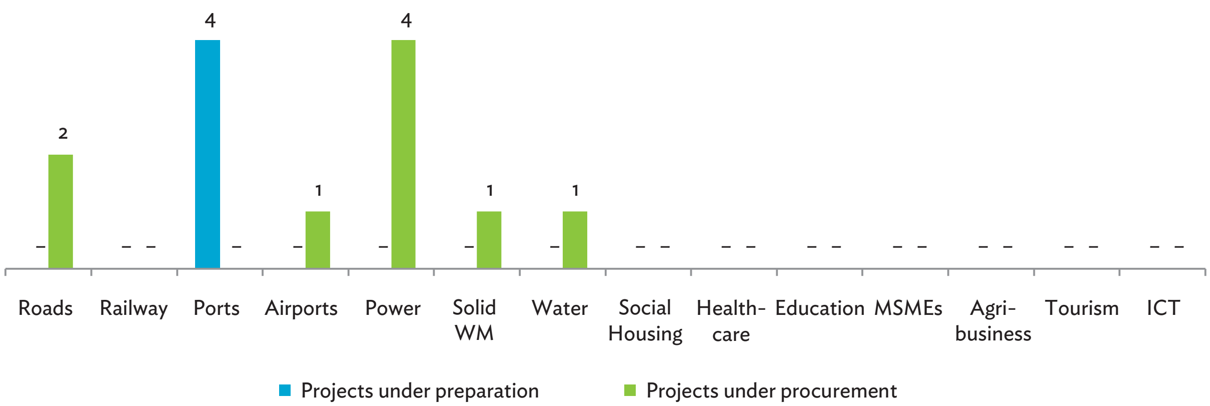
Note: "–" defines no projects, data not available, or not applicable according to databases.

Sources: World Bank. Private Participation in Infrastructure (PPI)—Sri Lanka (accessed July 2024); ADB. 2019. Public–Private Partnership Monitor, Second Edition; Industry research.

[11] Refer to Definition of Terms.

The following chart depicts projects under preparation and under procurement as of the end of 2023. The power sector had four projects under procurement. The project award details are explained further under the sector write-up.

Figure 5: Public–Private Partnership Projects under Preparation and Procurement, 2023



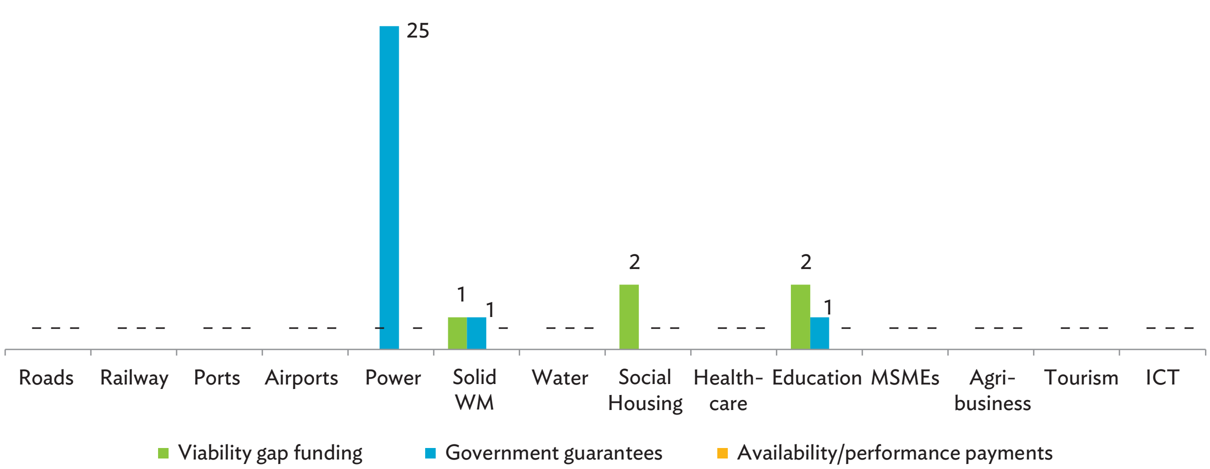
ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "–" defines no projects, data not available, or not applicable according to databases.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor,* Second Edition; Industry research.

Government support of PPP projects has been low, largely due to the preference for fully state-funded projects during 2005–2015. Of the 179 financially closed projects, only 32 received government support through viability gap funding, government guarantees, or availability/performance payments. As per publicly available information, only a solid waste management project (the waste-to-energy plant) received government support during 2019–2023. The project support depicted in the chart below was provided before 2019 (further details in the sector write-ups).

Figure 6: Public–Private Partnership Projects with Government Support, 1990–2023



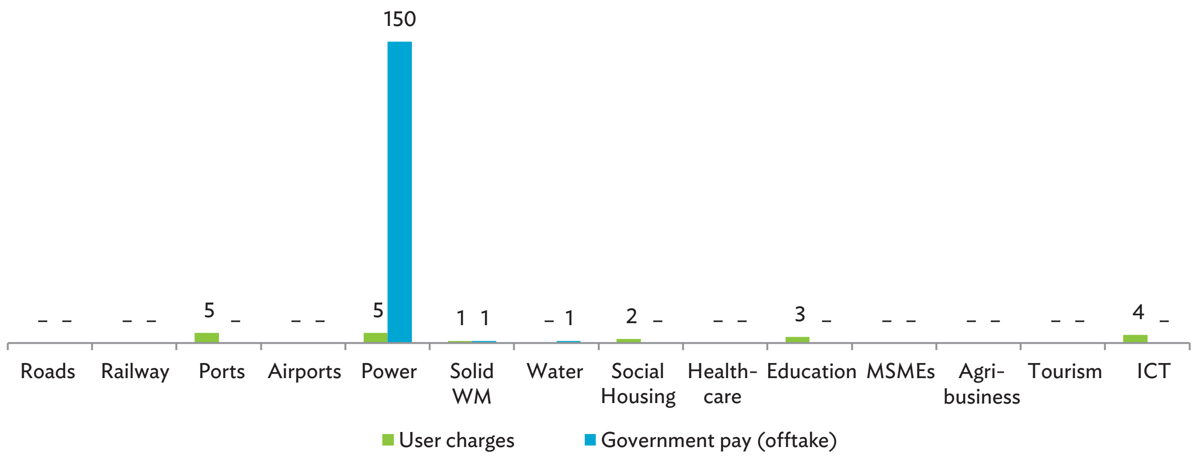
ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "–" defines no projects, data not available, or not applicable according to databases.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor,* Second Edition; Industry research.

Nevertheless, the primary payment mechanism for PPPs in Sri Lanka is via government pay. This is because most of Sri Lanka's PPP projects have been power projects initiated under independent power purchase agreement schemes by the Ceylon Electricity Board that can be considered as government pay since the GOSL-owned Ceylon Electricity Board makes the payment to power generation companies. Meanwhile, all port projects operate under user charges.

Figure 7: Payment Mechanism for Public–Private Partnership Projects, 1990–2023



ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "–" defines no projects, data not available, or not applicable according to databases.

* Waste-to-energy power projects have been excluded due to the lack of clarity on payment mechanisms.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Overall, foreign participation in Sri Lanka's PPP projects has been low (34 out of the total financially closed 179 projects) over the last several years, except for ports and social housing. Ports have the highest foreign participation (four out of five financially closed port PPP projects), followed by social housing (one project out of the two financially closed projects). Power has low foreign participation (17%), as most power projects have been small-scale IPP projects developed through domestic funding (Table 2).

Table 2: Value of Projects with Foreign Sponsor Participation Relative to Total Value Invested, 1990–2023 (%)

Sectors	Foreign Sponsor Participation
Roads	N/A
Railway	N/A
Ports	87%
Airports	N/A
Power	16%
Solid waste management	0%
Water ^	100%
Social housing	50%
Healthcare	N/A

continued on next page

Table 2 *continued*

Sectors	Foreign Sponsor Participation
Education	0%
MSMEs	N/A
Agribusiness	N/A
Tourism	N/A
ICT ^	75%

ICT = information and communication technology; MSMEs = micro, small, and medium-sized enterprises; Solid WM = solid waste management.

Note: "N/A" defines no PPP projects initiated or data not available according to the databases.

^ Projects under these two sectors were only considered as per World Bank PPI database.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

While existing projects demonstrate Sri Lanka's capacity to implement sustainable and efficient PPPs, several challenges remain. The Infrascope index, which evaluates the capacity of countries to implement sustainable and efficient PPPs, ranks Sri Lanka as an "emerging country" with good operational maturity and developing regulations, financing, and institutions. However, evaluation of the investment and business climate is less positive, especially due to the volatility and uncertainty of national policy surrounding PPPs.[12]

Furthermore, the report titled "Procuring Infrastructure Public–Private Partnerships" published in 2018 by the World Bank Group scored Sri Lanka high (76/100) for its current PPP procurement processes and the availability of a comprehensive regulatory framework to facilitate unsolicited projects. The report highlighted that Sri Lanka was the only country in South Asia with the presence of a reasonable standstill period in the PPP procurement process; which makes it possible for the unsuccessful tenderer to examine the validity of the award decision as well as any flaws that may have occurred during the evaluation process.

However, the report identified significant shortcomings in the initial PPP project preparatory process and contract management. Transparency gaps were identified in the failure to publish the grounds for awarding contracts to winning bidders, leading to time consuming and impractical challenge procedures from unsuccessful bidders, and more importantly delaying the overall implementation of PPP initiatives. The lack of regulation pertaining to PPP contract termination was also identified.[13]

Sri Lanka's most pressing issue is the absence of a comprehensive, national PPP policy that sets out the overall direction and assures the private sector of the GOSL's commitment to the PPP program. Without an updated, comprehensive framework, PPP projects in Sri Lanka face three key problems:

(i) Projects may tie up resources without consideration of the need for national and sector development priorities. In the absence of a PPP policy framework, public sector agencies tend to consider PPPs as a procurement mode solely for projects that do not receive public funding, and which are initiated through private developers and through unsolicited proposals. As a result, PPP projects are identified and procured in an unstructured manner and without an adequate assessment of service needs, national and sector development priorities, and plans.

12 Economist Intelligence Unit. 2019. *The Infrascope index*.
13 World Bank. 2018. *Procuring Infrastructure Public–Private Partnerships Report*.

(ii) The lack of a proper screening framework results in unstructured and inefficient projects introduced to market as PPPs. Since the public sector has limited capacity to identify, screen, prioritize, prepare, procure, and manage PPP projects efficiently, this has resulted in suboptimal quality of projects at an entry level and led to the country having an outdated PPP project pipeline.

(iii) Potential projects may not get funding due to the lack of government support since there is no dedicated viability gap funding mechanism and framework for managing fiscal commitments and contingent liabilities from PPP projects.

Another challenge to the effective expansion of PPPs is the inadequacy of dispute resolution mechanisms. Apart from power, which has a relatively long history of PPPs, other sectors lack operational experience of the domestic legal system to handle long-term contracts and dispute resolution, which decreases willingness to engage in PPP projects.

Finally, PPPs are hindered by (1) funding constraints—lack of alternative financing mechanisms due to the existence of underdeveloped finance markets, limited access to capital, constrained bank lending due to single borrower limits, and a less mature bond and capital market, and (2) regulatory constraints—high transaction costs, nonavailability of asset recycling/monetization instruments, land value capture mechanisms, and the lack of a developed currency hedging market and guarantee products.

Sri Lanka's infrastructure projects have been financed mainly through public funds and debt or grants from development financial institutions and government-to-government initiatives in the past few years. This approach is not sustainable, given the current fiscal constraints of the country. There is a significant need for investment in PPP-based development and maintenance in areas such as roads, rail, urban transport, education, social infrastructure, healthcare, water, and waste management. Although Sri Lanka has historically witnessed volatility in the PPP-enabling environment, recent developments proposed in the Interim Budget 2022 and subsequent developments can be considered positive initiatives.

II. National Public–Private Partnership Landscape

National Public–Private Partnership Enabling Framework

Public–Private Partnership Legal and Regulatory Framework

Currently, there are no comprehensive Public–Private Partnership (PPP) laws and regulations. The re-established National Agency for Public–Private Partnership (NAPPP) is in the process of developing a new PPP law. The following table provides a summary of laws and regulations currently applicable to developing a PPP project and does not assess the implications of the new PPP law being drafted.

Table 3: PPP Legal and Regulatory Framework Checklist

Parameter	Availability
National PPP laws and regulations^	×
Public financial management laws and regulations	✓
Sector-specific laws and regulations	✓
Procurement laws and regulations	✓
Environmental laws and regulations	✓
Laws and regulations for social compliance	✓
Laws and regulations governing land acquisition and ownership	✓
Taxation laws and regulations	✓
Employment laws and regulations	✓
Sector-specific licensing requirements	✓
Other key components of the PPP legal and regulatory framework	Guidelines on Government Tender Procedure Part II for Private Sector Infrastructure Projects on Public–Private Partnership Basis

✓ = Yes, × = No, N/A = Not applicable.

^ Re-established NAPPP is in the process of developing a new PPP law.

Sources: World Bank. *Benchmarking Infrastructure Development* (accessed July 2024); Government of Sri Lanka. 2006. *Procurement Guidelines* (accessed July 2024); Asia Cooperation for Environment Programme. 2002. *Handbook on National Environmental Legislation and Institutions in South Asia*; Government of Sri Lanka. 1979. *Land Acquisition Act*; Government of Sri Lanka. 2017. *Inland Revenue Act*.

Evolution of the Public–Private Partnership Enabling Framework in Sri Lanka

The first formal PPP projects in Sri Lanka were implemented by the BII, and the 1998 Guidelines on Government Tender Procedure—Part II: Private Sector Infrastructure Projects on Public Private Partnership Basis (i.e., 1998 PSIP Guidelines) provided the legal basis for developing and implementing PPPs. Established in 2017, the NAPPP developed the draft PPP Guidelines in 2018 to provide a new legislative framework for PPP implementation in Sri Lanka; however, these draft regulations did not receive the Cabinet approval. Until new PPP guidelines are approved by the Cabinet, the existing PPP framework in Sri Lanka consists of the 1998 PSIP Guidelines providing the legal basis for project implementation.

Figure 8: Evolution of Public–Private Partnership Enabling Framework in Sri Lanka

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Currently, the line ministries and public agencies are responsible for PPP project identification, preparation, procurement, and management. The Public Finance Division of the Treasury Department under the Ministry of Finance, Economic Stabilization and National Policies (MOF) provides policy guidance, technical support, approval, and oversight of PPP projects. The National Planning Division, also under the MOF, makes recommendations and facilitates transaction approval for PPP projects from the Cabinet.[14] The re-established NAPPP is currently developing a new PPP law to facilitate all regulatory requirements related to PPP project implementation. Additionally, the NAPPP will act as the facilitator in the implementation of PPP projects across all government agencies and will work closely with line ministries and government agencies to invite bids, evaluate, negotiate, and select investors while assisting with the identification and structuring of projects as PPPs.

Through the Public Finance Circular No. 2 of 2019, amendments were made to the 1998 PSIP Guidelines, where the title of the guideline document was changed to “Guidelines on Government Tender Procedure—Part II on Private Sector Infrastructure Projects on Public–Private Partnership Basis.”

Further to this, the Board of Investment (BOI) and the Bureau of Infrastructure Investment (BII) were substituted with the NAPPP as the promoting, facilitating, and coordinating agency for servicing requests from line ministries/line agencies under the overall supervision of the Ministry of Finance.[15]

[14] Government of Sri Lanka, National Procurement Agency. 2006. Procurement Manual.
[15] Government of Sri Lanka, Ministry of Finance (MOF). 2019. *Public Finance Circular No.02/2019*.

There are eight relevant chapters for PPP implementation in the 1998 PSIP Guidelines (Table 4). The re-established NAPPP is currently developing a new PPP law.

Meanwhile, the Public Financial Management Bill, issued in May 2024, aims to make provisions to strengthen accountability, oversight, management, and control of public funds in the Public Financial Management framework with the view to improving fiscal policy for better macroeconomic management, to clarify institutional responsibilities related to financial management, to strengthen budgetary management, and to facilitate public scrutiny of fiscal policy and performance. The Bill specifically discusses the general principles of public investment management and the responsibilities of a public investment committee.[16] The specific clauses, however, are not incorporated into this report. The Bill was amended and passed in Parliament in July 2024.

Table 4: Chapters of Guidelines on Government Tender Procedure—Part II

Chapter	Description
Chapter XIV	Provides preliminary elements on the scope of the guidelines, the role of the main actors, and some general recommendations for BOO/BOT/BOOT projects management.
Chapter XV	Broadly covers procedures for processing of proposals, including unsolicited proposals management.
Chapter XVI	Guidelines for issuing request for proposals and assisting bidders.
Chapter XVII	Guidelines on the preliminary evaluation of proposals.
Chapter XVIII	Evaluation criteria of the different proposals.
Chapter XIX	Guidance to develop final report of the project committee.
Chapter XX	Procedures on negotiations and the award of contract.
Chapter XXI	Steps of the project finalization (solicited and unsolicited bids).

Source: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

Types of Public–Private Partnerships

Most PPP projects in Sri Lanka have been implemented as build–own–operate (BOO) and build–own–transfer (BOT) projects. As per publicly available information, most PPP power and ports projects implemented in Sri Lanka have been implemented under BOO and BOT basis for concession periods of 20–35 years.[17]

In addition to BOO and BOT, the 1998 PSIP Guidelines also refers to build–own–operate–transfer (BOOT), as well as other structures that are not specifically defined as forms of projects that may be financed and/or developed by private investors. The 1998 PSIP Guidelines are common to all these different types of PPP contracts.

Eligible Sectors for Public–Private Partnerships

According to the 1998 PSIP Guidelines, the eligible sectors for PPP are given below. However, the guidelines are not limited to these sectors.[18]

- Power plants
- Highways
- Ports
- Airports
- Telecommunications
- Railways

[16] The Gazette of the Democratic Socialist Republic of Sri Lanka. *Public Financial Management—A Bill. Supplement—Part II of May 10, 2024*.
[17] World Bank Group. 2022. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).
[18] MOF. 1998. Guidelines on Government Tender Procedure—Part II.

- Transport systems
- Industrial parks
- Housing
- Solid waste management
- Water supply and drainage
- Warehouses, housing, and markets
- Land reclamation
- Other economic infrastructure (not further defined).

Public–Private Partnership Institutional Framework

Entities Responsible for Public–Private Partnership Project Identification, Approval, and Oversight

Historically, various institutions and entities have been responsible for PPPs in various capacities. According to the 1998 PSIP Guidelines, the institutions associated with the PPP Program in Sri Lanka include the following:[19]

- Ministry of Finance, Economic Stabilization and National Policies (previously known as the MOF).
- Attorney General's Department.
- Central Environmental Authority (CEA).
- Relevant line ministries and state agencies.
- Any other ministry/ department/ agency as appropriate.

The re-established NAPPP (in Q4 2022) will act as the central agency to support all PPP projects in the country. Delivery of PPP projects will rest within the line ministries, and it is intended that the NAPPP will coordinate the implementation of these projects across all government agencies and work closely with the PPP units within each government agency to ensure that they are effectively screened, prepared, tendered, and implemented. The NAPPP will play a governance role via the implementation of the PPP law, PPP operational guidelines, and other regulatory frameworks. The NAPPP is also expected to support the development of a national PPP pipeline and assist line agencies with screening mechanisms and capacity-building activities.

Table 5: Functions of a National Public–Private Partnership Unit

Parameter	
Does the country have a national PPP unit at present?	✓
What are the functions of the national PPP unit?	
• Supporting the design and operations of the National PPP Enabling Framework.	✓
• Helping develop a national PPP pipeline.	✓
• Assisting in securing funding for project preparation (budgetary allocations, technical assistance funding from multilateral development agencies, and operating a dedicated project preparation/ project development fund).	✓
• Guidance for project preparation and coordination with the government agencies responsible for sponsoring the projects.	✓
• Making recommendations to the PPP committee and/or other approving authorities to provide approvals associated with various stages of PPP process.	✓

✓ = Yes, ✕ = No, N/A = Not Applicable

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

19 Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2022. Private Sector Infrastructure Projects—Part II.

Table 6: Principal Public Agencies, Institutions, and Firms that Support Public–Private Partnerships in Sri Lanka

Key Agencies/Facilities	Function(s)
NAPPP	• Act as a facilitator in implementing PPP projects under respective line ministries/agencies. • Identify and structure suitable PPP projects for line ministries/agencies. • Assist line ministries/agencies to invite bids, evaluate, negotiate, and select investors. • Assist line ministries/agencies to procure required local and international experts to carry out pre-feasibility studies and procurement of transactions advisors for PPPs. • To act as the central agency to support all PPP projects in the country. • Implementation of the PPP law, operational guidelines, and other regulatory frameworks. • Support the development of a national PPP pipeline and assist line agencies on screening mechanisms. • Collaborate with line ministries/agencies to ensure that PPP projects are effectively screened, prepared, tendered, and implemented.
MOF	• Oversee all ministerial agencies, approve grants for PPP projects prior to tendering, and formulate procurement guidelines. • The National Planning Department, which functions under the Ministry, generally approves all procurements by line ministries and agencies.
National Procurement Commission	• Preparing of necessary procurement guidelines and instructions. • Monitoring and regulating activities pertaining to the procurement of goods and services, works, consultancy services, and information systems by all government entities to ensure a fair and transparent process for all stakeholders involved. • Monitor and report to the appropriate authorities on whether all procurement of goods and services, works, consultancy services, and information systems by government institutions are based on procurement plans prepared in accordance with previously approved action plans. • Monitor and report to the appropriate authorities on whether all qualified bidders are afforded an equal opportunity to participate in the bidding process for the provision of those goods and services, works, consultancy services, and information systems. • Monitor and report whether the procedures for the selection of contractors, and the awarding of contracts for the provision of goods and services, works, consultancy services, and information systems to government institutions are fair and transparent. • Report on whether members of procurement committees and technical evaluation committees relating to the procurements, appointed by government institutions are suitably qualified. • Investigate reports of procurements made by government institutions outside established procedures and guidelines, and to report the officers responsible for such procurements to the relevant authorities for necessary action.
Line ministry/agency (including state-owned enterprises)	• Line ministries/agencies are responsible for identifying, selecting, and preparing candidate PPP projects. • Line ministries and public agencies are tasked to handle the PPP process, while NAPPP will play an oversight role.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies—Sri Lanka. 2022. *Private Sector Infrastructure Projects—Part II*; Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2019. *Public Finance Circular No.02/2019*; Government of Sri Lanka, Parliament of Sri Lanka. 2022. *Constitution of the Democratic Socialist Republic of Sri Lanka.*

Table 7: Entities Responsible for Public–Private Partnership Project Identification, Approval, and Oversight

Parameter	
Who is responsible for identifying, preparing, and procuring the PPP projects?	• Respective line ministries and/or implementing agencies. Example: For a road PPP project, the line ministry is the Ministry of Transport and Highways, while the implementing agency is the Road Development Authority.
Is there a PPP committee for providing approvals at various stages of PPP projects?	• Currently, a Project Committee and a Cabinet Appointed Negotiating Committee will be appointed for each PPP project as per procurement guidelines.^
Who else has the authority to approve PPP projects aside from the PPP committee?	• NAPPP, MOF, and the Attorney General's Department must be consulted. Approval from Cabinet is mandatory.
Does the country have an independent thinktank for various PPP planning, budgeting, and policy decisions?	• The re-established NAPPP is expected to play this role among many other responsibilities.
Is there a regulatory body for the PPP program oversight?	• The re-established NAPPP is expected to play this role among many other responsibilities.

^ Roles of these committees are explained in detail under PPP procurement process (Table 10).

Sources: ADB. 2019. *Public–Private Partnership Monitor, Second Edition*; Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

Entities Responsible for Public–Private Partnership Project Monitoring

The re-established NAPPP is expected to facilitate and provide advisory oversight for all PPP projects in the country. The NAPPP will facilitate the implementation of PPP projects across all government agencies and work closely with each line ministry and government agency.

Currently, there is no dedicated entity for monitoring post commercial closure and management of fiscal risks from PPP projects. Monitoring activities are largely carried out by the respective line ministry and/or agency and the MOF. The new PPP law being drafted by the re-established NAPPP is expected to address these areas.

Table 8: Entities Responsible for Public–Private Partnership Project Monitoring

Parameter	
Is there an entity for monitoring of PPP projects post commercial close?	×
Is there an entity for monitoring and managing fiscal risks and liabilities from PPP projects for the MOF?	×

✓ = Yes, × = No, N/A = Not applicable

Sources: ADB. 2019. *Public–Private Partnership Monitor, Second Edition*; Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

The Public–Private Partnership Process

Sri Lanka's PPP process as outlined in the 1998 PSIP Guidelines only captures the process up to project award stage (Table 9).

Table 9: Features of the Public–Private Partnership Process

Parameter	
Does the PPP legal and regulatory framework provide for a PPP implementation process covering the entire PPP lifecycle?^	×
Feasibility assessment stage	
• Technical feasibility	✓
• Socioeconomic feasibility	✓
• Environmental sustainability	✓
• Financial feasibility	✓
• Fiscal affordability assessment	×
• Legal assessment	✓
• Risk assessment and PPP project structuring	✓
• Value for money assessment	✓
• Market sounding with stakeholders	✓
Is the PPP procurement plan required?	✓
Is there a need to set up a separate PPP procurement committee?	✓
Is competitive bidding the only method for selection of PPP private developers?	×
Is the prequalification stage necessary? Or does the PPP legal and regulatory framework allow flexibility to skip the prequalification stage?	✓
Does the PPP legal and regulatory process provide the option to the preferred bidder for contract negotiations?	✓
Does the PPP legal and regulatory framework allow unsuccessful bidders to challenge the award/submit complaints?	✓
What is the maximum time allowed for submitting a complaint/challenging the award by unsuccessful bidders from the announcement of the preferred bidder? ^^	14–28 days
Does the PPP legal and regulatory framework provide for transparency?	✓
Which of the following are required to be published?	
• Findings from the feasibility assessment	×
• Procurement notice	✓
• Outcome of stakeholder consultations from market sounding	×
• Clarifications to prequalification queries	✓ (Only among bidders)
• Prequalification results	✓
• Clarifications to pre-bid queries	✓
• Results for the bid stage and selection of preferred bidder	✓
• Final concession agreement to be entered between the government agency and the preferred bidder and other PPP project agreements executed between government agency and preferred bidder	✓
• Confidentiality	✓

✓ = Yes, × = No, N/A = Not Applicable

^ Procurement Guidelines—Part II (1998) only captures up to project award stage.

^^ As per National Procurement Guidelines Goods and Works 2006.

Sources: National Agency for Public Private Partnerships. Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; Government of Sri Lanka, National Procurement Agency. 2006. *National Procurement Guidelines Goods and Works.*

Public–Private Partnership Procurement Process in Sri Lanka

The 1998 PSIP Guidelines require the preparation of a "financial and technical viability report" on PPP projects before the launch of a request for proposals. The anticipated content of this report is not detailed in the guidelines.[20]

The current PPP approval process is based on the 1998 PSIP Guidelines but modified to account for institutional changes that have taken place since (such as the dissolution of the BII). The table below presents a high-level process flow on the PPP project preparation and execution stages.

Table 10: Public–Private Partnership Project Preparation Process

Steps	Description
1.	The line ministry or agency must submit the project pre-feasibility or concept to the Project Investment Committee of the Department of National Planning, a division within MOF.
2.	If shortlisted by the Department of National Planning, the line ministry or agency must submit the Cabinet Memorandum to the Cabinet Office and, parallelly, forward copies to MOF and other relevant line ministries, departments, or agencies for their observations.
3.	MOF and other relevant line ministries, departments, or agencies submit their observations to Cabinet for consideration.
4.	Cabinet decides whether the project should proceed to the next stage of preparing feasibility studies and tender documents under the PPP route.
5.	Cabinet will provide a decision on the following: • The quantum of funding for project preparation along with their source (i.e., External Resources Department, a department of MOF, which is responsible for mobilizing external financing on behalf of the GOSL). • If known at this stage, any government support such as government guarantees or public funding will also be approved.
6.	• Cabinet will appoint a Negotiating Committee (CANC) to handle all matters pertaining to PPP projects and make recommendations on selection of the proponent. The Project Committee (PC) will be constituted once the project is approved by Cabinet in principle. The committee will be appointed by the Secretary to the Treasury at the request of the Secretary of the line ministry. The PC comprises members from the line ministry, MOF, Attorney General's Department, NAPPP, CEA (if applicable), and representatives from other relevant ministries or agencies. • CANC is a project-specific committee appointed on behalf of Cabinet. The CANC would be chaired by the Secretary to the Treasury (or Deputy Secretary) and comprises secretaries of relevant line ministries or agencies. However, in the instance that the Chairperson is not the Secretary or the Deputy Secretary to the Treasury, a secretary to any other line ministry can be appointed as the Chairperson of CANC.
7.	The PC, with the assistance of external consultants where necessary, undertakes feasibility studies and prepares project agreements. CANC provides inputs on the tender process and timelines which are reflected in the tender documents of the project.
8.	Draft project agreements are submitted by the PC to the Attorney General's Department via the line ministry, department, or agency.
9.	The Attorney General's Department reviews the draft project agreements and tender documents and provides inputs/comments to the line ministry, department, or agency originating the project.
10.	The PC submits the updated draft project agreements and tender documents to CANC for its approval.
11.	CANC reviews the feasibility study, draft project agreements, and the tender documents for approval.
12.	Once CANC communicates its approval to PC and the originating line ministry, department, or agency, the project agreements and tender documents are issued by the line ministry, department, or agency to the private sector, thus initiating the procurement process.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; National Procurement Agency. 2006. *National Procurement Guidelines Goods and Works*; Industry research.

20 Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*.

The PPP project development and evaluation process includes prequalification steps such as the call for expressions of interest (EOIs) and an evaluation of the submitted EOIs. Once these reevaluation steps are completed, a bidder is selected, and the contract awarded post negotiation (Table 11).

Table 11: Public–Private Partnership Project Development and Evaluation Process

Procurement Stage	
Prequalification of proponents (optional)	• CANC may decide to launch a prequalification of proponents. This is a mandatory requirement in large-scale projects (estimated cost exceeding $100 million) and in the case of technically complex projects. • The prequalification of proponents is initiated by an invitation for EOIs, that is given the widest publicity in international media. The EOIs will be prepared by the line ministry (and external transaction advisors, if applicable) under purview of the PC. • EOI responses will be evaluated by the PC, which will make its recommendations to CANC for approval.
Selection of a bidder	• Prequalified firms from the EOI stage will be eligible to receive the request for proposal (RFP). The RFP will also be prepared by the line ministry (and external transaction advisors, if applicable) under the purview of the PC. • RFP is given wide publicity through foreign and local print and electronic media, and through overseas Sri Lankan missions. The press notice may also be sent to all potentially interested companies that have been in contact with the relevant public authorities or have expressed an interest in the past. • The RFP should contain all relevant information on the project, specific information required from the bidders to evaluate the proposal, and a defined format for the bidders to follow when submitting their proposals. The RFP should include a draft of the contracts and agreements that will need to be concluded between the private and public parties involved. • The standardized period for submitting proposals is three months; this may be shortened following the norms of the general procurement guidelines or increased to six months depending on the project. • RFP responses are evaluated by the PC in three stages: assessment of the completeness of the proposal, assessment of its responsiveness to the requirements and disqualification of nonresponsive RFP documents, and evaluation of proposals to rank the competitive bids. • Evaluation of the proposals should strictly adhere to the criteria specified in the RFP. • The evaluation should be completed within three months from the date of receipt of the proposals. • The key factors in the comparative evaluation of different proposals should be the price offered, the duration of the operation period, and the tariff structure. • The PC should submit a final report to the CANC, including a summary of the evaluation and ranking of the proposals and recommendations.

continued on next page

Table 11 *continued*

Procurement Stage	

Negotiation and award of the contract	• Negotiation should be conducted by the CANC, with assistance of the PC if needed.
	  ◦ At the end of the negotiations, a draft letter of intent (LOI) should be submitted by the procuring entity, with the inclusion of a financial clause to the Attorney General's Department for concurrence.
	  ◦ Once the Attorney General's Department approval is given, final approval should be sought from CANC and Cabinet respectively. The purpose of the LOI is to grant exclusivity to the preferred bidder for an agreed period to enable the sponsor to complete all tasks that are needed before the signature of the PPP contract. The LOI should include, among other things, a completion of all amendments to the proposal agreed through negotiation with the CANC.
	• The LOI is signed by the secretary of the line ministry and the head of the line agency involved and is countersigned by the bidder accepting the LOI.

Project finalization	• Agreements include the implementation agreement, a service or product purchase agreement, and several agreements that are listed in Section 285 of the Guidelines on Government Tender Procedure—Part II on Private Sector Infrastructure Projects (BOO/BOT/BOOT projects). • The Attorney General's office and Cabinet should approve the final proposal with the agreed draft agreements before final signatures. • The agreements should be signed by the MOF, the line ministry, and the private partner.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; Government of Sri Lanka, National Procurement Agency. 2006. *National Procurement Guidelines Goods and Works*; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Public–Private Partnerships Standard Operating Procedures, Toolkits, Templates, and Model Bid Documents

Table 12: Availability of Public–Private Partnership Standard Operating Procedures

Parameter	
Does the country have PPP guidelines/manual? ^	✓
Does the country have standardized PPP agreement terms?	✓
Does the PPP guidelines or manual adequately cover the process, entities involved, roles and responsibilities of various entities, approvals required at various stages, and the timelines for the various stages of the PPP project lifecycle? ^	✓
What are the templates and checklists available in the PPP guidelines or manual? ^^	
• Project needs assessment and options analysis checklist.	×
• Project due diligence checklist.	×
• Technical assessment checklist including risk matrix, risk assessment, and key performance indicators.	✓
• Environmental assessment checklist.	×
• PPP procurement plan template.	×
Does the country have standardized/model bidding documents for PPPs?	
• Model request for qualification document.	×
• Model RFP document.	×
• Model PPP/concession agreement. ^^^	✓
• State support agreement.	×
• Viability gap funding agreement.	✓

continued on next page

Table 12 *continued*

Parameter	
• Guarantee agreement. ^^^	✓
• Power purchase agreement. ^^^	✓
• Capacity take-or-pay contract. ^^^	✓
• Fuel supply agreement. ^^^	✓
• Transmission and use of system agreement. ^^^	✓
• Performance-based operations and maintenance contract. ^^^	✓
• Engineering, procurement, and construction contract.	✓
Does the country have standardized/model toolkits to facilitate identification, preparation, procurement, and management of PPP projects? ^^	
• PPP family indicator. • PPP mode validity indicator. • PPP suitability filter. • PPP screening tool. • Financial viability indicator model. • Economic viability indicator model. • Value-for-money indicator tool. • Readiness filter.	× × × ✓ (Checklist only) × × × ×
Is there a framework for monitoring fiscal risks from PPPs including the following? ^^	
• Process for assessing fiscal commitments. • Process for approving fiscal commitments. • Process for monitoring fiscal commitments. • Process for reporting fiscal commitments. • Process for budgeting fiscal commitments.	× × × × ×
Are there fiscal prudence norms/ thresholds to limit fiscal exposure to PPPs?	×
Is there a process for assessing and budgeting contingent liabilities from PPPs? ^^	×

✓= Yes, × = No, N/A = Not Applicable

^ Refers to the 1998 Guidelines on Government Tender Procedure—Part II on Private Sector Infrastructure Projects on Public–Private Partnership Basis).

^^ Only an overall guidelines procedure available. No specific checklists or evaluation criteria outlined.

^^^ Standard power purchase agreements in the power sector encompass some of the required criteria. The ports concession agreements also capture some of the outlined criteria. However, other sectors do not have standard documentation.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; Government of Sri Lanka, National Procurement Agency. 2006. National Procurement Guidelines Goods and Works; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Key Clauses Related to Public–Private Partnership Agreements

Security over project assets, project land, shares of the project company, along with priority to lenders in the case of insolvency are some of the critical contractual provisions in PPP agreements so far (Table 13). The PPP concession agreements developed in the past also contained specific criteria for senior lender participation, and execution of the financing agreement is considered as a condition precedent required to be satisfied by the concessionaire.

Table 13: Other Critical Contractual Provisions and Public–Private Partnership Enabling Considerations

Parameter	
Does the law specifically enable lenders the following rights?	
• Security over the project assets.	✓
• Security over the land on which they are built (land use right). ^	✓
• Security over the shares of a PPP project company.	✓
• Direct agreement between the government and lenders.	✓
• Priority for lenders in the case of insolvency.	✓
• Step-in rights for lenders.	✓

✓= Yes, × = No, N/A = Not Applicable

^ Sri Lankan financial institutions accept 35-year period government leased land as collateral—if government land is to be leased out for longer than this time period, Cabinet approval will be required. Private lease lands are generally not accepted as collateral.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2019. *Public Finance Circular No.02/2019*.

The PPP guidelines do not address the security rights of the lender. However, the different types of rights outlined above have been granted to lenders in several PPP projects in Sri Lanka.[21]

Table 14: Lender's Security Rights on Public–Private Partnership Projects

Parameter	
Does the law specifically enable compensation payment to the private partner in case of early termination due to the following? ^	
• Public sector default or termination for reasons of public interest.	✓
• Private sector default.	✓
• Force majeure.	✓
Does the law enable the concept of economic/financial equilibrium?	✓
Does the law enable compensation payment to the private partner due to the following?^	
• Material adverse government action.	✓
• Force majeure.	✓
• Change in law.	✓

✓ = Yes, × = No, N/A = Not Applicable

^ These aspects are generally provided for in PPP contracts, and investors can enforce them through the dispute resolution mechanisms.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Unsolicited Public–Private Partnership Proposals

The 1998 PSIP Guidelines provide for unsolicited project proposals through supplements in 2011 and 2016. Supplement 30 (issued in 2016) introduced the Swiss challenge process for unsolicited project evaluation. However, a Cabinet decision was taken in 2018 to abolish the Supplement 30 issued to the Government Tender

21 ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Procedure—Part II of 1998 on the introduction of Swiss challenge procedures (without prejudice to the ongoing procurement processes already commenced) and to introduce a new mechanism to deal with unsolicited project proposals. Until a new mechanism is introduced, however, the 1998 PSIP Guidelines apply.[22]

Table 15: Treatment for Unsolicited Public–Private Partnership Proposals

Parameter	
Does the PPP legal and regulatory framework allow submission and acceptance of unsolicited proposals?	✓
Are there advantages provided to the project proponent for an unsolicited bid? • Competitive advantage at bid evaluation. ^ • Swiss challenge. ^^ • Compensation of the project development costs. ^^^ • Government support for land acquisition and resettlement cost. ^^^ • Government support in the form of viability gap funding and guarantees. ^^^	 ✗ ✗ ✗ ✗ ✗

✓ = Yes, ✗ = No, N/A = Not Applicable.

^ The party that made the original offer will be given a chance to improve on their bid where the proposal has been significantly changed to suit the needs and objectives of the agency involved.

^^ Currently inactive.

^^^ Guidelines on Government Tender Procedure—Part II 1998 does not address specific compensation and government support for unsolicited proposals.

Sources: Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II*; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

The 1998 PSIP Guidelines states that an unsolicited proposal must contain all basic information required to ascertain the economic and financial viability of the project, including technical details of the project, financial details to demonstrate the justification of the total cost/premium requested, and letters from financial institutions and consortium members agreeing to commit funds. The party that designed the unsolicited proposal should be given a chance to improve its proposal, adapting it to the needs and objectives of the public authority in charge. The guidelines stipulate that decisions should not solely rely on unsolicited offers without public advertisement for proposals or bids. However, in cases of urgent and exceptional circumstances, deviation from this process is allowed, subject to specific Cabinet approval.[23]

Foreign Investor Participation Restrictions

Table 16: Foreign Investor Participation Restrictions Public–Private Partnership Proposals

Parameter	
Are there restrictions for foreign investors on the following? • Land use/ownership rights as opposed to similar rights of local investors. ^ • Currency conversion.	 ✓ ✗
PPP projects with foreign sponsor participation (number) ^^	34

✓ = Yes, ✗ = No, N/A = Not applicable

^ Foreign investors can lease land, subject to a maximum tenure of 99 years. Outright transfer of ownership is permitted when the foreign shareholding of a company is less than 50%.

^^ Ports—4, Power—25, Water—1, Social housing—1, ICT—3; details under each respective write-up.

Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

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[22] Government of Sri Lanka, Ministry of Finance. 2019. *Circular—Dealing with Unsolicited Project Proposals*.

[23] Government of Sri Lanka, Ministry of Finance. 1998. *Guidelines on Government Tender Procedure—Part II. Sri Lanka* (accessed April 2024).

As per the Foreign Exchange Act, No. 12 of 2017, a person residing outside Sri Lanka is permitted to invest, acquire, or hold all classes of shares or an entitlement of shares issued by companies incorporated in Sri Lanka. A 40% foreign investment threshold is applicable in the business sectors mentioned below; this threshold can be relaxed through a special approval from the BOI.[24]

- Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions.
- Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar, and spices.
- Mining and primary processing of nonrenewable national resources.
- Timber-based industries using local timber.
- Deep-sea fishing (as defined by the ministry assigned to fisheries).
- Mass communication.
- Education.
- Freight forwarding.
- Travel agencies.
- Shipping agencies.

Foreign entities are not permitted to hold any investment in pawnbroking and coastal fishing. Also, retail sector investments less than $5 million are restricted for foreign ownership (foreign entities are allowed to invest in retail trade for amounts exceeding $5 million).

To manage the country's foreign currency shortage and economic crisis in 2021, several changes were made to the Foreign Exchange Act, No. 12 of 2017, in April 2021. These following amendments[25] are expected to improve cross-border foreign exchange transactions and to help create a more enabling environment for foreign investor participation in PPPs:

- Exclude the mandatory requirement of opening inward investment accounts when granting loans to persons residing in Sri Lanka—including GOSL and state-owned enterprises (SOEs).
- General permission for companies registered in Sri Lanka (e.g., branch, liaison, and project offices) to borrow from their parent companies outside Sri Lanka.
- General permission for nonresident investors to invest in shares or debt securities of companies not incorporated in Sri Lanka and listed on the Colombo Stock Exchange (CSE) by routing funds through accounts maintained in offshore banking units of licensed commercial banks in Sri Lanka instead of via inward investment accounts.
- Permitting emigrants to invest in Sri Lanka out of the funds held in nonresident rupee accounts and capital transaction rupee accounts.

A more enabling environment for foreign investor participation in PPPs is also expected via the Strategic Development Projects Act (SDPA), No. 14 of 2008. The Act was formulated to provide special tax holidays (up to 25 years) for projects of strategic importance and based on the contribution to the country's economy. To obtain SDPA status, a project must first be identified by the BOI as a strategic development project in consultation with the relevant line ministry. Subsequently, the minister in charge of the subject of investment must publish a government gazette with relevant information relating to each proposed project. Cabinet must be informed on the rationale for considering a project as a strategic development project and the period of

24 Board of Investment of Sri Lanka. 2012. *Investment Policy*.
25 Department of Foreign Exchange. 2021. *Revised Regulations issued under the Foreign Exchange 12 of 2017*.

exemption proposed to be granted.[26] During the 2016 government-imposed restrictions on the SDPA, limiting the law only to be applicable for projects that received approval prior to 2016, SDPA was not repealed but put to limited use administratively. In January 2020, however, Cabinet approval was granted once again to fully implement SDPA for new projects identified as strategic developments in the country.[27]

Dispute Resolution

Despite not having a dispute resolution tribunal, Sri Lanka has in place an arbitration and dispute resolution mechanisms (Table 17).

Table 17: Dispute Resolution Criteria

Parameter	
Does the country have a dispute resolution tribunal?	×
Does the country have an institutional arbitration mechanism?	✓
Can a foreign law be chosen to govern PPP contracts? ^	✓
What dispute resolution mechanisms are available for PPP agreements? • Court litigation. • Local arbitration. • International arbitration.	 ✓ ✓ ✓
Has the country signed with the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards?	✓

✓ = Yes, × = No, N/A = Not Applicable

^ Where a project is controlled by foreign shareholders, the PPP concession agreement carries provisions to conduct international commercial arbitration.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Convention on the Recognition and Enforcement of Foreign Arbitral Awards. 2012. Contracting States—List of Contracting States.

The amended Arbitration Act, No. 11 of 1995, governs all disputes arising from legal contract agreements. The bidding documents must mention arbitration as a dispute resolution method, and the contract should incorporate a comprehensive arbitration clause accordingly. Dispute resolution provisions recommended by the foreign funding agency shall be complied with, in instances where the project concessionaire is being controlled by a shareholder incorporated outside Sri Lanka.[28]

Arbitration for government-funded projects takes place within the jurisdiction of Sri Lanka. The venue of arbitration for foreign-funded projects would be determined following the requirements of the foreign funding agency. If the concessionaire is under the control of a shareholder incorporated outside of Sri Lanka, the PPP concession agreement includes clauses for arbitration through international commercial arbitration processes, administered by institutions such as the Singapore International Arbitration Centre. Sri Lanka signed the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1958, and the convention was ratified in 1962.[29]

26 Parliament of the Democratic Socialist Republic of Sri Lanka. 2008. *Strategic Development Projects 1 14 of 2008*.
27 DailyFT. 2020. *Govt. goes full throttle on Strategic Development Projects Act*.
28 Government of Sri Lanka. National Procurement Agency. 2006. *Procurement Guidelines* (accessed July 2023).
29 Convention on the Recognition and Enforcement of Foreign Arbitral Awards. 2012. *Contracting States—List of Contracting States*.

Environmental and Social Issues

All projects in the country (PPP and otherwise) are subject to the prevailing environmental laws in the country.

Table 18: Environmental and Social Parameters

Parameter	
Is there a local regulation establishing a process for environmental impact assessment?	✓
Is there a legal mechanism for the private partner to limit environmental liability for what is outside its control or caused by third parties?	×
Is there a local regulation establishing a process for social impact assessment?	×
Is there involuntary land clearance for PPP projects?	✓

✓ = Yes, × = No, N/A = Not Applicable
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

The National Environmental Act, No. 47 of 1980 (as amended), governs general environmental regulations, while the Coast Conservation Act, No. 57 of 1981 (as amended), the Marine Pollution Prevention Act, No. 35 of 2008, and the Soil Conservation Act, No. 25 of 1951 (as amended), address specific areas of environmental protection.[30]

The National Environmental Act, No. 47 of 1980 (as amended), provides for the submission of an Environmental Impact Assessment (EIA) report, which is a formal study used to predict the consequences of a proposed major development project. It outlines potential issues, conflicts, or natural resource constraints that could impact the feasibility of the project, offering a written analysis of anticipated environmental impacts, and may contain an environmental cost–benefit analysis.[31]

The report encompasses details about the project, outlining both the preventable and inevitable adverse environmental impacts, including alternate approaches that could pose fewer environmental risks, and explains the rationale for rejecting those options. Furthermore, the report provides an account of any commitments of resources needed for the project that cannot be undone or recovered.

An "initial environmental examination report" may also be required that entails a written report wherein possible impacts of the project on the environment are assessed with a view to determining whether such impacts are significant, and as such requires the preparation of an EIA report.[32]

In terms of land clearance for PPP projects, the GOSL adopted the National Involuntary Resettlement Policy in 2001 to ensure the following:[33]

- Persons affected by projects are fairly and adequately compensated, relocated, and rehabilitated.
- Delays in project implementation and cost overruns are reduced.
- Better community relations are established among persons affected by the project and host communities.

[30] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.
[31] Government of Sri Lanka. 1980. *National Environmental Act*.
[32] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.
[33] Government of Sri Lanka. 2001. *Sri Lanka National Involuntary Resettlement Policy (NIRP)* (accessed July 2023).

To establish a uniform system of adequate compensation payment, based on the Land Acquisition Act, National Involuntary Resettlement Policy, and several other laws applicable to land acquisition and resettlement, Cabinet approved the National Policy on Payment of Compensation in November 2008. This also supersedes all other ad hoc and special compensation packages used by government agencies, such as that of the Road Development Authority (RDA).

Land Rights

Sri Lanka's land rights are broad-based and are applicable to PPP projects as well.

Table 19: Land Rights for Public–Private Partnership Projects

Parameter	
Which of the following is permitted to the private partner? • Transfer land lease/use/ownership rights to third party. ^ • Use leased/owned land as collateral. ^^ • Mortgage leased/owned land. ^^	 ✓ ✓ ✓
Is there a legal mechanism for granting wayleave rights, for example, laying water pipes or fiber cables over land occupied by persons other than the government or the private partner?	✓
Is there a land registry/cadaster with public information on land plots?	✓
Which of the following information on land plots is available to the private partner? ^^^ • Appraisal of land value (by the government valuer). • Landowners. • Land boundaries. • Utility connections. • Immovable property on land. • Plots classification.	 ✓ ✓ ✓ ✓ ✓ ✓

✓ = Yes, × = No, N/A = Not applicable

^ Third-party land transfer is permitted in certain projects with provisions for nondeviation from ultimate objective of the project (i.e., land ownership transfers in social housing projects).

^^ Sri Lankan finance institutions accept owned land and government lease lands as collateral for project financing. Private leased lands are not accepted as collateral.

^^^ All information will not be in place in a common agency, but available in multiple agencies.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

The State Lands Ordinance, No. 8 of 1947 (as amended), regulates the grant and disposition of state land in Sri Lanka. It further regulates the management and control of state lands, and the regulation for the use of water of lakes and public streams.[34]

Under the State Lands Ordinance, No. 8 of 1947 (as amended), the President of Sri Lanka may, in the name and on behalf of the Republic of Sri Lanka, make the following:[35]

- Absolute or provisional grants of state land.
- Sell, lease, or otherwise dispose of state land.
- Enter into agreements for the sale, lease, or other disposition of state land.
- Issue permits for the occupation of state land.
- Issue licenses to take or obtain any substance or thing found in state land.
- Sell or lease the right to mine or gem in any state land or in any land that has been disposed of by the state with a reservation of mining rights in favor of the state.

[34] Government of Sri Lanka. 1947. Crown Lands Ordinance (accessed July 2023).
[35] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

However, no disposition of state land made under the ordinance deems to confer any right to any mineral, mineral product, or mineral oil in, under, or upon such state land unless otherwise expressly provided in the instrument of disposition, and, save as so expressly provided, all such minerals, mineral products, and mineral oils shall, notwithstanding any such disposition, be deemed to remain and shall remain the absolute property of the GOSL.[36]

It is noted that Section 2 of the Land (Restrictions on Alienation) Act, No. 38 of 2014 (as amended), restricts the transfer of title of any land situated in Sri Lanka to a foreigner, a company incorporated in Sri Lanka with more than 50% foreign shareholding (direct or indirect), and a foreign company.[37] The amendment was made to this act in 2018 allowing provisions for foreign ownership in any condominium property (which was only four floors and above previously) and land ownership for companies listed in the CSE with more than 50% foreign ownership.[38]

The MOF may exempt any foreign entity engaged in infrastructure development project identified as a strategic development project under the Strategic Development Projects Act, No. 14 of 2008, from the application of the provisions of Section 2 of the Land Act.[39]

Granting wayleave (right-of-way across land) rights are mandated by respective sector laws, such as the Electricity Act and the National Water Supply and Drainage Board Act.[40]

Regarding available land information, there are cadastral surveys in some areas, while in other areas, a deed registration system is in place. These can be examined at land registries.[41]

Government Support for Public–Private Partnership Projects

While Sri Lanka does not have a formalized and dedicated government financial support mechanism for PPP projects, the GOSL does provide project funding support in some instances.

Table 20: Government Support Provided for Public–Private Partnership Projects

Parameter	
Project funding support	✓
Is there a dedicated government financial support mechanism for PPP projects?	×
What are the instruments of government financial support available under this government financial support mechanism? • Capital grant. ^ • Operations grant. • Annuity/availability payments. ^^	 ✓ × ×

continued on next page

[36] Government of Sri Lanka. 1947. *Crown Lands Ordinance* (accessed July 2023).
[37] Government of Sri Lanka. 2014. *Land (Restrictions on Alienation) 38 of 2014*.
[38] Sudath Perera Associates. 2018. *E-Alert: Amendments to Land (Restrictions on Alienation) 38 of 2014*.
[39] Government of Sri Lanka. 2014. Land (Restrictions on Alienation) 38 of 2014.
[40] Public Utilities Commission of Sri Lanka. Acts (accessed July 2023).
[41] Government of Sri Lanka. Registrar Generals Department. Land Registration (accessed July 2023).

Table 20 *continued*

Parameter	
• Guarantees to cover. ^^^ ° Currency inconvertibility and transfer risk. ° Foreign exchange risk. ° War and civil disturbance risk. ° Breach of contract risk. ° Regulatory risk. ° Expropriation risk. ° Government payment obligation risk. ° Credit risk. ° Minimum demand/ revenue risk. ° Risk of making annuity/ availability payments in a timely manner.	 ✓ ✓ ✓ ✓ ✓ ✓ ✓ × ×
Are there minimum financial commitment requirements for the private developer equity before the government support could be drawn?	✓
Are unsolicited PPP proposals eligible to receive government financial support?	✓
Are there standard operating procedures for providing government financial support to PPP projects? ^^^^ ° Appraisal and approval process. ° Budgeting process. ° Disbursement process. ° Monitoring process. ° Accounting, auditing, and reporting process.	 × × × × ×
Who are the signatories to the Government Financial Support Agreement?	N/A
Who is responsible for monitoring the performance of PPP projects availing government financial support? • Consulting engineer. • Government agency. • Ministry of Finance.	 ✓ ✓ ✓
Is there land acquisition funding support?	✓
Is there funding support for resettlement and rehabilitation of affected parties?	✓
Are there tax holidays/exemptions?	✓
Are there real estate development rights?	✓
Are there advertising and marketing rights?	✓

✓= Yes, × = No, N/A = Not Applicable.

^ Although not available for all PPP projects, certain projects in social housing, education, and solid waste management have received viability gap funding from the GOSL.

^^ Road projects have been structured under the annuity payment method, but did not reach financial closure.

^^^ Some of these guarantees are evident in certain power purchase agreements and ports PPP concessions, but not evident in all active PPP concession agreements.

^^^^ 1998 PSIP Guidelines do not specify standard operating procedures for providing government financial support.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Government of Sri Lanka, Ministry of Finance. 1998. Guidelines on Government Tender Procedure—Part II; Industry research.

The Guidelines do not specify the type of government support that can be provided in PPP contracts. The state is required to pay resettlement and compensation costs to affected residents under the law. Although government guarantees or availability payments are provided for certain contracts, there is no specific law enabling them. Under Section 17 of the BOI law, government guarantees related to currency inconvertibility and transfer risk, foreign exchange risk, and expropriation risk may be provided through the agreement between the developer and BOI.[42]

[42] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

One popular government-backed incentive is attractive tax concessions provided via the SDPA, which allows special tax concessions (up to 25 years) for projects that are of strategic importance to the economy. Several projects in real estate development and port development have received benefits under the SDPA[43]. The Act aims to promote strategic development projects by providing tax exemptions for a stipulated period. The BOI, along with the relevant line ministries, will identify specific projects that will add value to the economy and grant certain tax exemptions for said projects. Since its enactment in 2011, in total of 18 hotel, real estate, manufacturing, and ports projects have received SDPA status.[44]

Table 21: Project Development Funding for Public–Private Partnerships

Parameter	
What are the various sources of funds for PPP project preparation?	
• Budgetary allocations	✓
• Dedicated project preparation or development fund	×
• Technical assistance from multilateral, bilateral, and donor agencies?	✓
• Recovery of project preparation funding from the preferred bidder?	×
At what stage of the PPP project can the project preparation/development funding be availed by the government agency? ^	
• Pre-feasibility stage	✓
• Detailed feasibility stage	✓
• Transaction stage	✓
Is there a list of project preparation/development activities toward which the project development funding can be utilized?	×
Can the project development funding be utilized to appoint transaction advisors for PPP projects? ^	✓
Is there a specific process to be followed by government agencies to appoint transaction advisors?	✓
What are the payment mechanisms for making payments to transaction advisors?	
• Timesheet-based	✓
• Milestone-based	✓
Are there standard agreements and documents to avail project development funding?	×

✓ = Yes, × = No, N/A = Not Applicable

^ Project funding support will be required throughout the project preparation which is largely funded by development financing institutions or government budgetary allocations.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Maturity of the Public–Private Partnership Market

Although no national database or national project pipeline for PPPs exists in Sri Lanka (Table 22), there are multiple avenues available for project financing (Table 23). The re-established NAPPP—in the fourth quarter (Q4) of 2022—is expected to act as the central agency to support all PPP projects in the country. The NAPPP will play a governance role via implementation of the PPP law, PPP operational guidelines, and other regulatory frameworks. The NAPPP is also expected to support with the development of a national PPP pipeline and assist line agencies on the screening mechanisms and capacity-building activities.

43 Parliament of the Democratic Socialist Republic of Sri Lanka. 2008. *Strategic Development Projects 1 14 of 2008*.

44 Public Finance LK. 2022. *Tax Concessions Provided for Projects Identified as Strategic Development Projects*.

Table 22: Public–Private Partnership Project Statistics

Parameter	
Is there a national PPP database for the country? ^	×
Is the distribution of PPP projects across infrastructure sectors available?	×
Is the distribution of PPP projects across various stages of the PPP lifecycle available?	×
Does the country publish a national PPP project pipeline? ^	×
At what frequency is the national PPP project pipeline published?	N/A
Is the national PPP project pipeline based on the national infrastructure plan for the country?	×

✓ = Yes, × = No, N/A = Not Applicable.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

^ NAPPP maintained a list of PPP projects during its period of operation (2017–2019). However, since the discontinuation of the unit, no such database is being maintained. The re-established NAPPP is expected to reinitiate this process.

Table 23: Sources of Public–Private Partnership Financing

Parameter	
Who are the typical entities financing PPP projects in the country?	
• Private developers	✓
• Construction contractors	✓
• Institutional/ financial/private equity investors	×
• Pension funds	×
• Insurance companies	×
• Banks	✓
• Nonbanking finance corporations/institutions	×
• Donor agencies	✓
• Government agencies and SOEs	✓
Does the country have a history or track record of issuing bonds by infrastructure projects?	×
Does the country have a matured derivatives market to hedge certain risks associated with PPPs?	×
Does the country have a national development bank?	×
Does the country have credit rating agencies to rate infrastructure projects?	✓
Is there a threshold credit rating for infrastructure PPPs below which institutional investors, pension funds, and insurance companies would not invest in infrastructure PPPs?	×
Is project finance the typical funding model for infrastructure PPPs?	✓
Are there regulatory limits/restrictions for the maximum exposure that can be taken by banks for infrastructure projects?	✓

✓ = Yes, × = No, N/A = Not Applicable.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Most infrastructure projects have been funded by loans obtained by the GOSL. Often these would be loans from bilateral or multilateral agencies, and to a lesser extent, loans from the local banking system. There have been either very few or no instances of infrastructure projects being financed through pension or insurance funds or by utilizing the capital markets. The following table depicts a high-level overview of project financing criteria in the Sri Lankan banking sector.

Table 24: Project Financing Criteria

Parameter	Project financing through local banks
Maximum tenor (years)	8–10
Upfront arrangement fee, basis points (bps)	100–150
Floor rate	Average Weighted Prime Lending Rate
Margin rate, bps	200–400
Percentage of foreign debt out of total debt for project financing	>50%
Typical debt:equity ratio	80:20 to 60:40
Timeline to financial close (months)	>12
Minimum debt service coverage ratio covenant levels	1.2–1.5×
Nominal interest rates	~9% (Q1 2024)
Real interest rates	~7.3%
Security package	Project assets, project cashflow, shares of the project company, corporate guarantees from the parent company

✓ = Yes, × = No, N/A = Not Applicable.

Sources: CBSL. 2024. Sri Lanka: Macroeconomic Developments in Charts; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Usually, the MOF provides government guarantees for loans obtained by government agencies. Most private banks are cautious about accepting guarantees from government agencies if the project itself does not have a strong revenue-generation capacity. However, private banks lend to profitable state-owned entities that have an assurance of consistent cash flows and strong repayment ability.

Lenders expect mortgage rights on the land and the machinery of the project company rather than a corporate guarantee issued by the promoter company (shareholder) to ensure the project developer remains committed to completing the project. Payments from government agencies are usually requested to be directed to an account maintained at the lending bank or maintained under escrow arrangements.

While there is an appetite for PPPs by domestic investors, there are liquidity constraints in the domestic market (in terms of debt value and tenors available) mainly because of the crowding out by high public borrowing. In addition, commercial banks typically have limited capacity to hedge their interest rate risk, as swap markets in Sri Lanka are currently limited to a duration of less than 1 year. Given the limited amount of capital that many banks have in Sri Lanka, single-borrower limits could also prevent many domestic investors from raising the amounts of debt required to finance some of the larger PPPs.

Credit Rating Agencies in Sri Lanka

The Securities and Exchange Commission of Sri Lanka is the main regulatory authority for credit rating agencies (CRAs) in the country with a recommended governance structure that follows the International Organization of Securities Commissions standards. The Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021, was introduced as a formal framework and process roadmap for new and existing CRA players to enter and exit the market.[45]

[45] Parliament of the Democratic Republic of Sri Lanka. 2021. *Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021*.

According to the Companies Act, No. 7 of 2007,[46] an independent credit risk rating is a mandatory requirement for corporate entities issuing debt instruments to be listed on the CSE and for all financial institutions that provide financial services to the public.

At present, only two CRAs operate in the country: Fitch Ratings Lanka Ltd. and Lanka Rating Agency Limited. A longstanding player, ICRA Lanka, exited the market in 2022.[47]

The Securities and Exchange Commission of Sri Lanka oversees the credit rating process, necessitating agencies to submit audited financial statements and undergo a systematic review for the renewal of their CRA licenses. The CRAs must also disclose the methodologies and criteria they employ for systematic reviews, demonstrating a transparent approach to assigning fair ratings.

46 Parliament of the Democratic Republic of Sri Lanka. 2007. *Companies Act, No. 07 of 2007*.

47 Security and Exchange Commission of Sri Lanka. 2023. Credit Rating Agencies—List (accessed July 2023).

III. Sector-Specific Public–Private Partnership Landscape

A. Roads

Table 25: Key Statistics

Parameter	Value	Unit
Length of the total road network	119,000	km
Length of the national highways (Class A and B roads only)	12,255	km
Length of the national expressways	313	km
Road connectivity	65.6	0 (worst)–100 (best)
Quality of road infrastructure	3.90	1 (low)–7 (high)

Sources: Government of Sri Lanka, Road Development Authority. 2021. *National Road Masterplan (2021–2030)* (accessed April 2024); Government of Sri Lanka, Road Development Authority. 2020. *National Highways* (accessed April 2024); Central Bank of Sri Lanka. 2021. *Economic and Social Infrastructure*; The World Economic Forum. 2019. *The Global Competitiveness Report*.

1. Contracting Agencies

The primary governing body for the road sector is the Ministry of Transport and Highways (MTH; formerly the Ministry of Highways and Road Development), which is responsible for the formulation of policies, programs, and projects relating to the development and operations of road and highway infrastructure in Sri Lanka.[48] The RDA, which comes under the purview of the MTH,[49] is the central governing body responsible for the development and maintenance of the national road network, planning, design, and construction of new highways, bridges, and expressways.[50]

2. Roads Laws and Regulations

The primary legislation overseeing the road sector is the National Thoroughfares Act, No. 40 of 2008, providing direction on strategic planning, design, construction, development, maintenance, and management of an integrated public road network of the country. Moreover, it establishes the legal framework required to facilitate private sector investment in road construction and offers guidance to provincial councils and local authorities on the development and maintenance of roads. The Act provides exclusive power to the RDA to implement and administer provisions of the Act in consultation with the MTH and other relevant government departments.[51]

48 Government of Sri Lanka, Ministry of Transport and Highways. 2020. *Overview* (accessed July 2023).
49 Government of Sri Lanka, Presidential Secretariat. 2022. Government Gazette Notification 22 July 2022.
50 Government of Sri Lanka, Road Development Authority. 2021. *Roles and Responsibilities* (accessed August 2023).
51 Government of Sri Lanka, Road Development Authority. 2008. *National Thoroughfares Act* (accessed August 2023).

A snapshot of the functions of various agencies associated with the road transport sector in Sri Lanka is provided in the table below.

Table 26: Line Ministries or Agencies and Their Functions in Road Transport

Agency	Function
Ministry of Transport and Highways	• Formulating national policies for the highway sector in relation to the subject of transport, in conformity with the prescribed laws, acts, and ordinances. • Implementation of projects under the National Budget, State Investment, and National Development Programme. • Development, maintenance, toll setting, collection, and regulation of expressways. • Formulating rules and regulations required to ensure an environmentally friendly transport system is in operation. • Introducing guidelines, rules, and regulations to be followed in minimizing passenger and traffic congestion and road accidents. • Improving and maintaining a high-quality national highway system that enhances rural, pre-city, and urban connectivity. • Providing high mobility among townships, efficient connectivity among economic centers, and improving accessibility for rural areas. • Maintaining road networks to excellent standards to contribute to sustainable development. • Providing an intelligent transport system for efficient traffic management. • Investing in research and development for the road sector. • Improving road safety measures for road users.
Road Development Authority	• Maintaining and developing roads and bridges within the national road network. • Planning, designing, and constructing new highways, bridges, and expressways to improve the existing network. • Reducing road user cost. • Improving road safety in the national road network. • Protecting the environs. • Ensuring efficient utilization of assets and investments. • Promoting organizational development to enhance overall performance of the RDA. • Assisting in the development of the local road construction industry.
National Council for Road Safety	• Promoting a safe and secure road network for all citizens. • Coordinating activities relating to road safety (creating a high-quality transport service via disciplined and law-abiding drivers and commuters). • Preparing and implementing projects on road safety. • Providing financial assistance to families affected by hit-and-run accidents. • Providing financial assistance to implement economically and technologically viable social activities and environmentally friendly safety measures. • Offering advice to the GOSL on policies and projects connected with road safety.

Sources: Ministry of Transport and Highways. 2020. *About Us—Overview* (accessed July 2023); Road Development Authority. 2021. *Roles and Responsibilities* (accessed July 2023); Government of Sri Lanka, Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*; National Council for Road Safety. 2022. *Introduction*.

The Road Maintenance Trust Fund (RMTF) was established as a dedicated fund in 2005 to carry out periodic maintenance of the national road network in a timely manner, to avoid deterioration of the road network. The main beneficiary of the fund is the RDA. The initial funding of $10.5 million (approximately SLRs1,365 million) was provided by the International Development Association for the period 2012–2014 through the Road Sector Assistance Project. Currently, the annual government budget allocates funding for the RMTF.[52] However, it is believed that this budgetary allocation is inadequate for the maintenance of road and related infrastructure. The RMTF only oversees national roads, while expressways are maintained by the Expressway Operation, Maintenance and Management Division, which comes under the RDA.[53]

In 2017, it was proposed to establish a special infrastructure company that would own all existing expressway assets and undertake future expressway development.[54]

In March 2024, Cabinet approved the transferring of daily operations and management of expressways from RDA to a state-owned company "Sahasya Investments Limited," effective 1 April 2024.[55]

Foreign Investment Restrictions

No foreign investment restrictions in the road sector exist.

Table 27: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in road sector projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts

Specific standard contracts are not available for roads PPPs, while general engineering, procurement, and construction (EPC) contracts are used for PPP projects.

Table 28: Contract Types Available

Type of contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Several road projects have been proposed as PPPs, with ADB providing technical assistance for two key projects: Colombo–Katunayake Expressway in 2003,[56] and the Elevated Highway from New Kelani Bridge to Athurugiriya during 2017–2019.[57] Despite significant progress in the transaction preparation process, neither project progressed to the contract award stage.

52 Report of the Auditor General. 2014. *Road Maintenance Trust Fund (RMTF)*.
53 Government of Sri Lanka, Road Development Authority. 2022. *Expressway Operation Maintenance and Management Division* (accessed July 2024).
54 Government of Sri Lanka, Office of the Cabinet of Ministers. 2017. *Press briefing of Cabinet Decision taken on 2017-02-21*.
55 Daily FT. March 2024. *State-owned Sahasya takes over expressways from RDA*.
56 ADB. 2003. *Technical Assistance to Sri Lanka for Preparing a Public–Private Partnership Expressway Project*.
57 Government of Sri Lanka, Road Development Authority. 2021. *Project Details of Ongoing Projects*.

3. Roads Master Plan

The RDA's National Road Master Plan 2021–2030 outlines a comprehensive and long-term strategy for improving and maintaining the country's road network and will help identify investment priorities through rigorous scientific analysis. This plan prioritizes the enhancement and expansion of road infrastructure to deliver convenient and eco-friendly transportation and promote economic growth for the public.[58]

In line with the master plan, the RDA and MTH (the two main institutions that formulate policies and projects related to the roads and highways) have identified several priority projects.

Table 29: List of Roads Projects

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	Port Access Elevated Highway Project	RDA	300	90	Under construction since 2019
2.	New Kelani Bridge Construction Project	RDA	179	54	Operational since November 2021
3.	Elevated Highway from New Kelani Bridge to Athurugiriya	RDA	822	248	Project awarded after RFP process, but concession agreement not signed
4.	Central Expressway Project—Section I	RDA	526	158	Under construction since 2016
5.	Central Expressway Project—Section II	RDA	495	149	Operational since December 2021
6.	Central Expressway Project—Section III	RDA	498	150	RFP issued in 2021, currently under evaluation
7.	Central Expressway Project—Section IV	RDA	551	179	Noncommitted
8.	Ruwanpura Expressway Project	RDA	182	55	RFP under preparation
9.	Landslide Disaster Protection Project	RDA	54	16	Ongoing project
10.	Integrated Road Investment Program (iRoad)—Phase I	RDA	906	273	Ongoing project
11.	Integrated Road Investment Program (iRoad)—Phase II	RDA	1,085	327	Ongoing project

N/A = Not Applicable, UA = Unavailable in Public Sources.

SLRs1 = $0.003319

Sources: ADB. 2021. *ADB Supported Elevated Highway Improve Connectivity*; Government of Sri Lanka, Ministry of Transport and Highways. 2020. Our Projects (accessed September 2023); Government of Sri Lanka, Road Development Authority. 2021. *Project Details of Ongoing Projects* (accessed July 2024); Integrated Road Investment Program. 2022. Integrated Road Investment Program (iRoad).

58 Government of Sri Lanka, Road Development Authority. 2021. *National Road Master Plan 2021–2030*.

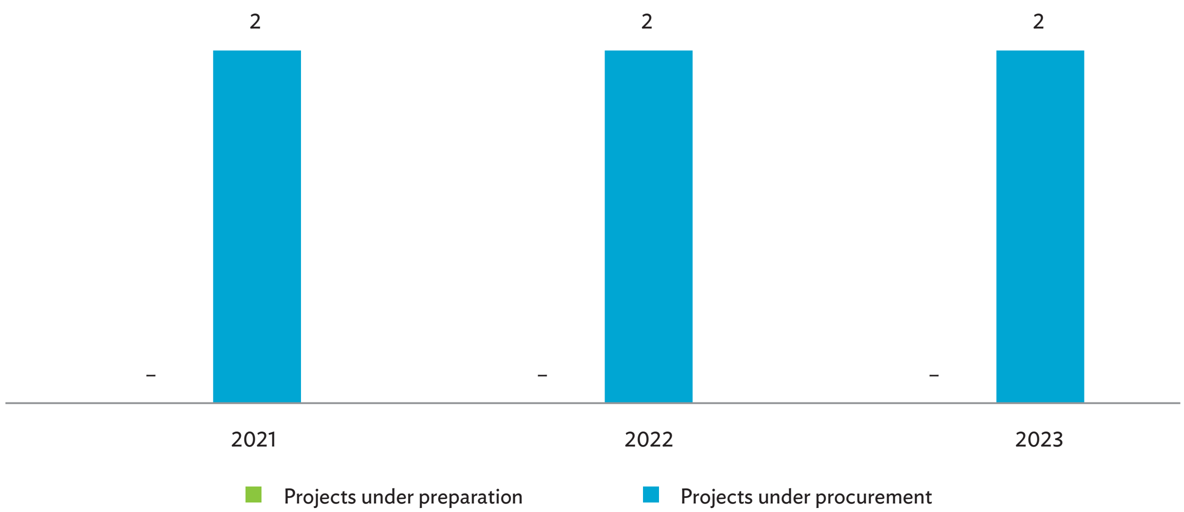
Projects Under Preparation and Procurement

The Elevated Highway from New Kelani Bridge to Athurugiriya and Central Expressway Project—Section III are considered projects under procurement as of 2023, as the PPP concession agreements have not yet been signed.

The RFP process for the Elevated Highway from New Kelani Bridge to Athurugiriya project commenced in August 2017 and construction was expected to be completed by January 2025. The RFP review process was conducted with one party being shortlisted in 2019. However, the project has not progressed to the contract award stage due to a court case regarding the environmental clearance process.[59]

The Central Expressway Project—Section III was procured as a PPP using a similar RFP process as the Elevated Highway project, but it has since been halted due to objections from local bidders on the selection process.[60] In March 2024, media sources mentioned that Japan has expressed interest in investing in this phase once the debt restructuring process is concluded.[61]

Figure 9: Public–Private Partnership Roads Projects Under Preparation and Procurement



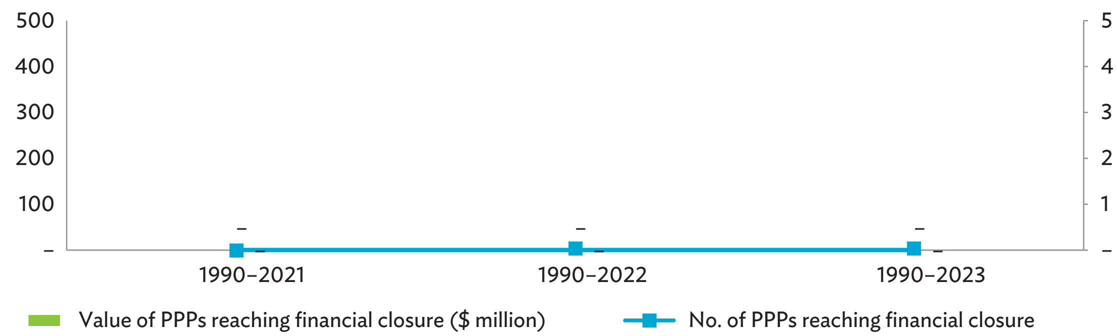
"–" indicates no projects, data not available, or not applicable according to the database.
Source: Government of Sri Lanka, Road Development Authority. *Project Details of Ongoing Projects* (accessed July 2024).

59 The Island. 2021. *Proposed elevated highway across wetlands provokes uproar*.
60 Business Times. 2022. *Central expressway project phase 3 tainted with irregularities*.
61 Sunday Times. 2024. *Japan to invest again in Central expressway Phase III*.

4. Features of Past Public–Private Partnership Roads Projects

Despite progress in PPP procurement processes, no road project has reached financial closure. Both projects in the preparation phase and planned for procurement through a competitive bidding process have faced interruptions.

Figure 10: Public–Private Partnership Roads Projects Reaching Financial Closure



"–" indicates no projects, data not available, or not applicable according to the database.

Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

There has been no foreign sponsor involvement in PPP projects within the road sector. However, the recent bidding process that was conducted for the Elevated Highway project from New Kelani Bridge to Athurugiriya received interest from several foreign sponsors, with one submitting a full technical proposal that was evaluated by RDA and the procurement committees.[62]

Since there have been no financial closures, no PPP road project has received government support including viability gap funding, government guarantees, or availability/performance payments. However, both the Elevated Highway project from New Kelani Bridge to Athurugiriya and the Central Expressway Project—Section III were proposed to be developed under availability or performance payment schemes from the RDA.[63]

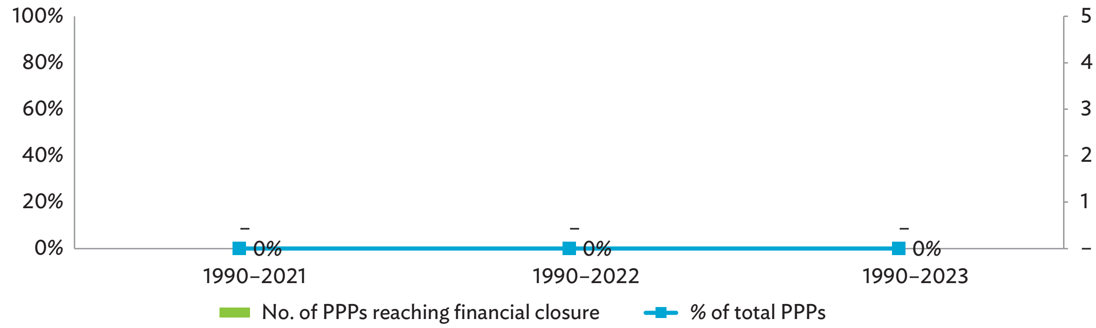
Proposed payments in the form of user charges and government pay (offtake) in the road sector have not been evident. Both the Elevated Highway from New Kelani Bridge to Athurugiriya project and the Central Expressway Project—Section III were proposed to be under annuity payments from the RDA. The RDA is expected to directly collect tolls from users, operating in a similar manner to the existing expressways in Sri Lanka, and pay a predetermined annuity payment (quarterly or bi-annually) to the project company.[64]

[62] Government of Sri Lanka, Ministry of Transport and Highways. 2020. *Our Projects* (accessed September 2023).

[63] Footnote 62.

[64] Footnote 62.

Figure 11: Public–Private Partnership Roads Projects with Foreign Sponsor Participation



"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

Tariffs

Traditionally, funding for roads and expressways has been through public financing. All construction and management of the road network was financed by central government budgets and foreign loans or grants (via development financial institutions and government-to-government arrangements).

Only 313 km are categorized as expressways.[65] As per the National Thoroughfares Act, No. 40 of 2008, vehicles traveling on a user-fee national highway shall pay the imposed fee while users of the expressway must pay a fee according to the distance of travel and the vehicle category:[66]

- Category 01—motor cars, dual purpose vehicles, light motor lorries.
- Category 02—motor coach (all buses and lorries).
- Category 03—heavy motor coach, heavy motor lorry.

The RDA is responsible for toll collection on expressways. The Minister of MTH (overseeing expressways) is authorized to approve fares according to vehicle classifications, and these rates are regularly updated on the toll rate management company website.[67] The Minister also has the authority to specify vehicle categories exempted from payment.[68] Proposed rates require Cabinet approval and implementation is formalized through gazette notification.

Typical Risk Allocation for Public–Private Partnership Projects

Since there are no PPP road projects implemented thus far, information on typical risk allocation is unavailable.

The 1998 PSIP Guidelines state that the indexation risk and price negotiation risk may differ from project to project.

65 Government of Sri Lanka, Road Development Authority. 2018. *National Road Master Plan (2018–2027)*; Road Development Authority. 2020. *National Highways*.
66 Government of Sri Lanka. 2008. *National Thoroughfares* 40 of 2008.
67 Government of Sri Lanka, Expressway Operation Maintenance and Management Division of Road Development Authority. 2024. *Tariff Schedules*.
68 Government of Sri Lanka. 2008. *National Thoroughfares 40 of 2008*.

Financing Details

Since there are no financially closed road PPPs, the parameters in the table below are not applicable.

Table 30: Financing Details for Roads Projects

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A		
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources, FIRR = Financial Internal Rate of Return.
Source: World Bank. 2024. *Private Participation in Infrastructure (PPI)—Sri Lanka*.

5. Challenges in Roads

Demand and Supply Factors

- Funding constraints for project preparation (e.g., appointment of technical consultants and land acquisitions) and project financing have delayed the execution of key projects.
- Insufficient funding for regular road maintenance has resulted in inadequate upkeep, particularly for provincial and local authority roads.
- Lack of digital interventions for traffic management and fare collection has contributed to inefficiency and congestion on the roads.
- There is limited awareness on key road projects, their priority of execution, clear-cut policies, and transparency in the procurement mechanism for road projects. This has generated unfavorable public opinion, suggesting that private involvement is more expensive than state sector implementation.

Regulatory Factors

- There have been significant delays in land acquisition due to the lack of land availability for road projects, lack of transparency in ownership and valuation of state land, unclear titles for private land, and resentment by landowners on resettlement. This has resulted in significant delays in project execution timelines and has substantially increased land acquisition costs, particularly in urban areas.
- Unavailability of standard PPP guidelines (project section, preparation, and bidding) for roads projects leads to delays in procurement processes as well as the lack of in-house technical and financial expertise for complex project structuring in the public sector.
- Constant changes to the procurement method for key expressways and underprepared PPP projects coming into the market have resulted in unsuccessful project closures in many instances. For example:
  - The Colombo–Katunayake Expressway was initially proposed to be developed as a PPP project, but subsequently procured as an EPC contract—funded by a loan from Export-Import (Exim) Bank of China.
  - The Elevated Highway project from New Kelani Bridge to Athurugiriya did not reach financial closure (despite a foreign private EPC company being shortlisted through a competitive bidding process) due to the lack of proper environmental clearances.
  - Irregularities related to the bidder shortlisting process of Central Expressway—Section III have come under the scrutiny of some bidders and delayed financial closure of the project.

B. Railways

Table 31: Key Statistics

Parameter	Value	Unit
Length of total railway network	1,479	km
Total number of stations	418	number
Total number of passengers carried	103	millions annually
Passenger kilometers	6,602	millions
Total volume of freight carried	2	millions of tons annually
Freight-ton kilometers	139	millions
Railroad density	25	km/1,000 km^2
Efficiency of train services	3.8	1(low)–7(high)

Sources: Government of Sri Lanka, Sri Lanka Railway Department. 2022. *Performance Report*; World Economic Forum. 2019. *The Global Competitiveness Report*.

1. Contracting Agencies

The state-owned Sri Lanka Railways (SR) maintains a monopoly in rail transportation in Sri Lanka and is engaged in both passenger and cargo transportation. SR owns and operates the railway network, set up as a department under the MTH, and functions under the General Manager of Railways, who reports to the Secretary of the MTH.[69] Formulation of policies, programs, and projects to be carried out in the railway sector and the monitoring and evaluation of initiatives and interventions related to rail transportation come under the purview of the MTH.

There have been several instances of private entity participation in passenger transportation for railway services. Private operators in the past have leased out a few carriages from SR, which were refurbished with luxury seating, interiors, and air conditioning, and tickets were sold to passengers (including tourists) at a higher price. Staff were allocated to provide catering and other services during the journey. The service was limited to a few popular routes and marketed as a premium experience. However, the services were discontinued in 2017. SR now offers premium services on key routes, with ticket prices based on seat classifications. This saw a notable increase in demand during the fuel price hike in 2022.

2. Railways Laws and Regulations

SR operates as a government department under the provisions of the Railway Ordinance 1902. The Act provides for the MTH (and the minister in charge) to regulate matters relating to the conveyance of passengers and goods by railway, including the revision of fares. However, the Railway Ordinance provides only limited decision-making authority to the General Manager of Railways, which has created several inefficiencies in decision-making.[70]

There is a significant need to update the 120-year-old railway sector legislations to current best practices, such as the separation of government ownership from service delivery, safety regulation, PPP, and the use of private operators, which should be brought into the legislative framework. While there have been several attempts in the past to amend existing legislations, they have been discontinued due to various shortcomings.

69 Government of Sri Lanka, Sri Lanka Railways. 2022. *About Us* (accessed July 2024).
70 Government of Sri Lanka, Ministry of Justice. 2021. *Railway Ordinance*.

Table 32: Timeline of Past Legal Enactments in Railways

Act	Enacted	Timeline
Railways Ordinance	1902	Provides the legal structure of SR
Sri Lanka Railways Authority Act	1993	Made operational on 23 July 2003, and repealed on 10 February 2005
Railway Management Council Rules	2000	Superseded by the rules of 14 February 2003
Railway Management Council Rules	2003	Superseded by the operationalization of Sri Lanka Railways Authority Act of 23 July 2003
Cabinet Memo for Subcompanies	2007	Subcompanies not established

Sources: ADB sector team discussions; Industry research.

The Sri Lanka Railways Authority Act, No. 60 of 1993, provided for the establishment of the Sri Lanka Railways Authority to move away from the departmental structure and to operate as a commercial enterprise. The Railways Authority was to be administered and managed by a Board of Directors, which has the authority to establish tariffs and engage in contracts, including private operations. The Railways Authority would have had absolute title of railway lands. Existing SR staff were to be continued as government employees and become Railways Authority employees.[71] The Act was kept inactive for 10 years and suddenly brought into operation in July 2003 for a brief period of 18 months before it was repealed.

During 2000, the GOSL established the Railways Management Council which included the position of the General Manager Railways of SR. The structure attempted to formulate an internal reorganization within SR (keeping SR as a GOSL department) but this proved unsuccessful. The Railways Management Council established in 2000 was superseded by the Railways Management Council Rules of 2003, which did not include the General Manager Railways. The Supreme Court ruled against the 2003 regulations, and the Board resigned after five months when the Sri Lanka Railways Authority Act was operationalized.

In 2007, a Cabinet Memorandum was submitted for establishing commercial institutions to implement railway development projects. However, this decision was also not operationalized.

Currently, any changes to the conveyance of passengers, parcels, and fares are subject to amendments being made to the Supplement to Gazette No. 7514 dated 26 February 1926, with the Minister of Transport by virtue of the powers vested by Section 03 and 04A of the Railways Ordinance (Chapter 200) having the authority to do so.

[71] Government of Sri Lanka, Ministry of Justice. 2021. *Sri Lanka Railways Authority Act* (accessed July 2024).

A snapshot of the functions of various agencies associated with the railway sector are provided in the table below:

Table 33: Line Ministries or Agencies and Their Functions in Railways

Agency	Function
Ministry of Transport and Highways	• Formulating policies, rules, and regulations required to ensure an environment-friendly transport system. • Constructing new railway lines, maintenance and widening of existing railway lines, and acquisition of lands for railway infrastructure development. • Introducing necessary measures to establish a high standard and public confidence in railway transport systems. • Taking necessary measures to ensure efficient operation of integrated passenger and freight rail transport services by adopting new technology and developing railway infrastructure. • Introducing procurement methodologies required to build up the local industry to manufacture train compartments. • Overseeing and monitoring project implementation as well as the adequacy of overall project funding.
Sri Lanka Railways	• Acquiring and maintaining assets related to rail track, rolling stock, bridges, communication systems, and other structures. • Maintaining assets related to a fleet of rolling stock consisting of locomotives, diesel multiple units, passenger carriages, freight wagons, and communication systems. • Providing train services for the movement of people and goods on the railway network.
Railways Authority ^	• Fixing tariffs, rates, and procedures for carriage of goods and persons by rail (ensuring competitiveness of the railway services with other modes of transport). • Entering into public service obligation contracts with the GOSL to provide services at concessionary tariff rates to public entities. • Developing a railway costing system designed to meet its commercial objectives. • Employing staff required to provide railway services (determine staff cadre, remuneration, and the terms and conditions of services applicable). • Formulating standards, including safety standards, for rail services. • Acquiring, holding, taking, or giving on lease, hire, pledge, sell, or otherwise dispose of any movable or immovable property.

^ Currently inactive due to repeal of the Sri Lanka Railways Authority Act in 2005.

Sources: Government of Sri Lanka, Ministry of Transport and Highways. 2020. *About Us—Overview*; Government of Sri Lanka, Presidential Secretariat. 2022. Government Gazette Notification 22 July 2022; Government Information Center. 2021. *Sri Lanka Railways*; Sri Lanka Railways. 2022. *About Us*.

Foreign Investment Restrictions

There are no foreign investment restrictions in railways.

Table 34: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in railway sector projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts

Sector-specific standard contracts are not available for PPPs. General EPC contracts are used for rail PPP projects as well.

Table 35: Contract Types

Type of contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

3. Railways Master Plan

A comprehensive master plan for railways is currently unavailable to the public. ADB has provided technical support to the MTH on the preparation of a railways master plan, which was accepted by the GOSL on 1 September 2023.[72]

Table 36: List of Public–Private Partnership Projects in Railways

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	Kelani Valley line development	SR	1,020	307	Feasibility studies and detailed designs have been completed under the CSRP project
2.	Main line development	SR	UA	UA	
3.	Coastal line development	SR	UA	UA	
4.	Puttalam line development	SR	UA	UA	
5.	Railway efficiency improvement	SR	192	58	Ongoing implementation

N/A = Not Applicable, CSRP = Colombo Suburban Railway Project, SR = Sri Lanka Railways, SLRs = Sri Lankan Rupees, UA = Unavailable in Public Sources.

Note: SLRs1= $0.003319.

Sources: Colombo Suburban Railway Project. 2021. Main Components; ADB. 2019. Sri Lanka: Railway Efficiency Improvement Project.

The Colombo Suburban Railway Project (CSRP) is an initiative to improve railway services in the Colombo suburban area; the project is being implemented by MTH and SR with a loan facility from ADB. The CSRP comprises four main components targeting the country's key railway lines: Kelani Valley, main, coastal, and Puttalam lines.[73]

The Railway Efficiency Improvement Project was ADB's first project loan in railways in Sri Lanka. The project focuses on financing high-impact subprojects to modernize the country's railway network by improving operational efficiency, maintenance capacity, safety management, skills development, and implementation capacity of SR under a $160 million concessionary loan. The main components to be financed by the project include modern telecommunications and ticketing systems, operations headquarters and train control center, modern railway workshops, and maintenance equipment.[74]

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72 ADB. 2023. Sri Lanka: *Railway Master Plan*.

73 Colombo Suburban Railway Project. 2021. About CSRP (accessed July 2024).

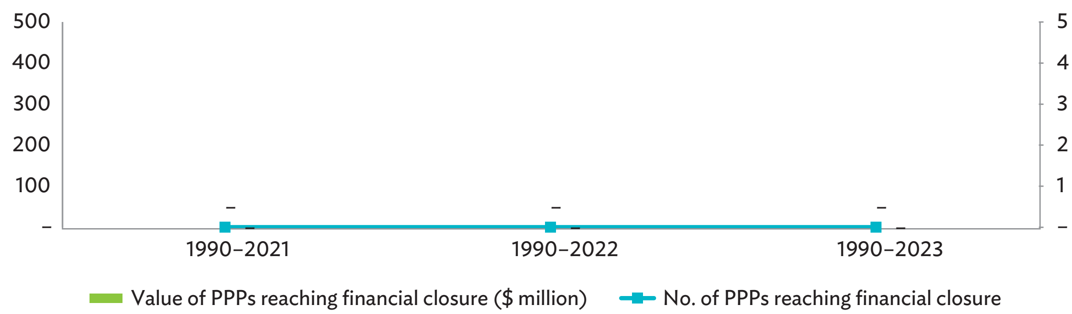
74 ADB. 2021. *Sri Lanka: Railway Efficiency Improvement Project*.

Projects Under Preparation and Procurement

As of 31 December 2023, there were no PPP-based rail projects under preparation or procurement. In April 2024, the MTH invited investors to participate in the development of six railway stations in Western Province through a PPP model.[75]

4. Features of Past Public–Private Partnership Projects in Railways

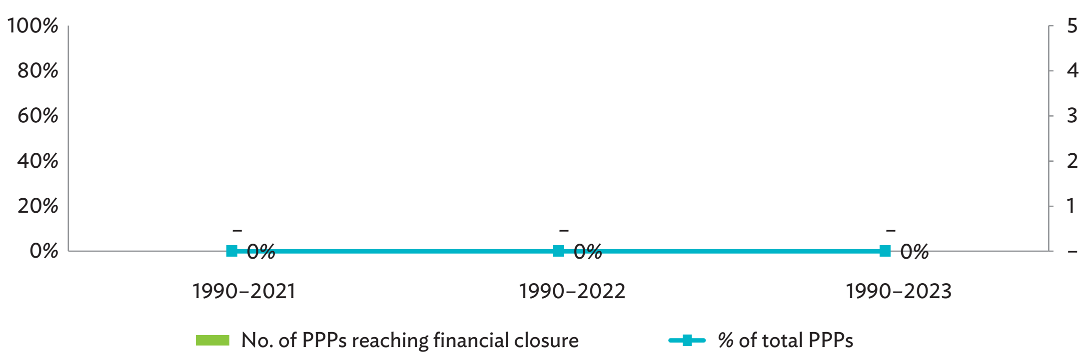
Figure 12: Public–Private Partnership Railway Projects Reaching Financial Closure



"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank Group. 2024. *Private Participation in Infrastructure (PPI)—Sri Lanka.*

There has been no foreign sponsor involvement in railways PPP projects.

Figure 13: Public–Private Partnership Railway Projects with Foreign Sponsor Participation



"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank Group. Private Participation in Infrastructure (PPI)—Sri Lanka (accessed July 2024).

There have been no railways PPP projects and therefore government support for such projects is not considered.

[75] Government of Sri Lanka, Sri Lanka Railways. 2024. *Transforming Urban Mobility* (accessed April 2024).

Tariffs

Traditionally, funding for railways has been provided through public financing. Maintenance of railway infrastructure is financed by the central government budget and foreign loans or grants (through development finance institutions and government-to-government arrangements).

As per the Sri Lanka Railways Authority Act, No. 60 of 1993, the Railways Authority shall fix tariffs, rates, and procedures for carriage of goods and persons by rail (ensuring competitiveness of the railway services with other modes of transport). The Railways Authority can also enter public service obligation contracts with the GOSL to provide services at concessionary tariff rates to public entities.[76] The proposed rates must receive approval from Cabinet and a gazette must be published to enact the new rates.

Passenger fares are quoted under several categories and are based on distance. Online booking is available via a web platform operated in collaboration with a state-owned telecommunications player.[77] In March 2024, an enhanced system to issue electronic train tickets was also launched.[78] The fare categories follow:

- First class.
- Second class.
- Third class.
- Sleeper compartments.
- Observation compartments.

Tariff rates for parcels are based on distance and weight, while cargo transport is charged on the type of cargo at a rate per metric ton (t), and a reservation charge for the compartment.[79]

Table 37: Railway Tariff Schedules for Passengers

Passenger - Normal Train	Distance (km)	First Class (SLRs)	Second Class (SLRs)	Third Class (SLRs)
Colombo to Kandy	121	950	500	240
Colombo to Gampaha	28	300	150	80
Colombo to Anuradhapura	205	1,450	750	360
Colombo to Kurunegala	95	800	400	200
Colombo to Trincomalee	297	NA	950	460
Colombo to Jaffna	396	2,250	1,150	580
Colombo to Kilinochchi	330	2,000	1,000	500
Colombo to Vavuniya	254	1,650	850	420
Colombo to Badulla	292	1,800	900	460
Colombo to Matara	157	1,150	600	300

NA = Not available, SLRs = Sri Lankan Rupees, km = kilometers.
Source: Government of Sri Lanka, Sri Lanka Railways. 2022. *List of Ticket Fare and Charges* (accessed April 2024).

76 Government of Sri Lanka. 1993. *Sri Lanka Railways Authority Act (No. 60 of 1993)*.
77 Government of Sri Lanka, Sri Lanka Railways. 2022. *Online Advance Train Seats Reservation* (accessed April 2024).
78 Ministry of Transport and Highways. 2024. *Train Tickets Goes Digital* (accessed April 2024).
79 Government of Sri Lanka, Sri Lanka Railways. 2020. *List of Ticket Fare and Charges*.

Table 38: Railway Tariff Schedules for Passengers—Reservations

Passenger—Train Seat Reserved	Distance (km)	First Class (SLRs)	Second Class (SLRs)	Third Class (SLRs)
Colombo to Kandy	121	2,000	1,200	900
Colombo to Nanu-oya	207	2,500	1,700	1,200
Colombo to Ella	272	2,800	1,800	1,300
Colombo to Badulla	292	3,000	2,000	1,500
Colombo to Kurunegala	95	2,100	1,300	1,000
Colombo to Anuradhapura	205	2,400	1,700	1,200
Colombo to Kilinochchi	332	3,000	2,200	1,600
Colombo to Kankasanthurai	413	3,200	2,500	1,800
Colombo to Maho	139	2,300	1,500	1,100
Colombo to Polonnaruwa	260	2,500	1,600	1,200
Colombo to Batticaloa	350	3,000	2,000	1,400
Colombo to Aluthgama	60	900	700	500
Colombo to Galle	114	1,100	900	600
Colombo to Matara	157	1,400	1,100	700
Colombo to Beliatta	176	1,600	1,300	1,000

SLRs = Sri Lankan Rupees, km = kilometers
Source: Government of Sri Lanka, Sri Lanka Railways. 2022. *List of Ticket Fare and Charges* (accessed April 2024).

Table 39: Railway Tariff Schedules for Cargo—Minimum Charges for Reserving Wagons

Wagon Type	Rate (SLRs)
Four wheeled wagons	2,500
Eight wheeled wagons with a loading capacity up to 28 tons	3,000
Eight wheeled wagons with a loading capacity up to 39.6 tons	4,000
Eight wheeled wagons with a loading capacity above 39.6 tons	4,500

Source: Government of Sri Lanka, Sri Lanka Railways. 2022. *List of Ticket Fare and Charges* (accessed April 2024).

Typical Risk Allocation for Public–Private Partnership Projects

No railway sector PPP projects have been implemented and so information on typical risk allocation for projects is unavailable.

Financing Details

Since there are no financially closed railways PPPs, parameters for the table below are not applicable.

Table 40: Financing Details in the Railway Sector

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A		
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable
Source: World Bank Group. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

5. Challenges in Railways

Demand and Supply Factors

- Limited effort taken by the transportation authorities to promote intermodal transportation. Road transport services are at present not adequately connected to the railway network, both in terms of infrastructure availability and synchronization of timetables. Expected future developments such as the Light Rail Transit project must be integrated for transport planning.[80] Secured park-and-ride facilities at key transit points are available only in a few railway stations and bus terminals. There is a significant demand for and use of public transport in Sri Lanka and it is likely to continue to increase as the capital city Colombo becomes more congested. The need for a good quality and reliable public transport service was particularly evident in the recent current economic and fuel crisis amidst steep escalation of fuel prices.
- High staff costs and a heavy union presence coupled with non-cost-reflective tariffs prevents SR from operating in a commercially viable manner (on average, SR only recovers 40%–50% of its operating expenditure through total revenue).[81]
- SR's depleted asset base, obsolete signal and communication systems, and aged rolling stock has resulted in poor service quality. Constant delays due to maintenance and repair work have made railway transportation inefficient in its ability to provide an acceptable quality of service.[82]
- Cargo transportation, which was an additional revenue generator, has been reduced over time due to the lack of proper infrastructure. The financial constraints of SR have led to poor maintenance of cargo transport infrastructure.
- Insufficient digitalization for railway services and fare collection has resulted in inefficiencies and subpar service quality. Implementing digitalization will improve service quality and minimize financial management inefficiencies.
- Railway tariffs are not set at cost recovery levels as railways largely operate as a social service. The General Manager of the SR does not have the flexibility to introduce new service offerings and charge premium fares. Any new tariff introduction or revision requires ministerial and Cabinet approvals which restricts commercial interventions and delays the implementation of critical policies.

80 Sunday Times. 2022. *Govt. plans to restart suspended Japanese-funded LRT project*.
81 Government of Sri Lanka, Sri Lanka Railways. 2019. *Administration Report—2019*.
82 ADB. 2019. *Proposed Loan and Technical Assistance Grant: Railway Efficiency Improvement Project*.

Regulatory Factors

- Inadequate legal provisions to enable the utilization of resources available for capital investments through land value capture and asset monetization. Outdated sector legislations, dating 120 years, must be revised to incorporate modern best practices such as the separation of government ownership (from service delivery), safety regulation, PPPs, and the use of private operators.

C. Ports

Table 41: Key Statistics

Parameter	Value	Unit
Total number of ports	4	number
Total container traffic at ports (2023)	6,950,000	TEU
Quality of port infrastructure	4.50	1(low)–7(high)
Quality of trade and transport-related infrastructure index	2.20	1(low)–5(high)
Liner shipping connectivity	22	rank
Drewry's Port Connectivity Index	13	rank
Efficiency of seaport services—South Asia	1	rank

TEU = Twenty-Foot Equivalent Unit

Sources: Government of Sri Lanka, Sri Lanka Ports Authority. 2022. *Annual Report*; World Economic Forum. 2019. *Global Competitiveness Report, 2019*; Drewry. 2023. *Ports & Terminals Insight*; UNCTAD. 2024. *Regional analysis of Liner Shipping Connectivity: What does the revised LSCI reveal?*

1. Contracting Agencies

The Ministry of Ports, Shipping and Aviation is responsible for formulating and implementing a national policy on ports and shipping. The Ministry undertakes the regulation, governance, implementation, creation, and development of ports.[83]

The Sri Lanka Ports Authority (SLPA) is the competent authority empowered by law (Sri Lanka Ports Authority Act, No. 51 of 1979) to enter into agreements with a private entity for the development or operation of a port. The SLPA will seek Cabinet approval on the negotiated terms for private investors to enter into a concession agreement. Such a project is generally undertaken through a special purpose vehicle incorporated for this purpose, where the SLPA will also have a minority stake.[84]

All ports and port lands fall under the ownership and purview of the SLPA in terms of the Sri Lanka Ports Authority Act. The SLPA owns and manages all commercial and regional ports in Sri Lanka, including Colombo, Hambantota, Galle, Oluvil, Kankasanthurai, Point Pedro, Trincomalee, and Puttalam.[85]

2. Ports Laws and Regulations

The SLPA is entitled to acquire land by following the process set out under the Land Acquisition Act where land is required for the purposes of port development. The SLPA operates on its own revenue and resources, without receiving financial allocations from the GOSL. The Sri Lanka Ports Authority Act empowers the SLPA

[83] Government of Sri Lanka, Ministry of Ports and Shipping. 2022.
[84] Government of Sri Lanka, Sri Lanka Ports Authority. 2020. *Act of SLPA*.
[85] Government of Sri Lanka, Sri Lanka Ports Authority. 2020. *Act of SLPA*.

with the exclusive authority to provide all port-related services within all ports owned by the GOSL. However, in exceptional circumstances, on a direction by the Minister of Ports, Shipping and Aviation, other service providers may also be authorized by the SLPA to provide port services.

The SLPA or any service provider must ensure sufficient and efficient waste discharge facilities are available within or outside any port to enable ships using such ports or crossing Sri Lankan waters to dispose of their waste without unnecessary delays. These requirements are outlined in the Marine Pollution Prevention Act, No. 35 of 2008.[86]

Certain port activities are entitled to specific exemptions under the Commercial Hub Regulation, No. 1 of 2013, enacted under the Finance Act, No. 12 of 2012. These activities include any new enterprise established or incorporated in Sri Lanka and engaged in entrepot trade or the provision of logistics services such as bonded warehouses where at least 65% of the investment has been from foreign sources and of which the total turnover is from the export of goods or services. Entities engaged in these activities have exemptions from provisions of certain legislations (provided they adhere to the minimum investment limits and other criteria specified therein).[87] The exemptions include the application of Provisions of the Customs Ordinance, the Exchange Control Act, and the Imports and Exports (Control) Act, No. 1 of 1969.

There is currently no independent regulatory body for ports in Sri Lanka. Institutions coming under the purview of the Ministry of Ports, Shipping and Aviation include the following:[88]

- SLPA.
- Merchant Shipping Secretariat.
- Ceylon Shipping Corporation (CSC).

The formulation, implementation, and monitoring of policies on ports sector development and shipping services in Sri Lanka are some of SLPA's key functions. The SLPA is granted wide and far-reaching powers by the Sri Lanka Ports Authority Act to manage all matters concerning the development, regulation, maintenance, operation, and supply of other services related to all ports in Sri Lanka that fall within the purview of the SLPA.

The Merchant Shipping Secretariat has the overall responsibility for overseeing all maritime concerns, developing the GOSL's maritime safety policy, regulating coastal maritime transportation of passengers, and for creating a competitive and efficient port, shipping, and maritime market. The Merchant Shipping Secretariat is governed by the following three Acts:[89] the Merchant Shipping Act, No. 52 of 1971; the Licensing of Shipping Agents Act, No. 10 of 1972; the Admiralty Jurisdiction Act, No. 40 of 1983; and subsequent regulations made thereafter.

The CSC was established under the provisions of the Ceylon Shipping Corporation Act (No. 11 of 1971) as the national carrier of Sri Lanka. In 1992, the CSC was converted to a fully government-owned commercial enterprise through the Companies Act.[90]

The Ministry of Environmental and Natural Resources and the Marine Environment Protection Authority regulate environmental matters at the port.

86 ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.
87 Gazette. 2013. *Finance Act—Commercial Hub Regulation No. 1 of 2013*.
88 Government of Sri Lanka, Ministry of Ports and Shipping. *Related organizations*.
89 Government of Sri Lanka, Ministry of Ports and Shipping. *Merchant Shipping Secretariat*.
90 Government of Sri Lanka, Ministry of Ports and Shipping. *Ceylon Shipping Corporation*.

Table 42: Line Ministries or Agencies and Their Functions in Ports

Agency	Function
Ministry of Ports, Shipping and Aviation	• Coordinate, monitor, and supervise programs and projects carried out by the institutions coming under the Ministry. • Introduce new guidelines to provide better services to the users of ports and shipping. • Formulate an effective mechanism for implementation of national policies on ports and shipping. • Make available a highly effective and business friendly regulatory and monitoring system for service suppliers such as shipping agents and container depot operations. • Introduce the legal framework required for smooth functions of the institutions coming under the Ministry. • Develop and manage commercial harbors and container yards, and expand their investment opportunities.
Sri Lanka Ports Authority (SLPA)	• Provide efficient and regular tally and protective services in any specified port in Sri Lanka. • Regulate and control navigation within the limits of, and approaches to, the specified ports. • Maintain port installations and promote the use, improvement, and development of the specified ports. • Coordinate and regulate all activities within any of the specified ports excluding the functions of customs. • Establish and maintain lights and other means for the guidance and protection of vessels as necessary for navigation in and out of the specified ports on and off the coast of Sri Lanka. • Collect charges for services rendered by the SLPA, ensuring revenue of the SLPA is not less than sufficient for meeting the charges that are to be paid out of its revenue. • Manage each of the specified ports as self-supporting enterprises in accordance with the provision of its Act.
Merchant Shipping Secretariat	• Develop and implement the GOSL's maritime safety policy. • Ensure the operation of safe and efficient ships in cleaner oceans. • Ensure safety of life at sea. • Ensure quality maritime education, training and examination, and certification. • Promote Sri Lankan seafarers in the international maritime industry. • Promote the registration of ships under the Sri Lankan flag. • Licensing of shipping agents, container depot operators, container terminal operators, container freight stations, freight forwarders, or non-vessel operating common carriers. • Enforce compliance with provisions of applicable national and international conventions and standards. • Ensure that shipping agencies conduct their business in a legal, just, and mutually beneficial manner to both the principals and local partners.
Ceylon Shipping Corporation	• Own, manage, charter, and broker ships on Sri Lankan waters. • Ensure efficient sea transportation of cargo. • Provide logistics services and customs clearance (inward and outward). • Provide ship agency and port agency services.
Marine Environment Protection Authority	• Prevent, control, and manage the pollution of Sri Lanka's marine environment

Sources: Government of Sri Lanka, Marine Environment Protection Authority. 2022. *Environment Protection Authority*; Government of Sri Lanka, Ministry of Ports, Shipping and Aviation. 2021. *Functions*; Government of Sri Lanka, Merchant Shipping Secretariat. 2021. *About Us*; Government of Sri Lanka, Sri Lanka Ports Authority. 2020. Act of SLPA.

Foreign Investment Restrictions

The maximum equity investment allowed for foreign investors in freight forwarding, travel, and shipping agencies is 40%. This restriction does not apply to the operation of container terminals as is evident by existing PPPs: China Merchant Port Holdings Company Limited holds an 85% stake each in both the Colombo International Container Terminal (CICT) and the Hambantota International Port; and Adani Ports and Special Economic Zone Limited (India) holds a 51% stake in the Colombo West International Container Terminal (CWICT). Exemptions on restrictions may be pre-approved on a case-by-case basis by the BOI.[91]

Table 43: Foreign Investment Restrictions

Parameter	2021	2022	2023
Port operations	100%	100%	100%
Deep-sea fishing	40%	40%	40%
Freight forwarding	40%	40%	40%
Shipping agencies	40%	40%	40%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts

There is currently no standardized PPP model or a standard concession agreement template available for ports projects. However, the BOT PPP concession agreements for South Asia Gateway Terminal (SAGT), CICT, and CWICT at the Colombo Port may be considered successful model templates for future projects. General EPC contracts are used for construction activity in PPP projects as well.

Table 44: Contract Types

Type of contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓= Yes, × = No, N/A = Not Applicable

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Ports Master Plan

With assistance from ADB and in collaboration with the Maritime & Transport Business Solutions B.V. Netherlands, SLPA developed a national ports master plan. The master plan was approved by the GOSL in 2019 and included the possibility of restructuring the SLPA.

Developing Sri Lanka into one of the most competitive and preferred ports and shipping destinations in the region is the primary objective of the master plan. The project has two outputs: national port master plan, and the technical review of the final design of the Port Access Elevated Highway.[92]

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91 Board of Investments of Sri Lanka. 2022. *Investment Guide—2022*.

92 ADB. 2021. *Sri Lanka- National Port Master Plan—TCR Validation Report—July 2021.*

Table 45: List of Projects in the Ports Sector

No.	Project Name	Implementing Agency	Estimated project cost		Status
			$ million	SLRs billion	
1.	Development of Colombo West International Container Terminal	SLPA	650	196	Awarded in 2021
2.	Development of East Container Terminal—Phase II	SLPA	UA	UA	EPC awarded in 2022
3.	Galle Port Development—Phase II	SLPA	UA	UA	Under preparation
4.	Enhancing Deep Berth Capacity of Jaya Container Terminal (JCT)-V	SLPA	14	4.2	Under preparation
5.	Colombo North Port Development	SLPA	UA	UA	Under preparation
6.	Expansion Project at the port of Trincomalee	SLPA	UA	UA	Under preparation
7.	Port of Kankesanthurai	SLPA	61.5	19.6	Under preparation

SLRs1 = $0.003319.

N/A = Not Applicable, UA = Unavailable in Public Sources.

Sources: Government of Sri Lanka, Sri Lanka Ports Authority. 2022. *Projects* (accessed April 2024); ADB. 2019. Colombo Port Development Plan.

The CWICT is a 35-year BOT agreement between India's Adani Ports and Special Economic Zone Limited (51% stake), Sri Lankan conglomerate John Keells Holdings (34% stake), and SLPA (15% stake). The estimated project cost, which was awarded in 2021, is $650 million (SLRs235 billion) with the US International Development Finance Corporation (DFC) committing $553 million in financing.[93] In November 2023, the SLPA announced that it had initiated steps to facilitate the construction of the West Container Terminal 2, with the initial feasibility study of the project underway.[94]

The East Container Terminal (ECT) that is fully owned by SLPA is expected to be completed by 2024. Construction activities of the project commenced in 2022 by a consortium of local and foreign developers.[95] The ECT was initially intended for development as a PPP project. In 2016, SLPA sought transaction advisory assistance from ADB to oversee the RFP process.[96] The project proposal outlined a 35-year concession following the BOT model.

A suitable concessionaire was to be shortlisted by Q1 of 2017.[97] Despite five consortiums submitting bids, the PPP procurement process was cancelled by SLPA due to a change in government policy.[98]

Phase II of the Galle Port Development project is currently at the conceptual stage. The basic design is completed and awaiting clearance from United Nations Educational, Scientific and Cultural Organization (UNESCO) to commence detailed feasibility studies.[99]

Developing the Deep Berth Capacity of Jaya Container Terminal (JCT)-V at the Colombo Port will expand three additional berths for oil/fuel ships to anchor and pump fuel.[100]

93 DailyFT. 2021. *SL seals biggest-ever investment in port sector* (accessed July 2022).
94 Maritime Gateway. 2023. *Sri Lanka Announces West Container Terminal 2, Followed By Colombo North Port*
95 Container News. 2022. *Second phase of Colombo East Container Terminal construction begins* (accessed July 2022).
96 Government of Sri Lanka, Sri Lanka Ports Authority. 2016. *ADB to help expand Colombo Port operations using PPP*.
97 Government of Sri Lanka, Sri Lanka Ports Authority. 2016. *Request for Proposal - Colombo Port—East Container Terminal*.
98 The Journal of Commerce Online. 2016. *New Colombo terminal bidding in danger of cancellation*.
99 Government of Sri Lanka, Sri Lanka Ports Authority. *Galle Port* (accessed April 2024).
100 Government of Sri Lanka, Sri Lanka Ports Authority. 2022. *Projects* (accessed April 2024).

The Colombo North Port expansion project is currently being carried out by SLPA and expected to be completed by 2035. The SLPA intends to use the proposed Colombo North Port for liquid bulk, dry bulk, roll-on roll-off, and containers. The North Port will be implemented in stages depending on the demand. Currently, the feasibility study and consultation work are being carried out by AECOM Infrastructure & Environment UK Limited.[101]

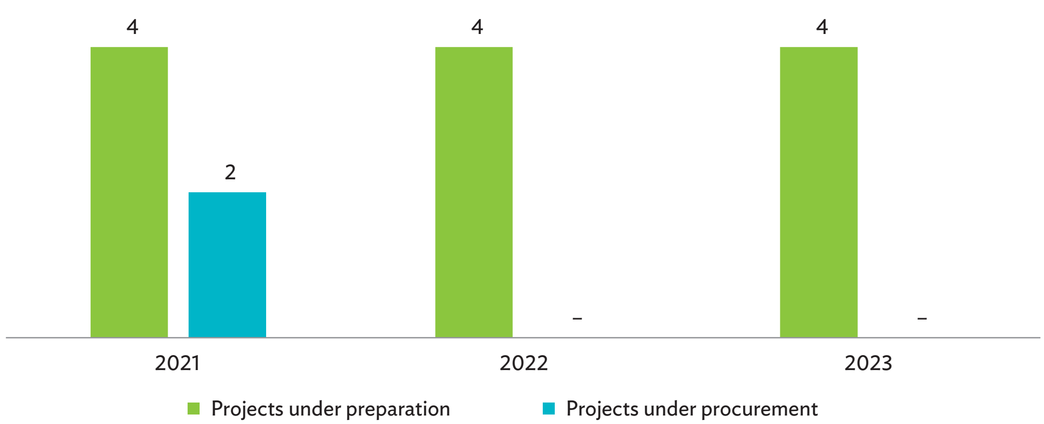
The Trincomalee Port Expansion project is currently ongoing as per guidance of the ports master plan, along with the renewed interest on the Trincomalee tank farm development. In November 2022, a joint venture company, Trinco Petroleum Terminal Ltd., was incorporated to refurbish 61 oil tanks located in the Trincomalee port (remaining from the World War II era). The joint venture company will own 654 acres of land along with the oil tanks for additional development activities. Ceylon Petroleum Corporation (CPC, the state-owned largest petroleum retailer in Sri Lanka) holds 51% of Trinco Petroleum Terminal Ltd., while Lanka IOC PLC (subsidiary of Indian Oil Corporation Ltd) holds the remaining 49%. The project (with an expected total investment value of $70 million) is to be executed in two phases. Phase 1 would comprise the development of nine out of 10 tanks at an estimated cost of $15–20 million and the ground clearing work around three tanks has already commenced, and few tanks will be expected to be in operation by the end of 2023.[102] Phase 2 would comprise the development of the remaining 51 tanks and developments in the additional land area, at an estimated cost of up to $50 million.[103]

In March 2024, the Government of India pledged a grant of $61.5 million to develop the Port of Kankesanthurai in the northern region of the country. As part of the project, the construction of a new breakwater will be initiated, the port will be dredged to a depth of 30 meters to accommodate deep-draft vessels and a new terminal will be constructed to cater to the rising number of Indian tourists visiting the island through sea transport.[104]

Projects Under Preparation and Procurement

The CIWCT and ECT projects have been under procurement from 2019 and CIWCT was awarded during 2021 (stated as under procurement for 2021). However, it is to be noted that the ECT was initially to be developed as a government-to-government project, but it is currently under construction by SLPA, hence it is no longer under procurement. The JCT expansion project, North Port development, Trincomalee Port development, and the Galle Port—Phase II are four PPP projects considered as being under preparation.

Figure 14: Public–Private Partnership Ports Projects Under Preparation and Procurement



"–" indicates no projects, data not available, or not applicable according to the database.

Sources: ADB. 2019. *Public–Private Partnership Monitor,* Second Edition; Government of Sri Lanka, Sri Lanka Ports Authority. *Galle Port*.

101 Government of Sri Lanka, Sri Lanka Ports Authority (accessed April 2024).
102 Economynext. 2023. *Sri Lanka IOC-CPC joint venture to develop 9 tanks* (accessed July 2024).
103 Tank Terminals. 2022. *Sri Lanka's Trinco Petroleum Terminal to Invest Up to US$70mn in Tank Farm*.
104 News.lk. 2024. *India grants USD 61.5 million for the development of KKS Port* (accessed April 2024).

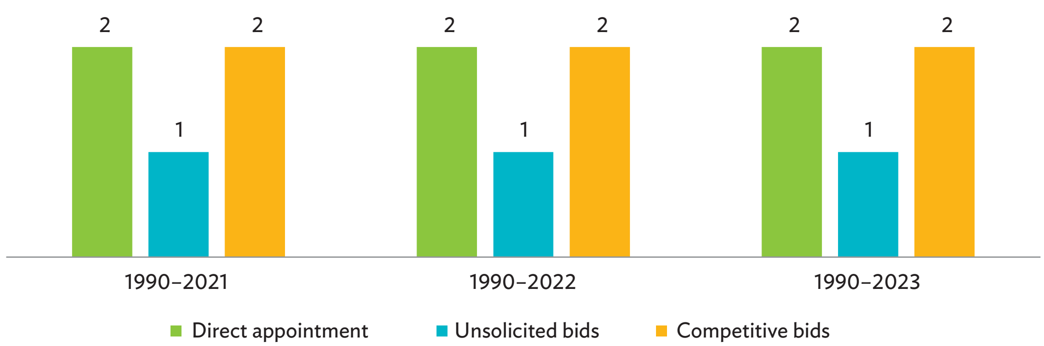
Although, the Inland Water Transport project (a ferry transport system) was considered a 10-year PPP project under procurement in 2019, it was eventually implemented on a smaller scale as a fully government-funded initiative. Under the original plan, the operator was responsible for operating the ferry services and financing the ferry assets, while eligible to collect all fare box and ancillary revenues. The Sri Lanka Land Reclamation and Development Corporation was to provide for the basic water infrastructure such as jetties, embankment enforcements, and maintain canal depth (dredging). The feasibility study and detailed designs were completed for this project in July 2019 and the passenger boat service between two locations was launched in March 2020.[105] The project is solely handled by the GOSL, with no private sector participation.

3. Features of Past Ports Public–Private Partnership Projects

The figure below shows the number of PPP projects procured through various modes. Details of five ports projects that reached financial closure and the respective mode of procurement follow:

(i) SAGT (1999)—competitive bidding.
(ii) CICT (2011)—competitive bidding.
(iii) LAUGFS Liquefied Petroleum Gas Terminal (2017)—unsolicited bid.
(iv) Hambantota Port Lease (2017)—direct government appointment.
(v) CWICT (2021)—direct government appointment.

Figure 15: Modes of Procurement for Public–Private Partnership Ports Projects



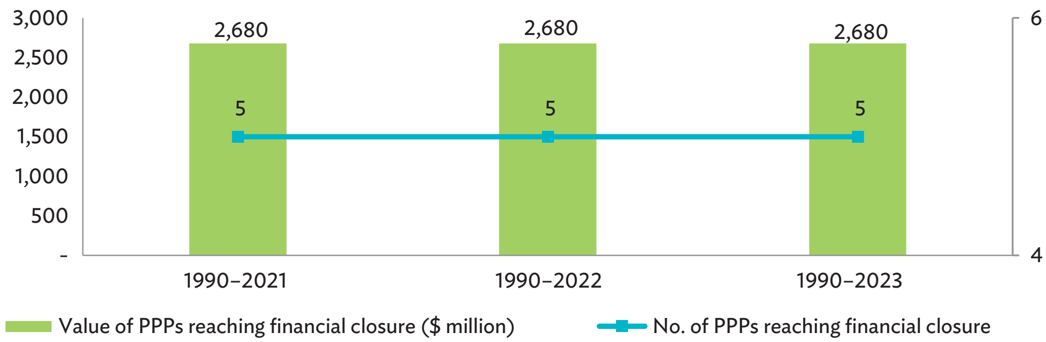
Sources: World Bank Group. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); Industry research.

In Sri Lanka, ports PPP contracts hold significant importance as having substantial financial closure in terms of investment value.[106]

The initial ports PPP (that reached financial closure in 1999) was the first of its kind in the country. The SAGT project was aimed both at expanding the Colombo Port's Queen Elizabeth Quay terminal from its original capacity of 250,000 TEUs per year to a capacity of 1.1 million TEUs and improving port sector efficiency. It consisted of a 30-year BOT contract signed between SLPA and the South Asia Gateway Terminals Private Limited (SAGT partnership); shareholders at inception were P&O Netherlands B.V., John Keells Holdings PLC,[107] Evergreen Marine Corporation, and SLPA.[108] The current consortium of private sector participants at SAGT

[105] Daily Mirror. 2019. *Initial ferry service to kick-off in mid-August: Objective is to ease traffic congestion in the city*.
[106] ADB. 2019. *Public–Private Partnership Monitor.* Second Edition.
[107] John Keells Holdings PLC is a leading diversified conglomerate in Sri Lanka with interests in retail, property development, leisure, food and beverage, financial services, logistics and plantations.
[108] IFC. *IFC Project Information and Data Portal. South Asia Gateway Terminals (SAGT).*

Figure 16: Public–Private Partnership Ports Projects Reaching Financial Closure



Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); The Diplomat. 2020. The Hambantota Port Deal: Myths and Realities.

includes John Keells Holdings PLC (42% majority stake), A.P. Moller Maersk, Evergreen Marine Corporation, and the SLPA (15% stake).[109] Construction was completed in 2003 and led to a 30% increase in the Colombo Port capacity. The total cost of the project was estimated at $240 million.[110]

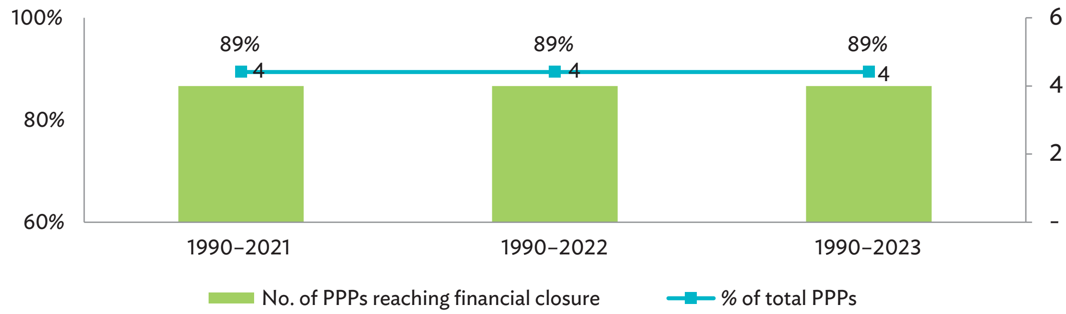
The second ports PPP that reached financial closure was CICT in 2011. The project included the Colombo South Port expansion through a 30-year BOT. The concession was signed between SLPA (15% stake) and a joint venture company created by China Merchants Port Holdings (who currently holds 85% stake). The total investment was $500 million.[111] Aitken Spence PLC,[112] a shareholder of the initial consortium of CICT, sold its stake (30%) to China Merchants Port Holdings in 2012.[113]

The third ports PPP reached financial closure in 2017. The project was to construct a liquefied petroleum gas import and export terminal in Hambantota by LAUGFS Gas PLC.[114] It is the largest liquefied petroleum gas terminal in South Asia, with a capacity of 30,000t. The construction was completed in 2018 and the terminal commenced operations in 2019. The total investment was $120 million.[115]

The fourth ports PPP reached financial closure in 2017. It consisted of a 99-year lease–operate–transfer contract of the Hambantota Port to China Merchants Port Holdings Company. The total investment of the lease–operate–transfer contract was $1,120 million, which is the single largest PPP investment in Sri Lanka.[116] China Merchants Port Holdings owns 70% stake of the port, while the remaining 30% is retained with the SLPA.[117] The commercial operation of the port is handled by China Merchants Port Holdings, with SLPA overlooking the support activities.

109 SAGT. About Us (accessed July 2024).
110 IFC. *IFC Project Information and Data Portal. South Asia Gateway Terminals (SAGT)*.
111 CICT. *About Us* (accessed July 2024).
112 Aitken Spence PLC is a leading diversified conglomerate in Sri Lanka with interests in leisure, food and beverage, plantation, logistics, and energy.
113 Ship Technology. 2012. *Aitken Spence sells Sri Lankan port stake to CMHI*.
114 LAUGFS Gas PLC is a diversified conglomerate in Sri Lanka with interests in energy, leisure, and logistics.
115 LAUGFS PLC. 2020. *Annual Report*.
116 Hambantota International Port Sri Lanka. About Us (accessed July 2024).
117 The Diplomat. 2020. *The Hambantota Port Deal: Myths and Realities*.

Figure 17: Public–Private Partnership Ports Projects with Foreign Sponsor Participation



Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka*. (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor, Second Edition*; Government of Sri Lanka, Sri Lanka Ports Authority.

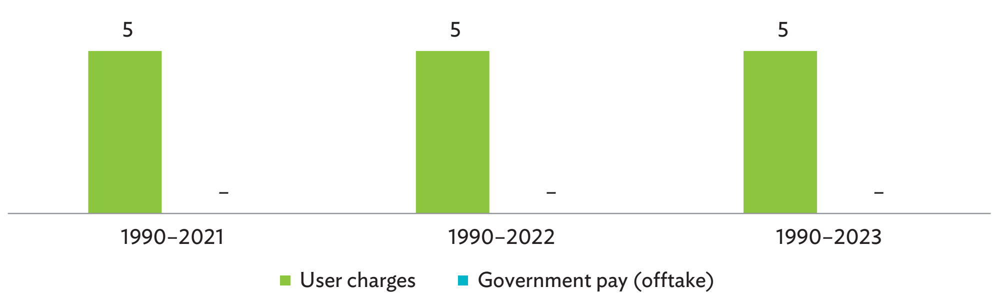
The fifth ports PPP that reached financial closure in 2021 was the CWICT, which was awarded to Adani Ports India under a 35-year BOT agreement. The total investment is $700 million.[118] Construction of Phase I commenced in January 2022. In 2023, DFC granted a $550 million loan for the project.[119]

Although the GOSL has so far not provided any viability gap funding, government guarantees, and availability payments for ports sector PPPs, it has committed to provide related infrastructure developments. An example of this is the dredging and construction project of the breakwater ($480 million ADB-funded initiative) of the Colombo Port Expansion Project, followed by the subsequent development of CICT.[120] In addition, the GOSL has also granted tax concessions for PPP projects.

Moreover, the GOSL typically supports strategic port projects with land acquisition, though private entities may also be responsible in some cases. Viability gap funding, government guarantees, and concession fee waivers may be granted by the GOSL on a case-by-case basis depending on the project's strategic importance, its net present value, and other factors. Availability payments are not typically available for ports projects.

All ports PPPs in Sri Lanka operate with terminal handling charges (THC) that can be considered as user charges paid to use port infrastructure.

Figure 18: Payment Mechanisms for Public–Private Partnership Ports Projects



"–" indicates no projects, data not available, or not applicable according to the database.
Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Government of Sri Lanka, Sri Lanka Ports Authority.

118 World Bank Group. Private Participation in Infrastructure Database. https://ppi.worldbank.org/en/customquery. https://www.ft.lk/top-story/SL-seals-biggest-ever-investment-in-port-sector/26-723702.
119 US Embassy in Sri Lanka. 2023. DFC Commits Half a Billion Dollars to Port Infrastructure in Colombo, Sri Lanka.
120 ADB. 2015. *Sri Lanka: Colombo Port Expansion Project (formerly Colombo Port South Harbor Development)*.

South Asia Gateway Terminal

South Asia Gateway Terminals (Pvt) Ltd (SAGT), a port development project initiated in 1999, was one of the first successful PPP projects in Sri Lanka. The new terminal in the port of Colombo was established to address a slowdown in port volumes. The two port terminals in operations at the time, the Jaya Container Terminal and Queen Elizabeth Quay, were struggling to cater to the increasing demand due to inefficiencies and delays caused by outdated systems and equipment.

The project was developed on a 30-year BOT concession agreement. The total investment of the project was estimated at $240 million. The equity investment amounted to $96 million, and comprised a consortium of investors led by John Keells Holdings PLC. Other equity investors included P&O Netherlands & Nedlloyd, SLPA, Evergreen Group, IFC, ADB, and the Commonwealth Development Corporation. Meanwhile, debt was provided by IFC, ADB, Commonwealth Development Corporation, and Private Sector Infrastructure Development Corporation.

With the construction of SAGT in August 2003, the throughput for Queen Elizabeth Quay increased by 350% from 2000 to 2004, leading to an overall 30% increase for Colombo Port volumes. Moreover, economic efficiencies of Colombo Port improved due to better management techniques. SAGT has also consistently achieved well over the expected annual capacity of 1.1 million TEUs, which was one of the main objectives of the PPP project.

Furthermore, following the success of this agreement, PPP templates of SAGT were subsequently used as a guideline for Colombo International Container Terminal (South Port) investment in 2011, and the Colombo West Container Terminal investment in 2021.

John Keells Holdings PLC currently owns 42% of the Special Purpose Vehicle.

Sources: ADB, John Keells Holdings PLC, and the United Nations Office for South–South Cooperation.

Tariffs

There are no specific laws or regulations relating to the imposition of tariffs. The SLPA sets its own tariffs for port dues and tariffs in concession agreements. The latest port tariffs (published in 2022) are applicable only to SLPA-operated terminals. Private terminal operators, like SAGT (at Colombo Port), are not bound by the SLPA tariffs. They may impose and collect their own tariffs directly from service users. Terminal operators set the THC with respect to container movement services at a terminal. For container terminals, THCs cover the movement of a container between the ship's hold and the exit–entry gate via the container terminal yard.

The table below gives a general indication of the destination THCs for a full container load as charged by the relevant terminal operator, port authority, or shipping line.[121] The updated tariff list for 2021 is unavailable.

Table 46: Tariff Rates

Designation	Company	Year	Terminal Handling Charge ($)	
			Twenty-foot equivalent unit	Forty-foot equivalent unit
Shipping line	Safmarine	2014	151	234
Shipping line	ANL	2018	151	234

Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

[121] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Typical Risk Allocation for Public–Private Partnership Projects

Table 47: Risk Allocation

Risk Category	Private	Public	Shared	Comment
Demand risk	✓			Shipping and logistics providers will only enter into short-term (1–4 year) terminal usage contracts. This leaves the project company exposed to significant demand risk.
Competition risk (exclusivity)	✓			In principle, the public sector is required to regulate the ports development.
Tariff risk	✓			
Environmental and social risk			✓	SLPA bears the greatest responsibility in developing basic infrastructure in compliance with environmental and social regulations.
Land acquisition risk		✓		SLPA bears the greatest responsibility in land acquisition or reclamation.
Permits			✓	
Geotechnical risk		✓		SLPA bears the greatest responsibility in land acquisition or reclamation.
Foreign exchange risk	✓			Most international trade will be conducted in United States Dollars, mitigating this risk. Typically, cranes and equipment are imported, with purchase denominated in United States Dollars.
Political risk	✓			

Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Financing Details

The SAGT (1999) and CICT (2011) were PPPs with foreign lending participation during the period 1990–2020 while CWICT is the latest foreign lending PPP project in 2021.

Table 48: Financing Details for Ports Projects

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	3	3	3
PPP projects that received export credit agency/international financing institution support	1	1	1
Typical debt:equity ratio ^	UA	UA	UA
Time for financial close ^	UA		
Typical concession period	30–35 years		
Typical FIRR ^	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.

^ Since the SPVs are private entities, project-specific information is not available in the public domain.

Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

4. Challenges in Ports

Demand and Supply Factors

There is a significant and growing demand for port-related activities such as container handing and transshipments at Colombo Port. However, with continued delays in proposed expansions, the port has been operating at approximately 80% capacity. Currently, Sri Lanka handles approximately 23% of India's transshipment cargo and 33% of Bangladesh's transshipment cargo at Colombo Port, with volumes expected to grow at approximately an 8% CAGR during 2015–2041.[122]

- Ports cannot function in isolation, and port-related infrastructure such as logistics and intermodal transport are key components in the wider trade and business logistics network. Thus, the lack of adequate port infrastructure in Sri Lanka affects trade and business activities associated with ports.
- The absence of technological advancements and digitalization in interagency activities involving SLPA, private terminal operators, and transport has resulted in extended lead times. Additionally, the delay in establishing a unified single window service to handle import, export, and transit-related regulatory requirements has further exacerbated transaction expenses, contributing to heightened inefficiencies throughout.

Regulatory Factors

- Policy inconsistencies and practical barriers when conducting operations within Colombo Port have been a cause for concern for private partners. This includes the high level of red tape involved in customs procedures, which leads to inefficiencies affecting the level of competitiveness of port operations.
  - Bottlenecks in customs procedures, foreign ownership restrictions, and outdated regulations have been a limiting factor for port-related investment.
  - Restrictions on foreign ownership of shipping agencies and freight forwarders has been a challenge for the country to receive inward investments from larger global logistics players.
  - Lack of a consistent and comprehensive national master plan for ports results in poor planning and a lack of integration between key stakeholders as well as delays in project execution.

122 Ceylon Association of Shipping Agents (CASA). 2021. *Bridge—12th Edition*.

D. Airports

Table 49: Key Statistics

Parameter	Value	Unit
No. of airports	14	number
Total passenger capacity	6.50	million passengers
Cargo handling capacity	174,000	metric tons
Quality of air transport infrastructure	4.60	1(low)–7(high)
Airport connectivity	59	rank /141
Efficiency of air transport services	72	rank /141

Sources: World Bank. *The Global Economy. Compare Countries*; The World Economic Forum. 2019. *Global Competitiveness Report*; Airport and Aviation Services (Sri Lanka) Ltd. 2023. *Annual Report 2022* (accessed April 2024).

1. Contracting Agencies

Sri Lanka has five international airports located in Katunayake, Mattala, Ratmalana, Jaffna, and Batticaloa, and nine domestic airports. Bandaranaike International Airport (BIA) in Katunayake, is the main airport handling the largest volume of international passengers and cargo. It is managed by Airport and Aviation Services (Sri Lanka) Ltd. (AASL).

The domestic airports are also handled by the AASL. However, the Sri Lanka Air Force remains the de facto operator of domestic airport activity while some civilian aviation services are run privately.[123] Scheduled civilian aviation services connect Katunayake to Sigiriya, Trincomalee, Kandy, Pasikudah, Batticaloa, Jaffna, Hambantota, Dickwella, Koggala, and Bentota. These services are presently managed and operated by Cinnamon Air, a private air taxi service in Sri Lanka.[124]

The Civil Aviation Authority of Sri Lanka (CAASL) is the regulatory body of the aviation sector under the purview of the Ministry of Ports, Shipping and Aviation. The primary function of the CAASL is to regulate the local civil aviation industry under the legislative provisions in the Civil Aviation Authority of Sri Lanka Act, No. 34. of 2002, and Civil Aviation Act, No. 14 of 2010, and conform to international standards, recommended practices, and national legislative requirements. The CAASL handles all policy formulations and legislative reforms in relation to aviation, authorization of airline schedules, airfares, and overseeing and maintaining international standards and recommended practices in the aviation field. It is also responsible for master planning of aviation infrastructure.[125]

The AASL is a fully state-owned institution in charge of the infrastructure at airports. The core obligation of the AASL is to manage and operate the civil airports within Sri Lanka.[126]

SriLankan Airlines (SLA) is the country's national carrier responsible for passenger and freight air transportation as well as airport and ground handling services and is owned and controlled by the GOSL.[127] SLA is the sole provider of ground handling, engineering, and catering services at the BIA.

Additional to SLA, FitsAir is the first privately operated international passenger carrier in Sri Lanka. Passenger services commenced in October 2022.[128]

[123] World Bank Group. 2016. *Options Study for Private Sector Participation in the Development of the Domestic Airport Sector in Sri Lanka*.
[124] Cinnamon Air. *Destinations and route map* (accessed July 2023).
[125] Civil Aviation Authority of Sri Lanka. 2020. *Annual Report 2020*.
[126] Airport Aviation Services (Sri Lanka) Ltd. *Company Overview* (accessed July 2023).
[127] SriLankan Airlines. 2021. Annual Report 2021.
[128] DailyFT. 2022. *FitsAir takes to smarter flying as Sri Lanka's first private scheduled intl. carrier*.

2. Airports Laws and Regulations

The Civil Aviation Act of Sri Lanka provides a regulatory framework for matters relating to civil aviation. The provisions of this Act apply to all activities relating to civil aviation within the territory of Sri Lanka, and in particular, the regulation, administration, and safety oversight of activities relating to civil aviation carried out within the territory of Sri Lanka.[129]

In addition to the above Act, the industry is governed by the following legislations:

- Air Navigation Act, No. 15 of 1950.
- Air Navigation (Special Provisions) Act (No. 55 of 1992).
- Offences Against Aircraft Act, No. 24 of 1982.[130]

Details of airports regulatory and operational agencies are shown in the table below.

Table 50: Line Ministries or Agencies and Their Functions in Airports

Agency	Function
Ministry of Ports, Shipping and Aviation	• Formulation of policies, programs, and projects and monitoring and evaluation for matters related to aviation. • Development and regulation of airports. • Regulatory functions including those related to progress, charges levied and quality service delivery by airports, use of airports in Sri Lanka by foreign countries, private air services, aircraft registration, etc. • Entering into agreements for expansion of international aviation services with other countries. • Supervising the CAASL.
Civil Aviation Authority of Sri Lanka (CAASL)	• Provide policy advice to government and other organizations related to aviation. • Development of aviation policy, rules, legislative reforms, and procedure manuals. • Safety assessment and certification. • Giving authorization for airline schedules, airfares, registration of aircraft, high structure constructions, etc.
Airport Aviation Services (Sri Lanka) Ltd (AASL)	• Oversee the development, maintenance, administration, and services delivery of airports. • Maintenance of search, rescue and firefighting services, and aviation security services for the airports. • Provide services for air traffic, aeronautical information, and aeronautical communication. • Provide aid for aeronautical communication, navigation, surveillance, and ensure the safety and security of all aircraft and passengers within the Colombo flight information region.
SriLankan Airlines (SLA)	• Carriage of passengers and goods by air. • Provide ground handling and catering services to aircrafts at BIA, Mattala Rajapaksa International Airport, and Colombo International Airport Ratmalana.

Sources: Civil Aviation Authority of Sri Lanka. 2021. *Annual Report 2021*; Airport Aviation Services (Sri Lanka) Ltd. 2021. *Annual Report 2021*.

[129] Law of Sri Lanka. 2010. *Civil Aviation Act*.
[130] SriLankan Airlines. 2020. *Institutional Information*.

Foreign Investment Restrictions

No foreign investment restrictions are in place regarding airports.

Table 51: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in airport projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts

Specific standard contracts are unavailable for airports PPPs. General EPC contracts are used for PPP projects as well.

Table 52: Contract Types

Type of contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable.
Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

3. Airports Master Plan

There is no specific master plan for airports. The National Civil Aviation Policy was approved by Cabinet in March 2019 and was gazetted in 2021. The policy states that it was developed in consultation with many stakeholders of the industry, including private entities. The policy was developed with the objective of pursuing liberalization of air transport to benefit all stakeholders and position Sri Lanka as an aviation hub.[131]

Key aspects highlighted in the National Civil Aviation Policy are:

- Establish and operate an aircraft maintenance, repair, and overhaul (MRO) facility for modern commercial aircraft types, aviation training facilities, aerospace engineering services and manufacturing industries, and enterprises engaged in aviation commerce (e.g., insurance and aircraft brokers).
- Changes to regulation to encourage passenger charter operations (to be encouraged with relaxed financial regulations but with no compromise to safety).
- Improve accessibility, exchange of traffic rights with bilateral or multilateral partner states, negotiate expanded network opportunities and increase market access for designated carriers of Sri Lanka, route capacity, and aspects relating to local airlines.

The policy states that every airport shall develop a master plan outlining development strategies and options for its optimum use including the use of lands adjoining the airport. To balance capacity and demand, airport master plans are aligned with traffic forecasts, to enable development in phases. A business case with capital costs, timeframes, and other considerations such as airspace capacity and environmental impact will be studied from the start. A work stream on users' requirements and affordability will also be included. Recognizing the importance of airports as key elements of the national economic infrastructure, and future airport infrastructure needs will be addressed through properly coordinated and integrated airport master plans.

131 Airport and Aviation Services (Sri Lanka) Ltd. 2016. *A National Aviation Policy for Sri Lanka*.

The construction of the Mattala Rajapaksa International Airport (MRIA) commenced in 2009[132] and was constructed with loan funding. In 2018, it was understood that an Indian investor was to operate the airport. In 2019, however, the CAASL was to develop and operate the airport instead of a foreign investor. Despite multiple rounds of negotiations, the project did not proceed.[133] The GOSL also initiated a PPP development model to lease out MRIA in 2017, and despite interest from India and the People's Republic of China, neither progressed.[134]

Meanwhile, construction work for Terminal 2 of BIA commenced in December 2020. This project is funded by a loan from the Japan International Cooperation Agency (JICA) and the total estimated cost of the project is JPY41,554 million (SLRs35,136 million).[135] The Project Management Unit comprises AASL, JV Japan Airport Consultants, and Nippon Koei Co. Ltd., as project consultants, with TAISEI Corporation Japan, serving as the constructor.[136] The associated apron and taxiway was constructed in 2021 as a part of the BIA expansion project. This was constructed by Hazama Ando Corporation Japan, under the financing facility obtained from JICA.[137] However, due to the circular issued by the Treasury in April 2022 on the interim policy regarding the servicing of Sri Lanka's external public debt (sovereign default), JICA subsequently halted loan disbursements until external debt restructuring is completed. Due to suspension of payments, TAISEI Corporation suspended their work in July 2022 and issued a notice of termination due to the inability of GOSL to service loan payments. At present, JICA's ongoing work in the terminal is on hold, until external debt restructuring is completed.[138] Due to the importance of the project in June 2023, GOSL resumed construction work of the terminal, allocating funds from the AASL[139] and contracting Access Engineering PLC, as the main local contractor.[140]

The Colombo International Airport Ratmalana (CIAR), is the preferred choice for international corporate aircraft. It also promotes domestic air flights and facilitates flight training.[141] In March 2022, the airport commenced international passenger flights to Maldives after a lapse of 54 years. This operation is likely to connect all domestic airports in Maldives via Maldivian, the national carrier of Maldives. Currently, all ground handling facilities at CIAR are carried out by AASL.[142] To facilitate international regional flight operations at CIAR requires certain infrastructure developments and upgrades, and an investment of SLRs500 million was identified as costs related to a terminal enhancement project. However, because of the current economic climate, the project was put on hold.

Further, the Palaly Airport in the Northern Province was also upgraded as Jaffna International Airport in 2019. This was funded by the Governments of Sri Lanka and India at a cost of SLRs2.25 billion, with SLRs300 million financed by the Government of India.[143] International passenger flights to India commenced in July 2022 to boost the Sri Lankan tourism sector.[144]

The Batticaloa International Airport is also expected to be redeveloped as a complete domestic airport with the aim of facilitating tourist arrivals, especially from India. A tripartite agreement is to be signed between CAASL, AASL, and the Sri Lanka Air Force to develop a suitable plan. This airport is being developed to improve basic facilities at the airport including new control towers, the northern section of the runway, and installing firefighting and rescue systems.[145] Currently the GOSL is also calling for competitive bids to set up an aviation training

132 Airport Technology. 2017. *Mattala Rajapaksa (formerly Hambantota) International Airport*.
133 The Hindu. 2019. *International*.
134 Airport Aviation Services (Sri Lanka) Ltd. 2021. *Annual Report 2021*.
135 Footnote 134.
136 Airport Aviation Services (Sri Lanka) Ltd. *Latest News*.
137 JICA. 2021. Press release. *JICA Supports the Bandaranaike International Airport (BIA) Expansions-New Apron and Taxiways Ceremonially Opened*.
138 The Island. 2023. *Govt. planning to resume BIA expansion project*.
139 Daily FT. 2023. *Govt. resumes work on 2nd terminal at BIA with Rs. 500 m from AASL*.
140 Daily Ft. 2024. *Sri Lanka's Access Engineering wins work under airport expansion project*.
141 Footnote 134.
142 DailyFT. 2022. *Intl. regional flights to restart on 27 March from Ratmalana after 54-year hiatus*.
143 Sunday Times. 2021. *Palaly Airport revival gets underway with Indian expert's review*.
144 The Economic Times. 2022. *Lanka to resume flights to India from Jaffna to woo Indian tourists*.
145 Sunday Times. 2022. *Batticaloa Airport upgrades to a fully- fledged domestic airport soon*.

academy at Batticaloa International Airport.[146] Although this airport was gazetted as an international airport for many years, it has not been developed to the level required for a domestic airport and was opened only for civil operations in 2018.[147]

One of the primary reasons driving interest in the development of Sri Lanka's domestic aviation sector is the creation of a more established domestic aviation industry which would, in turn, act as an enabler for the tourism market. This includes domestic flights to the southern coast, ancient cities (Sigiriya), northern region (Jaffna), east coast (Batticaloa), and hill country (Kandy).[148] Domestic aviation was a strong segment in the aviation industry in the 1970s prior to the ethnic war. Access to tourist destinations in the north and east will be facilitated with the availability of air access as road travel to these regions is time consuming.

The AASL has tied up with multiple domestic carriers to promote Sri Lanka's domestic airports as well as famous tourist hotspots by carrying out joint marketing campaigns while providing the necessary infrastructure, hangar facilities, and services.[149]

In Q1 2024, the Ministry of Ports, Shipping and Aviation requested for proposals to assist with the preparation of a master plan for BIA.

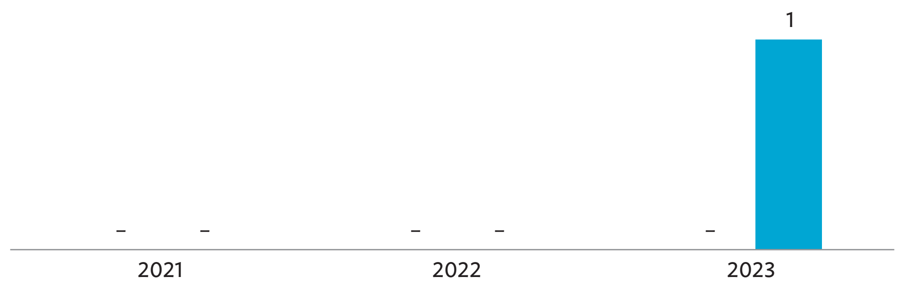
Airports Projects Under Preparation and Procurement

There has been limited private participation in aviation (in airlines, airport management, or ground handling services). In 1998, the national carrier SLA (formerly known as Air Lanka) entered into a 10-year management agreement with Dubai-based Emirates Airlines, giving them a 40% stake acquisition. This arrangement granted Emirates the authority to make most of the managerial decisions. During this period, SLA was profitable with minimal losses in 2001 and 2002 and it also modernized its fleet operations. However, since the end of the partnership with Emirates in 2008, SLA has not performed as well under state ownership and has accumulated losses amounting to $1,491 million during 2009–2019.[150]

In October 2023, the GOSL called for bids to divest its stake in SLA and announced Treasury would absorb $512 million of outstanding debt in order to make the airline more attractive to potential investors.[151] At present, a potential restructuring of SLA and its subsidiary companies is being discussed. The restructuring process involves a possible divestment of ~49% stakes in SriLankan Catering, SLA Ground Handling, and SLA as well as a restructuring of its foreign and domestic debt of ~$1.0 billion.[152]

146 Daily Mirror. 2022. *Investors sought to set up aviation training academy at Batticaloa airport*.
147 The Morning. 2021. Batticaloa Airport to become domestic airport.
148 World Bank Group. 2016. *Options Study for Private Sector Participation in the Development of the Domestic Airport Sector in Sri Lanka*.
149 AASL. 2021. *Annual Report 2021*.
150 SriLankan Airlines. 2021. *Annual Report 2021*.
151 DailyFT. 2024. *Govt. absorbs $512 m debt to dress up SriLankan Airlines for sale* (accessed April 2024).
152 DailyFT. 2022. *Cabinet checks-in to SriLankan Airlines restructuring*.

Figure 19: Public–Private Partnership Airports Projects Under Preparation and Procurement



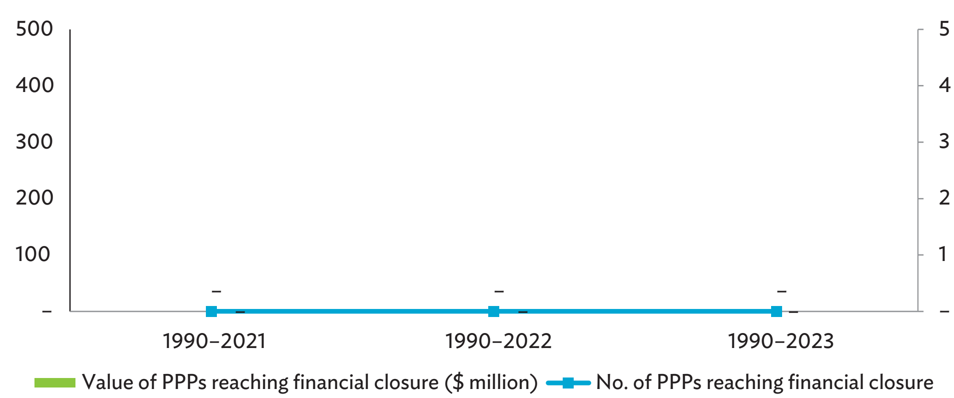
"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka*. (accessed April 2024).

4. Features of Past Airports Public–Private Partnership Projects

In December 2023, the Ministry of Ports, Shipping and Aviation on behalf of AASL invited proposals from prospective investors for direct and indirect aviation-related business ventures at MRIA, Hambantota.[153] Direct ventures are considered MRO support services, flying/engineering schools, aircraft spares manufacturing, fixed base operations, and long-term aircraft parking services. Meanwhile, renewable energy, resorts and other hospitality services, industrial parks, and logistics services are considered indirect ventures.

In 2024, in a Cabinet decision, it was announced that the GOSL received five proposals and the management of the airport would be granted for a period of 30 years.[154] In April 2024, Cabinet granted approval to transfer management rights to Shaurya Aeronautics Pvt. Ltd of India and Airports of Regions Management Company of Russia.[155]

Figure 20: Public–Private Partnership Airports Projects Reaching Financial Closure

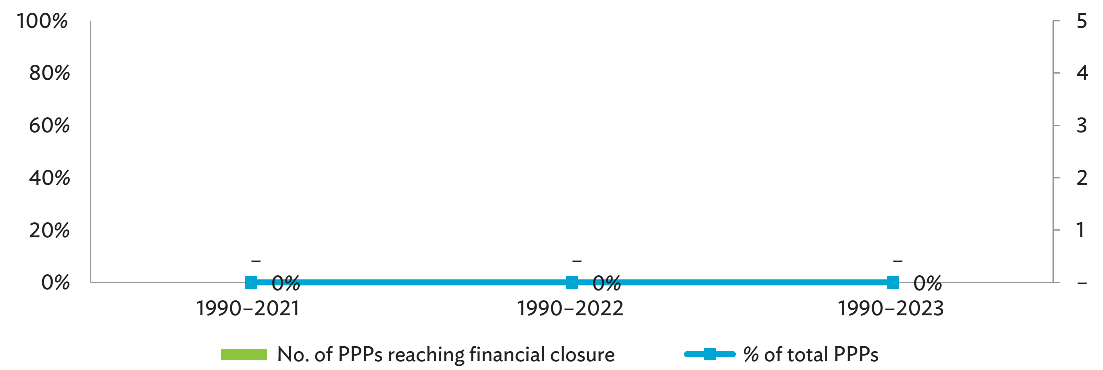


"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

No airports PPP projects received foreign sponsor participation.

153 Government of Sri Lanka, Ministry of Ports, Shipping and Aviation. *Calling Expressions of Interest to Invest Direct / Indirect Aviation Related Business Ventures at Mattala Rajapaksa International Airport, Sri Lanka*.
154 Government of Sri Lanka, Department of Government Information. 2024. *Cabinet Decisions*.
155 Ada Derana. 2024. *Two companies from Russia, India to take over management of Mattala airport*.

Figure 21: Public–Private Partnership Airports Projects with Foreign Sponsor Participation



"–" indicates no projects, data not available, or not applicable according to the database.
Source: Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

No airports PPP projects have reached financial closure; therefore, no government support or payment mechanisms are applicable.

Tariffs

The tariff charges levied by AASL, as of April 2024, are as follows:

- Landing charges for domestic flights: $4.0 (SLRs1,204)/1,000 kg maximum take-off weight subject to a minimum charge of $250 (SLRs75,250).[156]

Typical Risk Allocation for Public–Private Partnership Projects

Since there are no airports PPP projects implemented thus far, the information on typical risk allocation for airports PPP projects is unavailable.

The 1998 PSIP Guidelines state that the indexation risk and price negotiation risk may differ from project to project.

Financing Details

Since there are no financially closed airports PPPs, parameters in the table below are not applicable.

Table 53: Financing Details in the Airport Sector

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A		
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

156 Airport Aviation Services (Sri Lanka) Ltd. Business Information.

5. Airports Challenges

Demand and Supply Factors

- Delays in realizing economies of scale. Airports grapple with elevated operational expenses per passenger, while initial years may witness constrained revenue generation due to affordability challenges. This limits private participation and prospects to achieve sufficient economies of scale to generate profitable business.
- There is a lack of private participation in aviation, particularly in relation to ground handling services, cargo services, and engaging in additional aviation-related services such as engineering (MRO) and training. Further, the current monopoly within ground handling services (handled by the national carrier SLA) has a negative impact on customers as they are required to pay higher fees compared to other regional peers.[157]
  - Limited ability to utilize the airport premises at BIA and MRIA to allow third-party foreign players to set up and provide airport-related services for international flights such as ground handling, training, and MRO services has prevented the local airline industry capitalizing on such revenue generating opportunities and positioning Sri Lanka as an aviation hub.
- Limited connectivity within the domestic airport network presents a challenge for tourism, especially for tourists arriving at BIA and traveling onwards to the northern and eastern coasts. Despite having several domestic airports across the island, the lack of an efficient and regular internal fight network has hindered efforts to promote tourism and domestic travel. This issue is compounded by the underdeveloped commercial facilities at domestic airports and delays in renovating the required infrastructure to convert former military-based airports into fully functional domestic airports for passenger traffic.

Regulatory Factors

- Lack of a long-term master plan (and a policy framework to effectively enable changes) that is implemented consistently for the development of airports and related services such as cargo, ground handling, MRO, catering, and flight training has prevented greater private participation; there is limited direction and coordination between all key stakeholders.

E. Power

Table 54: Key Statistics

Parameter	Value	Unit
Electric power consumption (2023)	642	kWh per capita
Installed capacity of electricity ^ (2023)	4,381	MW
Total electricity generation ^ (2023)	15,576	kWh per annum
Peak demand	2,802	MW
Share of clean energy ^^	51.2	% of total energy use
Access to electricity	100.0	% of population
Electricity supply quality ^^^	96.9	% of output
Total petroleum imports	5,131	$ million

^ Including rooftop solar.
^^ Changes based on annual rainfall patterns (2020—37%, 2019—35%, 2018—45%).
^^^ Electricity supply quality is a combination of voltage, frequency, and waveform—steady supply voltage that stays within the prescribed range, steady alternating current frequency close to the rated value, and smooth voltage curve waveform.[158]

Sources: Ceylon Electricity Board. 2024. *Statistical Digest 2023*; Ceylon Electricity Board. 2023. *Long Term Generation Expansion Plan 2023–2042*; Central Bank of Sri Lanka. 2022. *Economic and Social Infrastructure*; The World Economic Forum. 2019. *The Global Competitiveness Report*.

[157] Advocata. 2021. SriLankan Airlines and the follies of State enterprise (accessed July 2024).
[158] Public Utilities Commission of Sri Lanka. 2022. *Quality of Electricity*.

1. Contracting Agencies

There are multiple contracting agencies related to power including the Ministry of Power and Energy (MoPE), the Ceylon Electricity Board (CEB), and the Sri Lanka Sustainable Energy Authority (SLSEA).

- The MoPE is the main government body that oversees power developments in Sri Lanka and is responsible for the formulation, implementation, monitoring, and evaluation of policies, programs, and projects in relation to power and energy. All departments, public corporations, and statutory institutions related to power and energy come under the purview of the MoPE.[159]
- The CEB is the main government authority for electricity. The CEB is engaged in power generation, transmission, distribution, and collection of revenue. The CEB holds the only transmission and bulk supply license, including four out of five distribution licenses, while the state-owned Lanka Electricity Company (Pvt) Limited (LECO) holds the fifth license.[160] The CEB also commands a monopoly position as a purchaser of electricity; through its license for electricity generation, it accounts for approximately 70% of the total installed capacity on the national grid.[161] Meanwhile, private entities can generate and sell electricity to the CEB via independent power purchase agreements (IPPAs). Approximately, 25% of the installed capacity in the country is held by private companies established as PPPs under standard IPPAs. In April 2024, the Minister of Power and Energy presented a new Electricity Bill to the Parliament to repeal the Ceylon Electricity Board Act, No. 17 of 1969.
- The SLSEA, established under the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007, is responsible for identifying, conserving, and managing all renewable energy resources and appropriate conversion technologies. The SLSEA also assists in the formulation of the National Energy Policy, promotes the development of renewable energy projects through private investment, and conducts research on the development of indigenous resources.[162]
- The Public Utilities Commission of Sri Lanka (PUCSL), established under the Public Utilities Commission Act, No. 35 of 2002, acts as the technical, economic, commercial, and safety regulator of the electricity industry. Despite its initial formation in 2003, the PUCSL was empowered to operate as the power regulator only after the enactment of the Electricity Act, No. 20 of 2009.[163] The new Electricity Bill presented to Parliament provides for the PUCSL to be the regulator for the industry.
- LECO is a limited liability company incorporated in 1983 under the Companies Act, for electricity distribution. LECO purchases bulk power from the CEB and distributes approximately 10% of the total electricity in the country. The main shareholder of LECO is the CEB (with a 55% shareholding), while other shareholders are MOF and other state entities.[164]

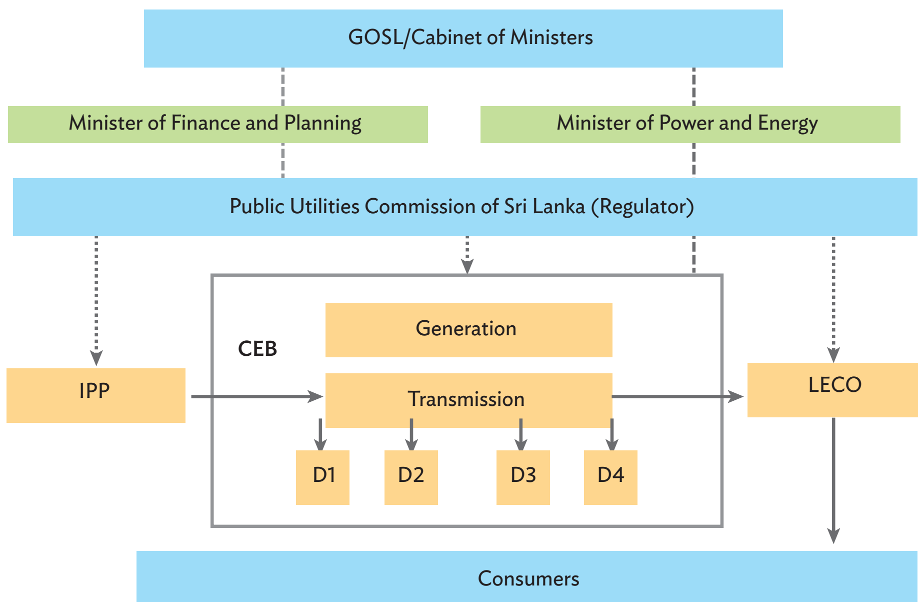
2. Power Laws and Regulations

The Sri Lanka Electricity Act of 2009 (amended in 2013 and 2022) constitutes the legal framework for power. The formation of the CEB took place through Act, No. 17 of 1969, replacing the Government Electricity Department. Since its inception, power has operated as a vertically integrated monopoly. The CEB has maintained a greater level of financial autonomy compared to a government department, enabling it to independently make administrative and financial determinations.

159 Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*
160 ADB. 2019. *Sri Lanka Energy Sector Assessment, Strategy, and Road Map.*
161 Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2022–2041.*
162 Footnote 160.
163 Footnote 160.
164 ADB. 2022. *Story of Lanka Electricity Company.*

Key reforms in Sri Lankan power commenced in 1983, with the creation of a state-owned company to distribute power to certain designated areas. In 1996, private entities started getting involved in power generation projects and since 2000, the CEB was internally unbundled into generation, transmission, and four distribution divisions through an administrative CEB decision. Nonetheless, no legal or financial separation occurred thereafter.[165] The Sri Lanka Electricity Act introduced limited unbundling, where all businesses remained under one corporate ownership, while generation, transmission, and distribution functions were separately licensed. This Act introduced a single-buyer model, with the CEB as the transmission entity acting as the designated single buyer for the industry. The CEB holds one generation license (to cover all power plants owned by the CEB), one transmission and bulk supply license, and four distribution licenses. However, these six licensed entities are embedded within the CEB, and do not have an independent ownership structure and management.[166]

Figure 22: Current Functional Structure of Power in Sri Lanka



Source: ADB. 2019. *Sri Lanka Energy Sector Assessment, Strategy and Road Map*.

Considering the severe power crisis faced by the country in 2021 and 2022, the GOSL is currently pursuing significant power sector reforms. Greater and more comprehensive unbundling of the CEB is considered a key aspect of this new reform program. Cabinet approval was given to execute the unbundling process in August 2022,[167] which was followed by the appointment of a special technical committee to provide guidance on the process.[168] The committee provided their expert recommendations in November 2022, and a special Cabinet Memorandum was submitted outlining the process to be followed for CEB unbundling, and specific objects to be achieved by the process.[169]

165 ADB. 2014. *Assessment of Power Sector Reforms in Sri Lanka: Country Report*.
166 Footnote 160.
167 Footnote 160.
168 The Island. 2022. *CEB restructuring proposals to be finalized in two weeks*.
169 Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum - Institutional Reforms for Power Sector.*

Table 55: Expert Committee Opinion on the Sri Lankan Electricity Industry

Committee Recommendations for Institutional Reforms in the Sri Lankan Electricity Industry	
1.	Have an integrated electricity policy that includes private sector participation toward funding, innovation, and leadership of the electricity industry.
2.	Establishment of independent entities to manage the generation, transmission, distribution, sale of electricity, and promotion of market competition.
3.	Develop a standard code of conduct and ethics for new entities on financial self-sufficiency and a cost-reflective and transparent system of tariffs and financial commitments.
4.	Establish an independent and transparent investment planning process based on the concept of integrated resource planning.
5.	Improve the regulatory oversight of the electricity industry through the establishment of an independent regulator exclusively for power.
6.	Increase the share of renewable energy in Sri Lanka's electricity generation mix.
7.	Integrate the Electricity Reform Act, No. 28 of 2002, with the Sri Lanka Electricity Act, No. 20 of 2009.
8.	Establish a high-level committee under the subject ministry to direct and monitor the restructuring process.
9.	Establish an electricity tribunal for enforcement and resolution of disputes arising out of operations.

Source: Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Institutional Reforms for Power Sector.*

The expert committee proposed several recommendations projected to be enforced in the upcoming years.

Table 56: Summary of Expert Committee Recommendations on the Electricity Supply Industry

Recommendations of the Expert Committee (implementation process yet to be enacted)	
1.	Reorganize the CEB. • Formation of independent companies (successor entities) under the Companies Act to take over the generation and distribution businesses of the CEB.
2.	Discontinue the single-buyer model and establish an independent system operator. • Bulk power purchase and sale be carried out by the independent system operator (ISO) with mandatory Bulk Supply Transaction Account and the transaction licensee to maintain and operate its network assets on a nondiscriminatory basis. • Implement Power Sales Agreements allowing direct contracting between generators, distribution companies, and individual bulk customers.
3.	Enact new legislations. • Electricity Sector Reforms Act (ESRA)—provides guidance on the reorganization of the energy sector. Proposes the establishment of an ISO as a separate and independent body and Bulk Supply Transaction Account to be operated by the ISO. • New Consolidated Electricity Act—amendment of the SLEA 2009 to ensure coordination with the proposals contained in the ESRA. Proposals under this Act include the following: any entity governed under the Companies Act to be eligible to apply for generation, transmission, or distribution license; licensing decision to be exclusively under the purview of the regulator (not with the concurrence of the Minister); amendments to allow power wheeling; and removal of a distance requirement making the licensee responsible for supplying the electric line to the boundary of the land of the owner/occupier.
4.	Establish an electricity tribunal: • To include members who will bring legal, managerial, technical and judicial perspectives to the dispute settlement process. • To be chaired by a person with judicial experience appointed by the Chief Justice or the Judicial Service Commission.
5.	Develop renewable energy and assets by tapping into global financial markets: • Recommendations in relation to decarbonizing and developing renewable based electricity to provide for power wheeling (to minimize off-taker risk factors of renewable energy projects).

continued on next page

Table 56 continued

Recommendations of the Expert Committee (implementation process yet to be enacted)	
6.	Create a National Energy Policy, a national integrated electricity policy, and long-term planning functions: • National Energy Policy recommends setting up of a national energy commission with representatives from the MOF and the CBSL to carry out the overall national-level planning function for the country's total energy aspects. • National energy commission does not need to be a permanent entity but structured to be automatically and mandatorily established at regular intervals. • National integrated electricity policy that would reflect the changing socioeconomic conditions and societal aspirations. • Long-term planning function will guide the development of Sri Lankan power and enable integrated resource planning.
7.	Proposed sequence for the reform process: • Introduce the ESRA to restructure the electricity industry by establishing successor entities and repealing the CEB. • Once the proposed reforms outlined in the ESRA are realized, a new Electricity Act should be put into effect as a comprehensive legislation to address all aspects of the electricity sector by reassigning the PUCSL mandate. • Establish a dedicated independent regulator for electricity.

Source: Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Institutional Reforms for Power Sector.*

In April 2024, the Minister of Power and Energy presented to Parliament a new Electricity Bill, that addresses many of the above. Key objectives of the Bill are:[170]

(i) To provide for the implementation of reforms to the electricity industry.
(ii) To provide for the establishment of the National Electricity Advisory Council.
(iii) To provide for the PUCSL to be the regulator for the electricity industry.
(iv) To provide legislative measures applicable to the incorporation of corporate entities under the Companies Act, No. 07 of 2007, in which all activities connected to the generation, transmission, distribution, trade, supply, and procurement of electricity shall vest.
(v) To specify the processes to be applicable to all related activities.
(vi) To repeal the Ceylon Electricity Board Act, No. 17 of 1969, and the Sri Lanka Electricity Act, No. 20 of 2009.

Another recent development to the Electricity Act was the amendment passed in Parliament in June 2022, allowing any person to apply for a license to generate electricity. This amendment removed the restriction that existed previously on a person's eligibility to apply for a generation license for projects above 25 MW capacity (only the CEB, a state entity, or a company with more than 50% state holding were previously eligible).[171]

Process of Developing a Renewable Power Project

According to the Sri Lanka Electricity Act 2009, a license must be obtained for the generation, transmission, and distribution of electricity, subject to specific conditions. The generation license specifies that the licensee must adhere to all environmental laws in force at the time of applying for the license.[172] Both generation and distribution licenses are unlikely to be provided to a single entity; however, such licenses could be assigned with the consent of the PUCSL and the Minister of Power and Energy. Further, the PUCSL has the power to exempt the requirement of a license and to revoke any licenses issued.[173]

[170] Government of Sri Lanka. 2024. *Sri Lanka Electricity Bill*.
[171] Government of Sri Lanka. 2022. *Sri Lanka Electricity Act, 16 of 2022*.
[172] ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.
[173] Public Utilities Commission of Sri Lanka. 2020. *Licensing under the Sri Lanka Electricity Act, No. 20 of 2009*.

According to the Sri Lanka Sustainable Energy Authority Act, a permit must be issued by the SLSEA to engage in or carry out an on-grid renewable power generation and supply project within a development area. Following an initial screening and in consultation with the CEB, the Director General of the SLSEA will submit the registered application along with their insights to the Project Approving Committee for provisional approval. The provisional approval granted will be valid for 1 year from the date of approval. If the documents and other requested information are not submitted prior to the expiry of the 12-month period, the application will be cancelled automatically. On receipt of the necessary documents and information, final approval (permit) is then granted for 20 years. However, a permit may be cancelled if the project is not commenced within 2 years of issuing the permit. At the end of the 20-year period, the permit may be extended for a further 20 years.[174]

In June 2022, Parliament passed the Sri Lanka Electricity Amendment Bill, No. 20 of 2009, which removed the restrictions on the issuance of a power generation license for any entity, over and above the generation capacity of 25 MW, allowing the GOSL to accept unsolicited proposals on a case-by-case basis. The objective of this amendment was to speed up the procurement process of large-scale nonconventional renewable energy (NCRE) projects in the country and minimize its dependance on more expensive emergency power alternatives.[175]

Currently, most renewable power projects in Sri Lanka operate as grid-tied systems, while there have been few successful pilot projects operating as micro-grids. Grid-tied systems would generate electricity from renewable sources and excess power will be exported to the utility grid, while power will be imported from the grid when more electricity is required for usage.

The transmission system is owned and operated by the CEB, and only the CEB is eligible to apply for the issue of a transmission license. Distribution is limited to companies that obtain a license. These companies are incorporated under the Companies Act, No. 7 of 2007, in which the GOSL or a public corporation holds more than 50% of the shares.[176] In theory, private companies (local or foreign) are allowed to operate in the distribution market. In practice, only one local company, LECO (which is also 55% owned by the CEB), is active in this market apart from the CEB.

Table 57: Line Ministries or Agencies and Their Functions in Power

Agency	Function
Ministry of Power and Energy (MoPE)	• To formulate, implement, monitor and evaluate policies, programs, and projects in relation to power and energy. • Reform all systems and procedures using modern management techniques and technology, to ensure that Ministry functions are fulfilled while eliminating corruption and waste. • Explore, plan, develop, and supervise activities relating to generation of renewable power, electricity, and other energies from sources such as solar, water, thermal, coal, waste, and wind. • To implement a power generation plan based on long-term requirements. • To explore petroleum and natural gases and related activities. • Formulate an appropriate energy policy for the control, regulation, and utilization of energy resources.

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[174] ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.
[175] Ada Derana. 2022. *Sri Lanka Electricity Amendment Bill passed in Parliament*.
[176] Footnote 160.

Table 57 continued

Agency	Function
Ceylon Electricity Board (CEB)	• Purchase electrical energy in bulk. • Conduct investigations and collect and record data concerning the generation, distribution, and utilization of power, and the development of power resources. • Acquire, hold, lease, hire, mortgage, and sell any immovable or movable property and enter into contracts that are necessary to perform the duties of the Board (either directly or through duly authorized agents). • Enter into joint schemes with any government department or any institution approved by the Minister for the generation of electrical energy, the irrigation of lands, or control of floods. • Conduct research with regards to the generation, distribution, transmission, supply, and use of electricity.
Public Utilities Commission of Sri Lanka (PUCSL)	• Issue and regulate licenses related to the power sector. • Act as the economic, technical, and safety regulator for the electricity industry. • Advise the GOSL on all matters concerning electricity. • Exercise licensing, regulatory, and inspection functions, and regulate tariffs and other charges levied by licensees. • Set and enforce technical and other standards on safety, quality, continuity, and reliability of electricity supply and metering services. • Maintain necessary records, promote efficient use of electricity, and undertake incidental and ancillary measures for effective discharge of its functions.
Sri Lanka Sustainable Energy Authority (SLSEA)	• Assist in developing the National Energy Policy. • Implement policy for renewable energy, and for energy efficiency and conservation. • Promote development of renewable energy projects through private investment. • Conduct research on the development of indigenous energy resources. • Issue licenses for sustainable energy development. • Develop renewable energy resources and declare energy development areas. • Implement energy efficiency measures and conservation programs. • Promote energy security, reliability, and cost-effectiveness in energy delivery and information management.

Sources: Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*; ADB. 2019. *Sri Lanka Energy Sector Assessment, Strategy, and Road Map*; ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Foreign Investment Restrictions

Foreign ownership is allowed in most subsectors within power; however, the country's land ownership laws prohibit foreigners from owning land with some exceptions. If the foreign investment in certain subsectors exceeds 40% ownership of the company, the respective project and foreign company of ownership is subjected to specific approvals from the BOI (see table below). In areas where foreign investment is permitted, investors are treated as equal to domestic investors and will benefit from any incentives provided by BOI or from Treasury.[177]

177 ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.

Table 58: Foreign Investment Restrictions

Business Activity	2021	2022	2023
Power generation	100%	100%	100%
Power transmission	0%	0%	0%
Power distribution	50%	50%	50%
Oil and gas distribution	100	100	100
Mining and primary processing of nonrenewable national resources	40%	40%	40%

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts

Standard IPPAs signed between the private project developer and the CEB to purchase electricity generated by the power plant can be considered as a standard PPP concession agreement. Additionally, fuel supply agreements have been used for thermal power plants in the past, while general EPC contracts are used for construction activities of these power plants.

The CEB has standardized pricing formulas based on the power purchase agreement being signed. The IPPA will depend on the form of energy being committed to, with rates normally being higher for NCRE sources and lower for nonrenewable sources.

Table 59: Contract Types

Type of contract	Availability
PPP/concession agreement ^	✓
Power purchase agreement ^	✓
Capacity take-or-pay contract ^^	✓
Fuel supply agreement ^^^	✓
Transmission and use of system agreement	×
EPC contract	✓

✓= Yes, ×= No, N/A = Not Applicable

^ Standard IPPAs.

^^ Capacity take-or-pay contracts are not available as separate contracts, but such conditions are embedded in certain IPPAs.

^^^ Thermal power plants operate with a fuel supply agreement.

Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

Power Master Plan

The Long-Term Generation Expansion Plan published by the CEB is the main document that outlines the National Electricity Sector Master Plan. The latest edition of the Long-Term Generation Expansion Plan 2023–2042 outlines several key projects (Table 60). The master plan recommends the adoption of the most justifiable generation mix for the future while evaluating contingency options to prepare for possible events in the near term. Providing a stable power supply to the nation and utilizing the most economical and sustainable options are key considerations of the master plan.[178] Additionally, the GOSL is also looking at options to unbundle the energy sector and encourage market-based pricing and private sector participation.[179]

[178] Ceylon Electricity Board. 2023. *Long Term Generation Expansion Plan 2023–2042*.

[179] Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Institutional Reforms for Power Sector.*

The CEB's Long-Term Generation Expansion Plan 2023–2042 and the Progress Report issued by the MoPE in 2023, outline several key projects across the power generation (e.g., renewable energy and new thermal energy) and transmission and distribution (e.g., India–Sri Lanka interconnection grid) spectrum (Table 60).

Table 60: Status of Selected Power Projects

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	Moragolla Hydro Plant (30 MW)	CEB	114	34	Under construction
2.	Uma Oya Hydro Plant (122 MW) *	CEB	530	160	Added to grid April 2024
3.	Broadlands Hydro Plant	CEB	82	25	Under commission
4.	Natural Gas-Fired Combined Cycle Power Plant I at Kerawalapitiya (350 MW) **	CEB	300	90	Awarded in 2021, under construction
5.	Gas turbine power plants at Kelanitissa (135 MW)	CEB	UA	UA	Awarded in 2022
6.	Natural Gas Fired Combined Cycle Power Plant II at Kerawalapitiya (350 MW)	CEB	UA	UA	Under preparation
7.	Lakvijaya Coal Power Plant Extension (300 MW)	CEB	UA	UA	Discontinued
8.	Mannar Phase II and Pooneryn Renewable Energy Park projects (500 MW) ^	CEB	500	151	Provisional Approval granted. Technical Review pending from CEA for Mannar land acquisition in progress
9.	Siyambalanduwa Solar Park (100 MW)	CEB	UA	UA	Awarded
10.	Floating Storage and Regasification Unit (FSRU) and the mooring system development	CEB	240	72	Under procurement
11.	Regasified Liquefied Natural Gas (R-LNG) pipeline development	CPC	40	12	Under procurement
12.	India–Sri Lanka Power Interconnection Project	CEB	NA	NA	Discussions ongoing at government level
13.	Poonakary Tank Solar Project (700 MW)	CEB	1,727	520	Awarded
14.	Sampur Ground Mounted Solar Project (135 MW)	CEB	170	51	Awarded
15.	Mannar Wind Power Project (50 MW)	CEB	70	21	Under preparation
16.	Oddamawadi Solar Project (100 MW)	CEB	UA	UA	Under procurement

continued on next page

Table 60 *continued*

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
17.	Veravil Wind Project (210 MW)	CEB	UA	UA	Under preparation
18.	Hambantota Solar Project (150 MW)	CEB	UA	UA	Under Procurement

N/A = Not Applicable, UA = Unavailable in Public Sources, SLRs1 = $0.003319 as of 19 April 2024.

* Total cost of the project, including cost of irrigation and other infrastructure in addition to the hydro plant.

** Delays due to force majeure and change of law events. Currently exploring the possibility of negotiating a tariff adjustment to cover cost increments due to interest during construction. The Morning. 2024. *350 MW Sobadhanavi LNG power plant: New VAT sparks delays in plant completion*.

^ As of March 2024, it seems a technical review on the Mannar Wind Power Project (Phase II) will be conducted by the CEA once the SLSEA completes its technical analysis of the responses received from environmentalists and the general public during the EIA. The Morning. 2024. *Mannar Wind Power Project (Phase II): CEA to conduct a technical review*.

Sources: Ceylon Electricity Board. 2023. *Long Term Generation Expansion Plan 2023–2042*; Ceylon Petroleum Corporation. 2019. *Annual Report 2019;* Government of Sri Lanka, Ministry of Power and Energy. 2023. *Performance Report*; Ceylon Electricity Board. 2021. *Request for Proposal—The Development of FSRU at Offshore Kerawalapitiya on BOO Basis and Mooring on BOOT Basis*; Ceylon Petroleum Corporation. 2021. *Request for Proposal—Construction of Regasified Liquefied Natural Gas (R-LNG) Pipeline on BOOT Basis*; Government of Sri Lanka, Ministry of Mass Media. 2024. *Uma-Oya Project to be commissioned on Wednesday*; LTL Holdings. 2024. *Lakdhanavi commences the second phase of heavy equipment transportation of Sobadhanavi CCPP*; Industry research.

As initial steps to diversify the country's thermal power sources and develop its liquified natural gas (LNG) power generation capacity, two natural gas fired combined-cycle power plants along with an offshore floating storage and regasification unit (FSRU) and a regasified liquefied natural gas pipeline have been identified as key development projects.

- Two gas fired combined-cycle power plants are expected to be developed at Kerawalapitiya and would provide 700 MW. The first project was awarded in 2021 to a consortium led by LTL holdings[180] after a competitive bidding process, as a 20-year concession on a BOOT basis.[181] The first phase is currently under construction and expected to be commissioned shortly.
- A gas turbine power plant at Kelanitissa of 135 MW is expected to be commissioned by 2023.[182]
- The CEB issued an RFP (February 2021) for the development of a FSRU at offshore Kerawalapitiya on a BOO basis, and the mooring system on a BOOT basis.
- The CPC issued an RFP in February 2021 for the construction of the regasified liquefied natural gas pipeline on a BOOT basis. Based on information available, several bidders have responded to these RFPs and are currently under evaluation, with no further notice being given on the project since February 2021.

Although RFPs have been floated for the above LNG-related projects, in September 2021, New York based New Fortress Energy Inc. and the GOSL executed an agreement to develop the FSRU and become the exclusive supplier of LNG to the Kerawalapitiya power complex.[183] However, there have been several fundamental rights petitions filed demanding to halt this project (questioning the procurement method), resulting in heavy delays in project execution.[184] In February 2024, media sources suggest that Petronet will supply LNG to operate power plants of 300 MW capacity starting 2025, while the company is expected to establish the FSRU subsequently.[185]

180 One of the leading power companies in the country with EPC and operations and maintenance experience in Sri Lanka and South Asia region. CEB holds a 63% stake in LTL Holdings.

181 LTL Holdings. 2021. *Construction of a 350 MW LNG power plant at Kerawalapitiya commences.*

182 Ceylon Electricity Board. 2021. Long Term Generation Expansion Plan 2023–2042

183 New Fortress Energy. 2021. *New Fortress Energy Finalizes Contract with Government of Sri Lanka for LNG Terminal*.

184 New Fortress Energy. 2022. *New Fortress Energy Reiterates Commitment to LNG and Power Projects in Sri Lanka Following Favorable Court Ruling*.

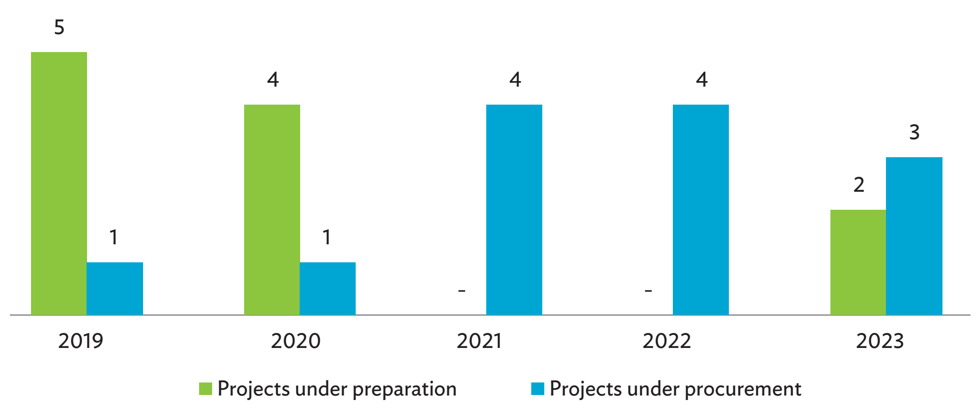
185 The Hindu. 2024. *Petronet LNG to supply gas to Sri Lanka.*

To help enhance the country's renewable energy contribution (especially nonconventional energy such as wind and solar), the GOSL has been increasingly promoting renewable energy projects. Among the key renewable energy projects are a 100 MW solar park in Siyambalanduwa, which has been under preparation with technical assistance from ADB for project structuring, feasibility study assistance, and development of the IPPA framework. During 2021, an EOI was called via a gazette notification by the State Ministry of Solar, Wind and Hydro Power Generation Projects Development (along with 35 other projects). The project is to be developed on a BOO basis, under a 20-year IPPA.[186] Following the EOI, a pre-feasibility study report that was prepared by the SLSEA was released giving a comprehensive background into the project (including the objective, location specifics, renewable power potential, and estimated costs). The CEB and the SLSEA shortlisted potential investors and RFPs were called from shortlisted investors. In August 2023, the letter of award was handed over by the CEB to a tri-party bid proposal led by Windforce PLC, Lakdhanavi, and The Blue Circle, a pure renewable Independent Power Producer based in Singapore.[187]

In March 2022, a Memorandum of Understanding was signed between the representatives of India's Adani Group, CEB, and SLSEA to develop up to 500 MW of renewable energy plants in Mannar and Pooneryn. As of March 2024, negotiations were ongoing on the power purchase agreement.[188]

The Progress Report published by the MoPE mentions that the proposal submitted by the United Solar Energy SL (Pvt) Company has been evaluated and permission granted to develop 700 MW of solar with a battery energy storage system in Kilinochchi. Of the lake, 1080 acres of shallow area has been granted to the company on a 35-year lease to establish the power plant. Additionally, 135 MW of ground-mounted solar is expected to be developed by the Trincomalee Power Company Limited, a joint venture between the National Thermal Power Corporation of India and CEB, under Asian Infrastructure Investment Bank financing.

Figure 23: Public–Private Partnership Power Projects Under Preparation and Procurement



Sources: Ceylon Electricity Board. 2022. *Long Term Generation Expansion Plan 2023–2042*; Government of Sri Lanka, Ministry of Power and Energy. 2023. *Progress Report*; LTL Holdings. 2021. *Construction of a 350 MW LNG power plant at Kerawalapitiya commences*; Ceylon Electricity Board. 2020. *Request for Proposal—Financial Consultants for Lakvijaya Power Plant—300 MW Extension Project*; Lanka IOC. 2022. *Corporate Disclosure*.

186 State Ministry of Solar Wind and Hydro Power Generation Projects Development. 2021. *Invitation of Proposals to Generate and Supply of Electricity from Renewable Energy Sources*.
187 DailyFT. 2023. *Siyambalanduwa sprouts SL's first integrated renewable energy project*.
188 EconomyNext. 2024. *Sri Lanka negotiating power purchase price with India's Adani: Minister*.

Apart from the power generation projects discussed above, the India–Sri Lanka Cross Border Electricity Network Interconnection project, which had been under discussion since 2002, has been revisited by both governments. The feasibility study that was conducted by the CEB and the Power Grid Corporation of India in 2011 will be updated with technical assistance from ADB. The project is proposed to have a significant change from the original layout with the undersea cable structure replaced by an oversea cable structure (to reduce the initial project capital expenditure requirement).[189]

As of the end of 2023, four projects were under procurement and two under preparation. By Q1 2024, the RFP process for the Mannar Solar Project (50 MW) had commenced.

3. Features of Past Power Public–Private Partnership Projects

Although the institutional capacity for structuring and procuring large-scale and complex PPPs is limited, power is one of the most successful in terms of successfully executed number of PPPs, with many projects reaching financial closure through IPPAs. We have not considered IPP ownership structures due to limitations in data availability. We note that the total number of PPPs in this sector includes projects with IPPs who are partly owned by government institutions.

New project additions during 2019–2021 are mainly from the NCRE sector (mini-hydro, wind, solar, biomass, and other NCRE) with less than 5 MW capacity (detailed breakdown in table below). A total of 51 new NCRE plants (including the feed-in tariff based renewable energy developments) were added to the national grid during 2020–2021, resulting in a cumulative 77 MW of new capacity additions. Assuming an estimated average investment of $1.6 million per MW (average investment derived using the capacity and investment addition requirements outlined for 2016–2030 in the Assessment of Sri Lanka's Power Sector),[190] total PPP investment in power was $125 million during 2020–2021.

All NCRE projects added during 2019–2021 under IPPAs are considered as projects procured under license schemes as all projects have obtained individual licensing from the GOSL to develop energy and sell to the national grid (refer to the ADB definition of "License Schemes" in Definition of Terms).

Table 61: Capacity Additions in Other Renewable Power Segment

Number of NCRE Projects	Projects as of 2021	Additions in 2021	Projects as of 2022	Additions in 2022	Projects as of 2023	Additions in 2023
Mini-hydro power	211	3	211	–	212	1
Wind power	17	–	17	–	19	2
Solar power	57	25	78	21	86	8
Biomass and other NCRE	14	–	14		14	–
Total		**28**		**21**		**11**
Capacity (MW)						
Mini-hydro power	414	5	414	–	419	5
Wind power	148	–	148	–	163	15

continued on next page

[189] Ceylon Electricity Board. 2023. *India–Sri Lanka Cross Border Electricity Network Interconnection*.
[190] Asian Development Bank and United Nations Development Programme. 2017. *Assessment of Sri Lanka's Power Sector - 100% Electricity Generation Through Renewable Energy by 2050*.

Table 61 *continued*

Number of NCRE Projects	Projects as of 2021	Additions in 2021	Projects as of 2022	Additions in 2022	Projects as of 2023	Additions in 2023
Solar power	100	25	130	–	139	9
Biomass and other NCRE	50	–	50	–	54	4
Total		**29**	**742**	**30**	**775**	
Rooftop solar projects ^						
Number of rooftop solar projects	27,068	6,727	33,378	6,310	39,827	6,449
Capacity (MW)	415	140	535	120	652	117

^ Rooftop solar not included in the calculation of new power PPP projects, as individual investment values are not significant (average capacity of 0.01 MW per project).

Sources: Ceylon Electricity Board. 2023. *Statistical Digest 2023*; Ceylon Electricity Board. 2023. *Long Term Generation Expansion Plan 2023–2042*; Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2020–2039*.

AES Kelanitissa Power Plant

The AES Kelanitissa (AKL) power plant, a 163 MW auto diesel-fired combined cycle gas turbine powerplant developed in 2003, was one of the initial power PPP projects executed in Sri Lanka. The main objective of the project was to ease the critical power supply shortage the country was facing during the early 2000s. The AKL provided a cost effective and reliable alternative to the country's over-dependance on hydropower plants (at the time, approximately 90% of country's energy generation was catered by hydro plants, which require a longer development timeline).

The AKL project was a joint-venture initiative between AES corporation, an American-based independent power producer, and Hayley's Limited, a domestic diversified conglomerate. The total project cost was estimated at $104 million, and the concession was on a 20-year BOOT basis. The project was partly funded by the ANZ Bank of New Zealand and ADB, respectively.

The CEB signed a 20-year power-purchasing agreement with AKL, with Treasury providing a government guarantee for payment obligations of CEB, and fuel supply obligations through the CPC.

At the time of completion, the project provided an important addition in easing the power supply shortage of the country, while also making power more accessible to a wider base of users around the nation. The project acted as a stepping-stone toward greater private participation in the country's energy, with several smaller IPP projects being initiated after this project.

In 2016, the Japanese independent power producer, Sojitz Corporation, acquired the majority share AES Corporation held in the AKL project. The energy asset has readily made itself available for emergency power supply requirements of the country, especially during the dry seasons where many hydro resources cannot be exploited.

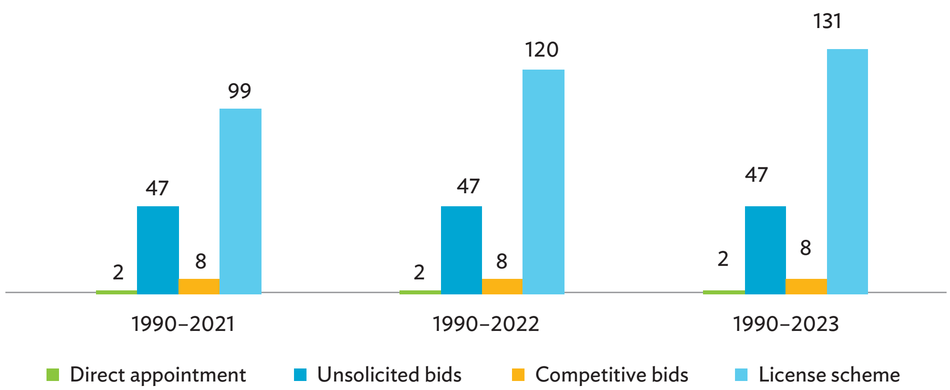
In March 2023, with the 20-year PPA between the AKL project and CEB expiring, the asset was successfully transferred as a state entity. The plant continues to be utilized as an emergency power source, while new proposals are being developed toward converting the plant to operate on LNG, which would make energy generation more affordable.

Sources: ADB, Sojitz Corporation, and CEB.

Although the number of power PPP projects is high, the investment value per project is relatively small, with most projects within 1–3 MW; only a few projects out of the 162 total projects that reached financial closure during 1990–2023 (Figure 35) have an investment value of more than $15 million. Small projects in size and value are largely due to the nature of the power projects, of which IPPs have a total installed capacity of only 1,163 MW as of 2023, out of the total installed capacity 4,381 MW.[191]

The rooftop solar segment has shown notable growth in Sri Lanka's NCRE sector, though individual project sizes are insignificant. As of 2023, total rooftop solar capacity exceeded installed capacity of the mini-hydro segment, which used to be the leading NCRE contributor of the country. The GOSL's emphasis on increasing solar contribution in the country, and ADB's concessionary funding lines are the main contributors to the successful project implementation.[192]

Figure 24: Modes of Procurement for Public–Private Partnership Power Projects



* We have not considered ownership structures when formulating the number of power PPP projects due to complexity involved in identifying ownership of IPPs.
* Projects with IPPs who are partly owned by government institutions have also been considered as PPP projects as no clear distinction and breakdown is given in the public domain.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Ceylon Electricity Board. 2022. *Long Term Generation Expansion Plan 2023–2042*.Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2022–2041*; Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2020–2039*.

In terms of larger, utility-scale power projects, within the thermal power segment the Combined Cycle Power Plant I at Kerawalapitiya (350 MW) was awarded in 2021 via a competitive bidding process, while Lakvijaya Coal Power Plant Extension (300 MW) was a direct appointment by the CEB in 2020. The Long-Term Generation Plan, however, suggests that the Lakvijaya Coal Power Plant Extension has now been discontinued. Since these projects are yet to reach financial closure, they have not been factored into the analysis below. Within the NCRE segment, the 10 MW Mannar Island Wind Power project (Mannar Phase I) that was commissioned in 2020 with a $130 million investment, is also not considered as a PPP, since it was executed as an EPC by CEB with ADB funding assistance.[193]

A summary of power projects that reached financial closure from various energy types are as follows and have been updated to 2022, as per the latest available information in the Statistical Digest for 2023.

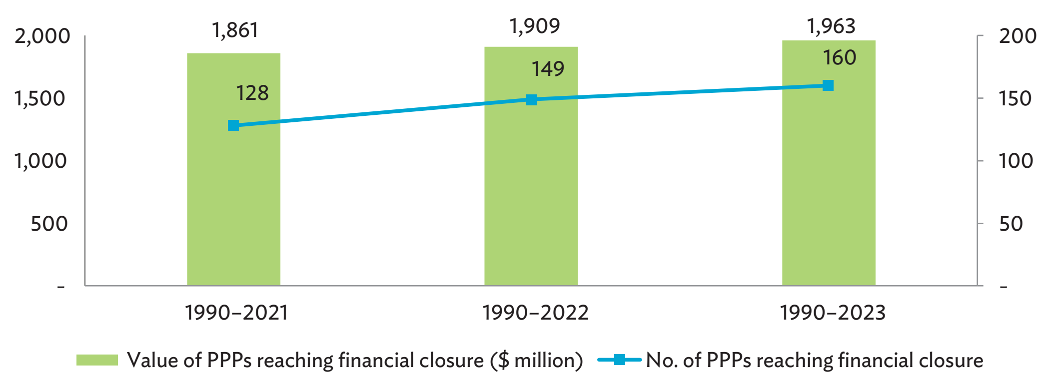
[191] Ceylon Electricity Board. 2024. *Statistical Digest 2023*.
[192] ADB. 2022. *Sri Lanka: Rooftop Solar Power Generation Project*.
[193] ADB. 2020. *Sri Lanka: Wind Power Generation Project*.

Table 62: Power Projects Reaching Financial Closure Based on Fuel Type

Power Projects	2021	2022	2023
Renewable energy			
Mini-hydro	52	52	53
Wind	12	12	14
Solar	43	43	43
Biomass and other	11	32	40
Thermal energy			
Coal	1	1	1
Diesel	9	9	11
Total	128	149	162

Sources: Ceylon Electricity Board. 2023. *Statistical Digest 2023*. Sri Lanka; Ceylon Electricity Board. 2022. *Statistical Digest 2022*; Ceylon Electricity Board. 2022. *Long Term Generation Expansion Plan 2023–2042*; Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2022–2041*; Ceylon Electricity Board. 2021. *Long Term Generation Expansion Plan 2020–2039*.

Figure 25: Independent Power Producer and Public–Private Partnership Power Projects Reaching Financial Closure



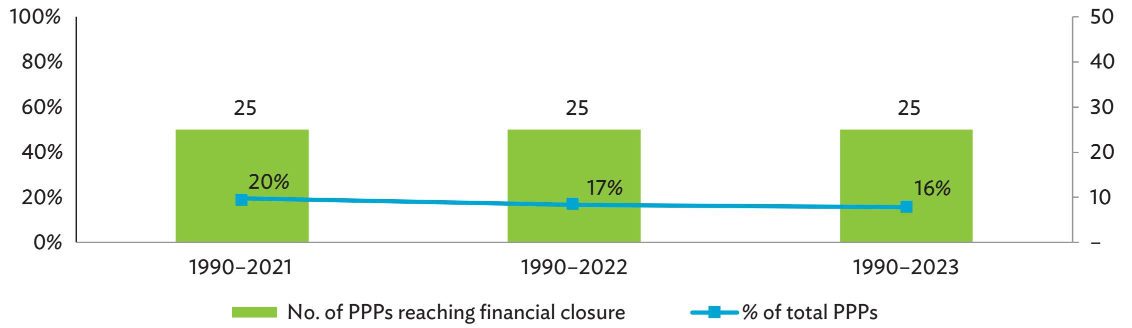
* Does not include two thermal powerplant additions in 2023, as project value is not available in the public domain.
Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

All power projects commissioned during 2019–2021 were locally sponsored projects, with no new additions to the 25 projects previously commissioned with foreign sponsor participation.

The GOSL provided no viability gap funding, guarantees, or performance payments for new power projects during 2019–2023. The GOSL has only facilitated the IPPA process via the CEB, and concessionary land lease agreements for certain projects during this period.

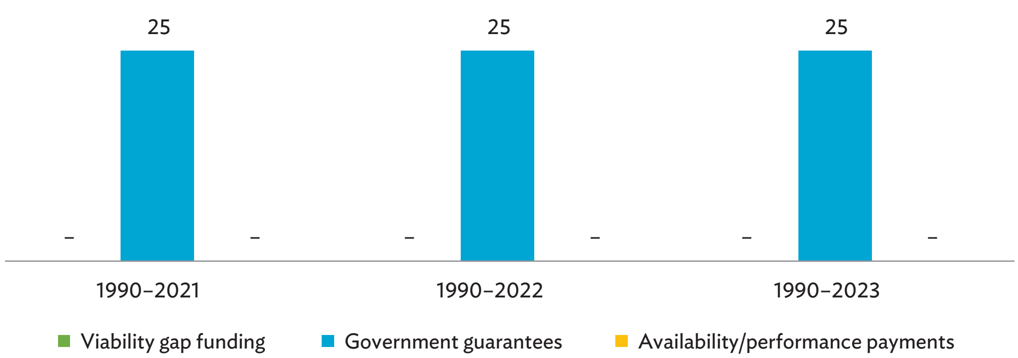
All new power PPP projects during 2019–2023 are under the government pay mechanism via IPPAs.

Figure 26: Public–Private Partnership Power Projects with Foreign Sponsor Participation



Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

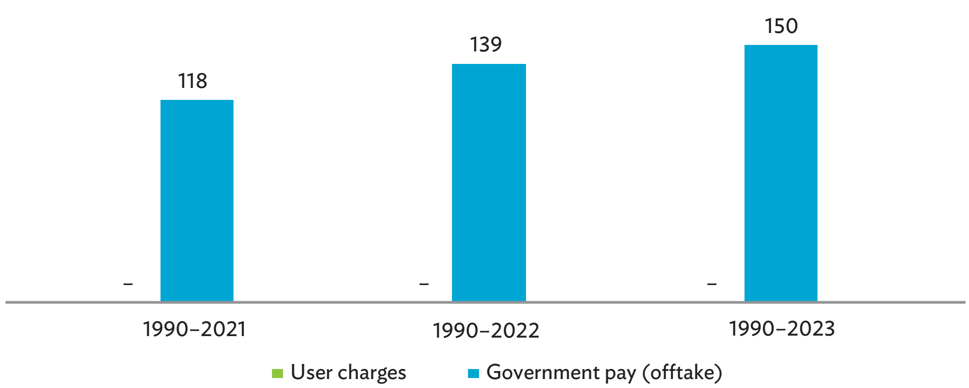
Figure 27: Government Support to Public–Private Partnership Power Projects



"–" indicates no projects, data not available, or not applicable according to the database.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Figure 28: Payment Mechanisms for Public–Private Partnership Power Projects



"–" indicates no projects, data not available, or not applicable according to the database.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024); ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Tariffs

Electricity Generator Tariffs

The CEB, as the sole off-taker of electricity, sets up electricity purchase tariffs, under the purview of the PUCSL. The IPPAs define prices for capacity and energy sold by generators and purchased by the single buyer, establishing commercial conditions for such sales and purchases. Until 2012, Sri Lanka followed a policy of developing renewable energy by the private sector as embedded powerplants, based on a feed-in tariff and a standardized power purchase agreement. However, based on the Amendment No. 31 of 2013 to the CEB, which demanded all projects to be procured through a competitive bidding process, this created an adverse bottleneck in the implementation of new energy projects.[194]

The feed-in tariffs were initially launched based on the avoided cost principle—avoided cost represents the cost a utility would have incurred to provide the same amount of electricity from conventional fossil fuel plants operated in the country. However, this tariff structure did not consider fossil fuel subsidies provided for plants operating in the country and used the 3-year historical average to calculate the feed-in tariffs. Meanwhile, generation prices were continuously increasing, resulting in the estimated avoided costs being lower than actual avoided costs. This avoided cost principle was used to set up mini-hydro plants across the country, despite the discrepancies in tariffs set.[195]

With the launch of SLSEA in 2007, the avoided cost principle was replaced with a technology specific cost-based tariff calculation, which was implemented either as a fixed tariff or a three-tier tariff structure. The rates were announced by the PUCSL in 2011 following detailed stakeholder consultations.[196]

In September 2022, Cabinet approved a revised list of feed-in tariffs for NCRE projects with a capacity of up to 10 MW. The new tariff structure that is applicable for projects with capacity of up to 1 MW has a fixed as well as a variable component. Fixed tariffs have three tiers: years 1–8, 9–15, and 16–20, with the variable component revised annually.[197]

This tariff revision came into place after 2012, with an opinion given by the Attorney General's Department that all power projects must be procured through a competitive bidding process. Under the new standard tariff schedule, the CEB can sign IPPAs for renewable energy projects less than 10 MW capacity, with no requirement for competitive bidding. Additionally, SLSEA is of the view that larger capacities may also be contracted without competitive bidding (through a negotiation process with the CEB) because of this amendment.

Table 63: Nonconventional Renewable Energy Purchase Tariff (for Projects up to 10 MW)

Technology	Variable Base Operations and Maintenance Rate (SLRs/kWh) (Years 1–20)		Variable Base Fuel Rate (SLRs/kWh) (Years 1–20)	Fixed Rate (SLRs/kWh)		
				Years 1–8	Years 9–15	Years 16–20
Small hydro power		3.15	None	32.28	17.52	11.95
Wind power		3.91	None	29.79	14.99	9.89
Solar power		2.96	None	33.74	16.98	11.21
Biomass (Dendro)	(Years 1–15)	2.35	23.00	17.92	9.02	5.95
	(16 years onwards)	3.14				

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194 Gazette of the Democratic Socialist Republic of Sri Lanka. 2013. *Sri Lanka Electricity (Amendment) Act, No. 31 of 2013.*
195 ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.
196 ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.
197 Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Cabinet Paper No. 48/ 2022/ PE.*

Table 63 *continued*

Technology	Variable Base Operations and Maintenance Rate (SLRs/kWh) (Years 1–20)		Variable Base Fuel Rate (SLRs/kWh) (Years 1–20)	Fixed Rate (SLRs/kWh)		
				Years 1–8	Years 9–15	Years 16–20
Agricultural and industrial waste	(Years 1–15)	2.35	14.95	17.92	9.02	5.95
	(16 years onwards)	3.14				
Excess power from agri-industrial waste	(Years 1–15)	1.77	4.98	13.44	6.76	4.46
	(16 years onwards)	2.35				
Escalation rate for the year 2022		11.04%	9.10%	None	None	None

Source: Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Cabinet Paper No. 48/ 2022/ PE.*

In addition to the above revision, Cabinet also approved a revised tariff for rooftop solar projects in October 2022. The two-tier feed-in tariff of SLRs22.0 (years 1–7) and SLRs15.50 (years 8–20) was revised to a flat 20-year tariff of SLRs37.0 for below 500 kWh (and SLRs34.5 for over 500 kWh).[198]

Table 64: Variable Nonconventional Renewable Energy Purchase Tariff (for Projects up to 10 MW)

Technology	Scalable Base Fuel Rate (SLRs/kWh)	Variable Tariff, Including Fuel (SLRs/kWh)
Small hydro power	–	44.12
Wind power	–	41.97
Solar PV (ground mounted)		41.95
Solar PV (floating)	–	53.26
Biomass (Dendro)	23.00	47.77
Agricultural and industrial waste	14.95	33.55
Municipal Solid Waste	–	53.26

Source: Ceylon Electricity Board. Non-Conventional Renewable Energy Tariff Announcements.

In October 2023, the CEB introduced a variable tariff rate policy in addition to the previous revisions made in September 2022. The NCRE power plant developers are permitted to select either the existing fixed three-tier tariff published on 8 September 2022, or the proposed variable tariff as shown in Table 65 at the time of entering into the tariff agreement. The NCRE powerplants commissioned under this scheme are not allowed to migrate from the tariff scheme once selected, for the complete period of the Standardised Power Purchase Agreement (20 years).[199]

Electricity Consumer Tariffs

To pass on more cost-reflective tariffs to consumers, tariffs were revised with effect from August 2022 after a delay of 8 years. The recent tariff revision has resulted in a >100% increase in prices across many consumer segments. Nevertheless, implementation of a cost-recovery energy pricing model is one of the key recommendations by the International Monetary Fund under the ongoing program, which is yet to be implemented, despite the one-off tariff increases.[200]

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[198] DailyFT. 2022. Cabinet nod to revise rooftop solar tariff.

[199] Ceylon Electricity Board. 2023. *Non-Conventional Renewable Energy Tariff Announcement.*

[200] International Monetary Fund. 2022. *IMF Executive Board Concludes Consultation with Sri Lanka.*

In addition to the August 2022 revision,[201] three additional tariff revisions were announced in January 2023, June 2023, and March 2024, which has seen the overall increase of tariff rates.[202] It is important to note that the most recent tariff change in March 2024 saw an overall average reduction of 22% in the tariff rates from that of revisions made in June 2023.[203]

Table 65: Sri Lanka Customer Electricity Tariffs (August 2022 Revision)

Consumption Block / Time of Use Period	Revised (5 March 2023)		Previous (9 August 2022)		Change (%)	
	Energy Charge (SLRs/kWh)	Monthly Fixed Charge (SLRs/Month)	Energy Charge (SLRs/kWh)	Monthly Fixed Charge (SLRs/Month)	Energy Charge (%)	Monthly Fixed Charge (%)
Domestic						
If consumption 0–60 kWh per month (incremental block)						
Block 1: 0–30 kWh	8	150	8	120	–	20%
Block 2: 31–60 kWh	20	300	10	240	100%	20%
If consumption above 60 kWh per month (incremental block)						
Block 1: 0–60 kWh	25	N/A	16	N/A	56%	–
Block 2: 61–90 kWh	30	400	16	360	90%	10%
Block 3: 91–120 kWh	50	1,000	50	960	0%	5%
Block 4: 121–180 kWh	50	1,500	75	1,500	–50%	–
Block 5: Above 180 kWh	75	2,000	N/A	N/A	–	–
Domestic—optional time of use tariff						
Peak (18:30–22:30 hours)	90	2,000	25	1,500	260%	–
Day (05:30–18:30 hours)	70		54		30%	33%
Off-peak (22:30–05:30 hours)	30		13		131%	–
Religious						
Consumption per month (incremental block)						
Block 1: 0–30 kWh	8	150	8	90	0%	40%
Block 2: 31–90 kWh	9	250	15	120	–40%	52%
Block 3: 91–120 kWh	18	600	20	120	–10%	80%
Block 4: 121–180 kWh	32	1,500	30	450	7%	70%
Block 5: 181 kWh and above	43	2,000	66	1,500	–35%	25%
Industry						
Consumption per month (volume differentiated)						
0–300 kWh	18	300	20	960	–10%	–69%
Above 300 kWh	25	1,000	N/A	1,500	N/A	–33%

continued on next page

201 Public Utilities Commission of Sri Lanka. 2023. *Revision of Electricity Tariffs*.
202 Footnote 202.
203 Daily FT. 2024. *Switch on Sri Lanka!* (accessed April 2024).

Table 65 *continued*

Consumption Block / Time of Use Period	Revised (5 March 2023)		Previous (9 August 2022)		Change (%)	
	Energy Charge (SLRs/kWh)	Monthly Fixed Charge (SLRs/Month)	Energy Charge (SLRs/kWh)	Monthly Fixed Charge (SLRs/Month)	Energy Charge (%)	Monthly Fixed Charge (%)
Industrial—Optional time of use tariff for agriculture						
Peak (18:30–22:30 hours)	37	1,000 20 15	35	N/A	5%	–
Day (05:30–18:30 hours)	33		3	41%	–33%	
Off-peak (22:30–05:30 hours)	29		N/A	48%	–	

Sources: Ceylon Electricity Board. 2023. *Tariff plans.* https://www.ceb.lk/commercial-tariff/en.

Typical Risk Allocation for Energy Public–Private Partnership Projects

Most risk allocation in energy PPPs are shared by both the public and private partners.

Table 66: Risk Allocations to the Public and Private Partners for Energy Projects, by Risk Type

Risk Category	Private	Public	Shared	Comments
Demand risk		✓		The GOSL is actively promoting the development of large-scale renewable energy parks, creating an enabling environment such as the development of evacuation facilities and systems to ensure that the transmission and distribution systems are ready for renewable energy evacuation.
Revenue collection risk		✓		CEB and its subsidiaries are the only institutions involved in tariff collection from consumers.
Tariff risk			✓	NCRE projects below 10 MW will be entitled for feed-in tariffs and the tariff risk is borne by the public partner. For projects above 10 MW, the private partner carries the tariff risk until the signing of the IPPA.
Government payment risk	✓			CEB's weak and deteriorating financial standing poses significant offtake risk for generators.
Environmental and social risk			✓	
Land acquisition risk			✓	Most investors cite land acquisition as the biggest challenge for any new business in Sri Lanka. The GOSL owns approximately 80% of the land. State land for industrial use is usually allotted on a 50-year lease.
Permits			✓	The private investor is responsible for obtaining the Generation License and Energy License which require approvals from entities such as the CEA, the Forest Department, and the Wildlife Department.
Handover risk			✓	
Political risk	✓			
Regulatory risk	✓			

continued on next page

Table 66 *continued*

Risk Category	Private	Public	Shared	Comments
Interconnection risk			✓	Lack of proper transmission and evacuation infrastructure is a serious barrier and risk for foreign institutional investors and compromises the steady returns that they require.
Brownfield risk: asset condition	✓			CEB only provides the IPPA.
Grid performance risk		✓		Distribution and transmission of electricity is only handled by the CEB and its subsidiaries.
Hydrology risk	✓			
Exploration and drilling risk	NA			Not applicable as these activities do not happen in the Sri Lankan market context.

✓ = Yes, × = No, NA = Not Applicable, UA = Unavailable in Public Sources.
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Financing Details

Table 67: Energy Financing Details

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	3	3	3
PPP projects that received export credit agency/international financing institution support	6	6	6
Typical debt:equity ratio ^	70:30	70:30	70:30
Time for financial close ^^	UA		
Typical concession period ^	20 years		
Typical FIRR ^^	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.
^ As per general understanding of the new project initiatives in energy.
^^ The project-specific information is not available in the public domain.
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

4. Energy Challenges

Demand and Supply Factors

- The CEB as the electricity apex body has the responsibility to provide uninterrupted power supply to citizens, in coordination with the respective government authorities (i.e., SLSEA, MOF, CPC, and PUCSL). However, the rollout of renewable energy projects and use of more efficient energy sources (i.e., LNG and Sri Lanka–India Grid Interconnection) were not implemented in a timely manner, leading to a significant demand–supply gap in the energy sector and an increased reliance on expensive thermal-based power supply. This in turn led to countrywide power interruptions during 2022 that caused significant economic loss.
- Limited budgets delay the development and implementation of new generation projects. Despite having an ambitious Long-Term Generation Plan, the GOSL does not have the budgetary capacity to fund large-scale projects. This lack of funds is driven by subsidized pricing and operational inefficiencies.
  - The CEB has not raised tariffs to match production costs over the last 8 years. Although recent tariff revisions allowed the CEB to generate profits from some segments (bulk customers and non-household customers), increasing tariffs on household and economically important sectors (e.g., the

service sector) has been perceived as socioeconomically challenging. Therefore, the CEB has been continuously operating with financial losses, largely relying on credit provided by state banks.

- The ongoing economic crisis has limited further access to credit facilities and foreign capital. The economic crisis has tightened access to state bank credit, creating working capital constraints for the CEB. Furthermore, foreign exchange shortages in the country have limited the ability to import fuel for power generation through thermal plants.

- Private players have been reluctant to invest in PPPs in the sector. This has been further exacerbated by financial and nonfinancial factors such as:
    - Payment settlement terms from the CEB for IPPA-based power generation has usually been 3–4 months. However, currently there are long payment delays from the CEB extending up to 9–12 months, due to the ongoing economic crisis in the country and the poor financial standing of the CEB. This was further worsened in the past by subsidized energy pricing. This problem is expected to be partially rectified with the recent tariff revisions.
    - There are significant financing costs for the private sector for new project preparation, which is acting as a bottleneck (e.g., cost for appointment of technical consultants and land acquisitions).
- Additionally, the lack of appropriate system stability standards for high NCRE contribution is a limitation for greater PPP project development. For instance, advanced wind and solar capacity forecasting techniques and smart grid solutions are required as more wind and solar capacity is added to the grid. However, these implementations currently remain at a primary level.

Coordination, Legal, and Regulatory Factors

- Unclear government policy and lack of interministerial coordination causes significant delays in renewable energy project implementation. Reimplementation of the bidding process for all power projects in 2012 created uncertainty among investors. Nevertheless, due to the ongoing crisis, Cabinet approved a new feed-in tariff table for renewable energy during August 2022, which is expected to create a more enabling environment for renewable energy projects.[204]
- Despite recent consumer tariff revisions, the GOSL is yet to implement a standard pricing formula for electricity. Until the completion of the CEB unbundling process and facilitation of market-based pricing, it is practical to have a pricing formula that is revised based on global energy prices (since ~60% of electricity in Sri Lanka is currently generated from fossil fuels). Consumers must be made aware of the variables of the formula that must be revised at pre-announced intervals (e.g., monthly or quarterly). This would reduce the uncertainty on planning aspects, and industries with high energy consumption can forecast their budgets more effectively.
- Weak energy policy analysis and planning has been a continuing challenge. The CEB prepares a Long-Term Generation Expansion Plan and accompanying transmission and distribution development plans. However, actual implementation of the plan falls short of the recommended process, with significant impacts on the reliability of supply and overall economic losses due to power outages and higher generation cost.
- Lengthy delays experienced in the approval process (largely caused by complex operating procedures and a lack of interministerial coordination) have also led to significant delays in project implementation. The SLSEA guidelines require the development of new renewable energy projects to follow a very complex process. Developers must obtain approval from 10 relevant line agencies to obtain the generation license. At the time of issuing the license, the project developer may even need to renew the approvals obtained from the CEA, the Forest Department, and the Wildlife Department if expired. As a result, a developer must spend 2–5 years to obtain a generation license.[205]

204 Government of Sri Lanka, Ministry of Power and Energy. 2022. *Cabinet Memorandum—Cabinet Paper No. 48/ 2022/ PE.*
205 Auditor General's Department. 2021. *Evaluate the Process of Developing New Renewable Energy Sources.*

F. Urban Solid Waste Management

Table 68: Key Statistics

Parameter	Value	Unit
Municipal solid waste generation (national level)	10,768.0	t/day
Collection of municipal solid waste generated	3,458.0	t/day
Average household size—in persons (national level)	3.7	number
Number of registered households (national level)	5.2	million
Households where garbage is collected by a truck	22.0	% of households
Households burying/ burning garbage	44.2	% of households
Households processing garbage for fertilizer	28.6	% of households

Sources: Government of Sri Lanka, Ministry of Economic Policies and Plan Implementation, Department of Census and Statistics. 2022. *Household Income and Expenditure Survey 2019*; Government of Sri Lanka, Ministry of Environment. 2021. *National Action Plan on Plastic Waste Management 2021–2030*.

1. Contracting Agencies in Solid Waste Management

The following institutions are responsible for implementing projects in solid waste management:

- Ministry of Public Administration, home affairs provincial councils, and local government.
- State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness.
- Ministry of Environment.

2. Solid Waste Management Laws and Regulations

- The responsibility for waste disposal lies with the local authorities, which is either the Pradeshiya Sabha (local authority), Municipal Council, or Urban Council.
- The Pradeshiya Sabha Act, No. 15 of 1987, governs the functions of the Pradeshiya Sabha, the local authority within an area responsible for the regulation, control, and administration of all matters relating to public health, public utility services, and public thoroughfares and generally for the protection and promotion of the comfort, convenience, and welfare of the people and all amenities within the area.[206]
- Urban Council Ordinance No. 61 of 1939 governs the Urban Council constituted for each town and is responsible for the regulation, control, and administration of all matters relating to public health, public utility services, and public thoroughfares, and generally for the protection and promotion of the comfort, convenience, and welfare of the people and the amenities of the town, subject to the powers reserved to or vested in any other authority.[207]
- Municipal Council Ordinance No. 29 of 1947 governs each municipality and is responsible for the regulation, control, and administration of all matters relating to public health, public utility services, and public thoroughfares, and generally for the protection and promotion of the comfort, convenience, and welfare of the people and the amenities of the town, subject to the powers reserved to or vested in any other authority.[208]

[206] Laws of Sri Lanka—Consolidated and Annotated. *Pradeshiya Sabhas Act, No. 15 of 1987*.
[207] Laws of Sri Lanka—Consolidated and Annotated. *Urban Council Ordinance No. 61 of 1939*.
[208] Laws of Sri Lanka—Consolidated and Annotated. *Municipal Council Ordinance No. 29 of 1947*.

- National Environmental Act, No. 47 of 1980, established the CEA, which is responsible for recommending a national environmental policy including the extent to which discharge of wastes may be permitted without detriment to the quality of the environment.[209] Prohibitions of the manufacture of certain types of polyethylene products have also been introduced through amendments to this Act.

The institutions in solid waste management and their functions are captured in the table below:

Table 69: Line Ministries and Agencies and Their Functions in Solid Waste Management

Agency	Function
Ministry of Public Administration, home affairs provincial councils, and local government	• Formulation, implementation, monitoring, and evaluation of policies, programs, and projects, in relation to public administration, home affairs, provincial councils, and local government. • Formulation of productive public policies on recruitment, remuneration, and other service conditions in the human resource management of public service. • Provincial councils and local government (under the Ministry) are responsible for removal of solid waste and for providing suitable disposal sites in the area. • The National Solid Waste Management Support Centre is a division within the State Ministry of Provincial Councils and Local Government Affairs. Its primary role is to compile legislation to promote systematic and effective solid waste management practices for local authorities. The center also offers technical assistance, executes awareness programs, and provides vehicles and equipment for solid waste management.
State Ministry of Urban Development and Housing	• Assists in the formulation of policies under the direction and guidance of the Minister of Urban Development and Housing. • Departments, statutory institutions, and public corporations under the State Ministry: • Urban Development Authority. • Sri Lanka Land Reclamation Development Corporation and related institutions. • Urban Settlement Development Authority. • Condominium Management Authority. • Marine Environment Protection Authority. • Department of Coast Conservation and Coastal Resource Management.
Ministry of Environment	• Formulation, implementation, monitoring, and evaluation of policies, programs, and projects, in relation to the environment. • Departments, statutory institutions, and public corporations under the Ministry relevant to solid waste management: • CEA, which also has a division for waste management. The CEA recently published technical guidelines on solid waste management.

Sources: The Gazette of the Democratic Socialist Republic of Sri Lanka. No. 2289/43; Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. National Solid Waste Management Support Center; Central Environmental Authority. *Technical Guidelines on Solid Waste Management in Sri Lanka*.

[209] Central Environmental Authority. 1980. *National Environmental Act, No. 47 of 1980*.

Foreign Investment Restrictions in Solid Waste Management

There are no foreign ownership restrictions applicable.

Table 70: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in solid waste management sector projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*. https://investsrilanka.com/wp-content/uploads/2023/01/InvestmentGuide2022.pdf.

Standard Contracts in Solid Waste Management

Specific standard contracts are not available for solid waste management PPPs.

Table 71: Contract Types

Parameter	Availability
What standardized contracts are available and used in the market?	
PPP/concession agreement.	×
Performance-based operation and maintenance contract.	×
EPC contract.	✓

✓ = Yes, × = No, NA = Not Applicable.
Sources: ADB. 2019. *Public–Private Partnership Monitor,* Second Edition; Industry research.

3. Solid Waste Management Master Plan

There is no specific master plan for solid waste management. However, the Environment Pollution Control and Chemical Management Division of the Ministry of Environment published an updated National Policy on Waste Management, which was approved by Cabinet in October 2019. Although the Ministry had developed a National Strategy on Solid Waste Management in 2000 and a National Policy on Solid Waste Management in 2007, varying agencies had been practicing different waste management methods. The revised policy document in 2019 aimed to create a cohesive and consensus-based waste management system, offering precise guidance for both policymakers and implementers. The policy also identifies the need to address waste streams other than municipal solid waste (MSW).

The primary goal of the 2019 policy is to provide a coherent and comprehensive direction for waste management in Sri Lanka to meet the acute short-term challenges in line with medium- and long-term sustainable solutions up to 2030.[210] The policy refers to private–public collaboration and states that appropriate market mechanisms and tools will be developed to improve the cost-effectiveness of waste management with suitable PPPs.

Furthermore, in 2021, the Ministry of Environment published a National Action Plan on Plastic Waste Management 2021–2030. The action plan covered aspects that Sri Lanka needs to follow based on the principle of the 3Rs (Reduce, Reuse, and Recycle).[211] Several other policies have also been formulated by various government agencies covering such areas as climate change, drinking water, and marine pollution.

210 Government of Sri Lanka, Ministry of Environment. 2020. *National Policy on Waste Management*.
211 Government of Sri Lanka, Ministry of Environment. 2021. *National Action Plan on Plastic Waste Management 2021–2030*.

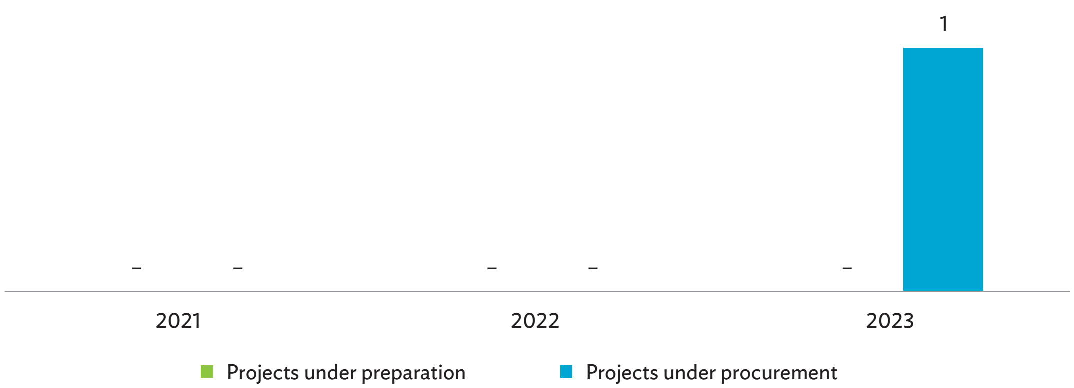
The country has also made a commitment to the United Nations under its Nationally Determined Contribution in the waste management sector for 2021–2030. This includes improving "Circular Economy" practices in all MSW generation sources, managing biodegradable waste component through biological treatments, introducing energy recovery using nonrecyclables and waste which cannot be managed by other means, increasing the use of sanitary landfills for the disposal of residual waste (from the current 5% levels to 100% on weight basis), and other generic enabling activities such as regulations, finance, and operating activities.[212]

Projects Under Preparation and Procurement in Solid Waste Management

Only one PPP project is under preparation and procurement for solid waste management in Sri Lanka.

In December 2023, the Ministry of Urban Development and Housing floated a notice requesting proposals for the construction of the Metro Colombo Solid Waste Management project on a BOOT basis. The closing date for proposals was set for January 2024; however, no further update is available.[213]

Figure 29: Public–Private Partnership Solid Waste Management Projects Under Preparation and Procurement



"–" indicates no projects, data not available, or not applicable according to the database.
Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

4. Features of Past Public–Private Partnership Projects in Solid Waste Management

During 1990–2023, two solid waste management projects reached financial closure.

There have been a few solid waste management PPP projects in the past.

[212] Government of Sri Lanka, Ministry of Environment. 2021. *Updated Nationally Determined Contributions—September 2021*.
[213] Government of Sri Lanka, Ministry of Urban Development and Housing. 2023. *Expression of Interest*.

Table 72: Status of Solid Waste Management Projects

No.	Project Name	Implementing Agency	Investment		Status
			$ million	SLRs billion	
1.	Plastic recycling company involved in crushing, compacting, and bailing for plastic recyclables	Balangoda Urban Council	UA	UA	Operating as a PPP since 2014
2.	Western Power Company Waste-to-Energy	CEB, Colombo Municipal Council	81.9	24.6	Operational since 2021

N/A = Not Applicable, UA = Unavailable in Public Sources.

SLRs1 = $0.003319

Sources: World Bank. 2021. *Private Participation in Infrastructure (PPI)—Sri Lanka*; Aitken Spence. *Power Generation*; Food and Agriculture Organization of the United Nations. 2016. *Composting urban organic waste into agricultural inputs: Balangoda*.

The Balangoda Urban Council (BUC) engaged a private firm to operate a plastic recycling facility, established and equipped using public funding. The project started in 1999 as a city service to provide a solution to the solid waste problem and eventually converted into a business model. Currently, the facility processes approximately 25 tons of waste per day. Prior to this facility, all waste collected from the BUC was disposed in a marsh land near a stream that runs through the town, raising concern among the residents. To address this issue, the BUC (supported by the central and provincial government and private organizations) established an integrated solid waste management center including a waste sorting space, windrow composting facility, cleaning and storage space for recyclables, night soil treatment facility, and a residual waste disposal site.[214]

In 2012, the facility also opened the plastic recycling center with the financial support of the National Post Consumer Plastic Recycling Project and technical assistance from the CEA. However, in 2014, BUC recognized that the operating costs of the plastic recycling center were not manageable due to capacity utilization concerns. This led to BUC outsourcing management of the facility to a private company, which expanded its scope of collection outside of BUC boundaries for better capacity utilization. This not only resulted in a more effective and efficient operation but also led to better marketing, use of professional machine operators, ability to develop value-added products, and higher flexibility in daily operations.

The BUC then stipulated rules that the private operator should be selected through an annual open tender and be permitted to purchase all recyclable plastic collected by the BUC at market price, and for profits to be equally shared between both parties.[215] A similar operation is also conducted by the Kandy Municipal Council, although not on a PPP basis.

The first waste-to-energy power plant in Sri Lanka was commissioned in early 2021, by Western Power Company, a subsidiary of Aitken Spence PLC. The project has a 10 MW capacity to generate sustainable power and was awarded through a competitive bidding process. The company entered into a Waste Supply Agreement with the Colombo Municipal Council to receive 700 t of MSW daily, and signed an IPPA with the CEB for a 20-year period.[216] In the first full year of operations ending March 2022, the waste-to-energy power plant processed over 200,000 t of MSW, and was fully operational during the energy crisis of the country.[217]

[214] Food and Agriculture Organization of the United Nations. 2016. *Composting urban organic waste into agricultural inputs: Balangoda, Sri Lanka*.
[215] CCET/Institute for Global Environmental Strategies and University of Peradeniya Sri Lanka. 2020. *Effective Plastic Waste Management in Sri Lanka.*
[216] Aitken Spence News. 2021.
[217] Aitken Spence PLC. 2022. *Annual Report*.

Other Initiatives

In 2018, JICA extended support for the construction of a MSW Material Recovery Facility through a Japanese private company, Recycle Co. Ltd. Under this initiative, a total of 25 t of waste dumped at the Karadiyana garbage dumping facility is converted into organic fertilizer, daily.[218] This is one of many initiatives and studies undertaken by JICA regarding solid waste management.

Further, the CEA introduced the first sanitary landfill in Dompe, Sri Lanka, with technical and financial assistance from the Korean International Cooperation Agency, which provided a grant of $4.5 million for this purpose. Although the project was ready for operation by 2009, official functioning of the project only commenced in 2015 due to public protests.[219]

Moreover, local private players have been increasingly involved in supporting waste management in the country. INSEE Ecocycle established a Resource Recovery Center in collaboration with Unilever Sri Lanka to facilitate the collection of fast-moving consumer goods and postconsumer waste through a systematic clearing process. The segregation and purification process (to reuse and recycle/upcycle) takes place in the facility.[220]

The company BPPL Holdings PLC is involved in recycling PET bottles into filaments used in brushes and cleaning devices, as well as yarn. The company has several partnerships with local businesses and municipal councils for waste collection and operates a recycling plant in Balangoda. The company recently secured long-term funding of $15 million from USA's DFC to expand its operations.[221]

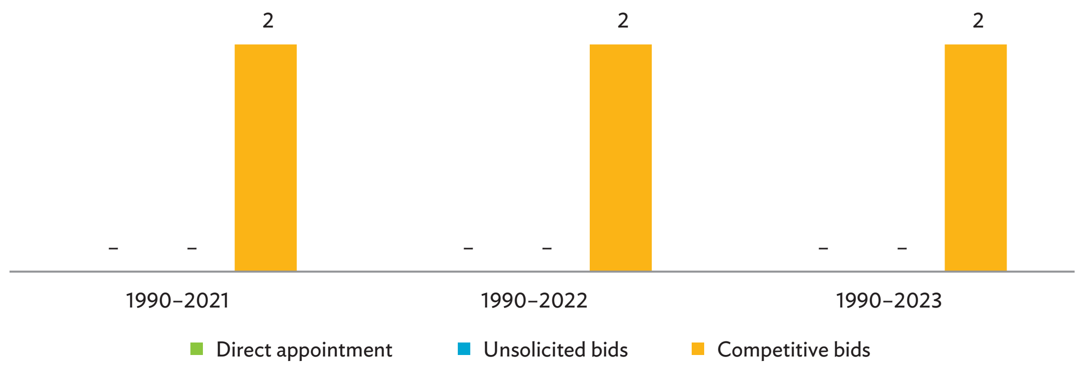
The Municipal Waste Recycling Program was a 5-year waste management program funded by the United States Agency for International Development (USAID) to reduce land-based sources of ocean pollution in four countries including Sri Lanka. The Ceylon Chamber of Commerce was a grantee under this program and worked toward bringing together the GOSL, civil society, and large private plastic producers, collectors/recyclers, and consumers to agree on an Extended Producer Responsibility Mechanism (i.e., a mechanism where the technical and financial responsibility is placed on producers and brand owners for environmentally conscious treatment and disposal of postconsumer plastic packaging).[222]

Both solid waste management projects that were financially closed were procured through competitive bidding.

In terms of cancelled projects, Fairway Waste Management Pvt Ltd. (a subsidiary of Fairways Holding Private Limited) was awarded a tender to develop and operate another waste-to-energy project in Karadiyana. Following a competitive bidding process, the Ministry of Megapolis and Western Development awarded the concession for 22.5 years (including construction period) in 2017.[223] The International Finance Corporation (IFC) and other sustainability funds were committed to provide a $7 million loan assistance toward the project but did not disburse funds. The project is currently considered to be in a distressed state, with the promoters unable to continue its development.

[218] JICA. 2018. *JICA Helps Waste Management by Introducing Municipal Solid Waste Material Recovery Facility at Karadiyana through Verification Survey with the Private sector for Disseminating Japanese Technologies*.
[219] Daily Mirror. 2018. *Sri Lanka's first sanitary landfill in Dompe*.
[220] INSEE Ecocycle. *INSEE Ecocycle, the pioneer in professional waste management established a fully-fledged Resource Recovery Center (RRC) in collaboration with Unilever Sri Lanka*.
[221] BPPL Holdings PLC. 2022. *BPPL Secures US$ 15mn Long-Term Funding from DFC*.
[222] USAID. 2021. *Municipal Waste Recycling Program. Extended Producer Responsibility: Lessons Learned from Sri Lanka*.
[223] IFC Project Information and Data Portal.

Figure 30: Modes of Procurement for Public–Private Partnership Solid Waste Management Projects



"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

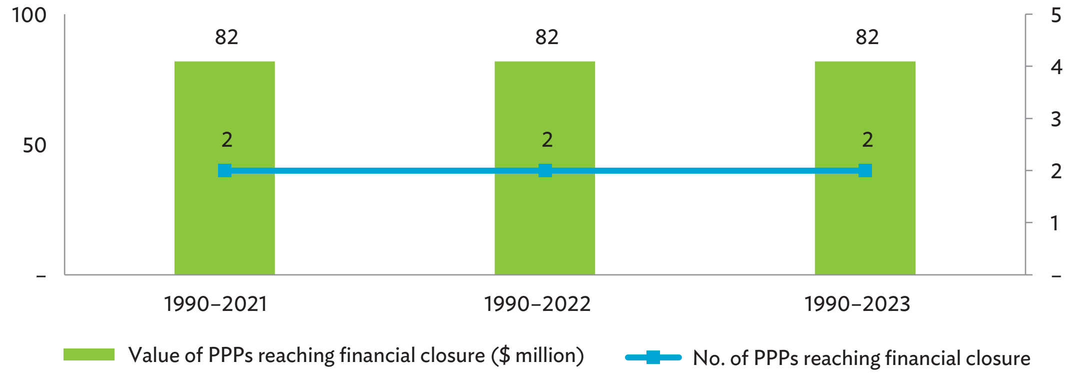
Although not a PPP, a biogas power plant was expected to be built at a cost below SLRs64 million in the Matara district to add 400 kW to the national grid using 50 t of garbage. Operations were expected to begin in October 2021 and was to be jointly implemented by the Matara Municipal Council and the CEA.[224]

The Ministry of Megapolis and Western Province Development proposed a MSW landfill development at Aruwakkalu in the Puttalam district as a solution for the MSW disposal problem faced by the Colombo Metropolitan Area. Garbage collected at the Kelaniya Transfer Station, where the waste is to be processed into residual waste blocks and deodorized, is expected to be transported through special garbage trains running from Kelaniya to Aruwakkalu.[225] For this purpose, four locomotives were also shipped from the People's Republic of China.[226] Based on public sources, a Chinese consortium (China Harbour Engineering Company Limited and the Southwest Municipal Engineering and Research Institute of China) was awarded the contract to design, supply, and install and construct the MSW sanitary landfill disposal facility.[227] The EIA was completed in 2017.[228] The project reached 90% completion by the end of 2022.[229] Upon completion, ~1,200 t of waste per day would be transported to Aruwakkalu landfill using existing railway lines.[230]

Figure 42 shows the number of solid waste management PPP projects that have reached financial closure and the total value of those projects in Sri Lanka. Given that we have limited financial information on the BUC plastic recycling plant, the value of PPPs reaching financial closure in the chart below does not account for the project.

224 The Island. 2021. *First biogas project to be built in Matara under Rs. 64 million investment—Minister*.
225 The Morning. 2020. *Waste transfer to commence in 2022 at Aruwakkalu waste disposal site*.
226 Sri Lanka Railways. *Power Cars for Aruwakkalu Waste Processing Facility* (Metro Colombo Solid Waste Management Project).
227 Newswire.lk. 2020. *Aruwakkalu waste management project to continue*.
228 EML Consultants. 2017. *Environmental Impact Assessment Report of the Proposed Project on Metro Colombo Solid Waste Management*.
229 CBSL. 2022. *Annual Report*.
230 Footnote 229.

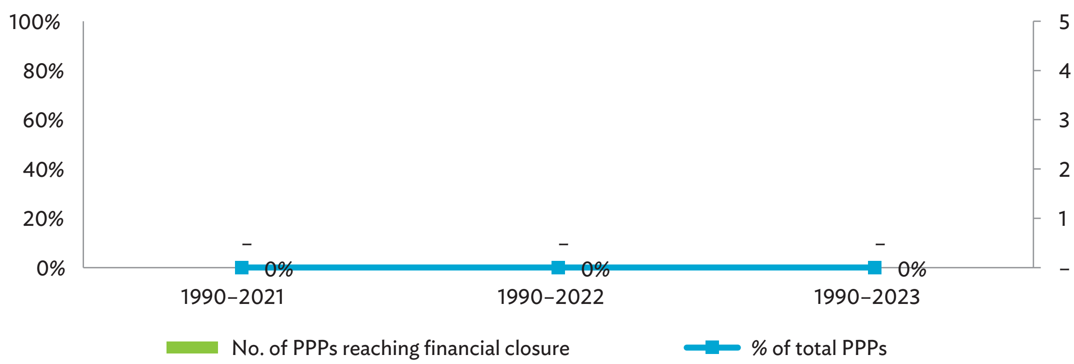
Figure 31: Public–Private Partnership Solid Waste Management Projects Reaching Financial Closure



"–" indicates no projects, data not available, or not applicable according to the database.
Sources: Industry research, IFC, Sunday Times.

No solid waste management projects have received foreign sponsor participation. The distressed Fairway Waste Management project was granted foreign funding via a $7 million loan by the IFC. Although this loan was approved in 2018, the funds have not been disbursed.[231]

Figure 32: Public–Private Partnership Solid Waste Management Projects with Foreign Sponsor Participation



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

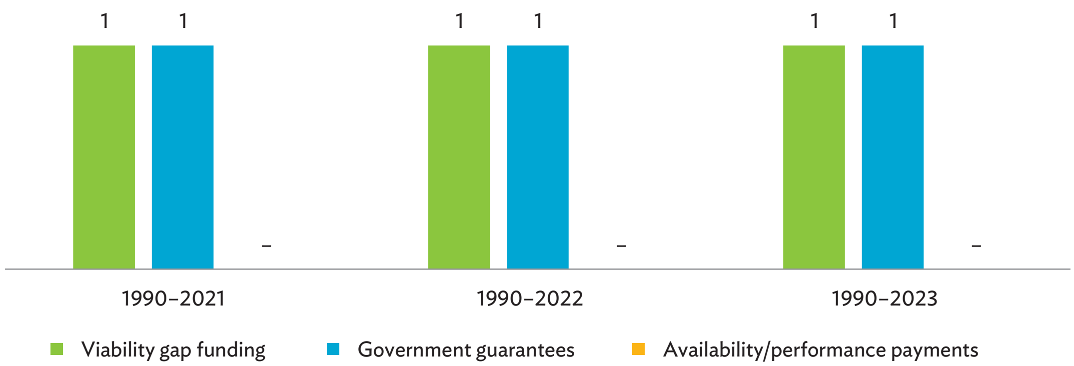
Figure 44 presents the number of PPP projects that have received government support including viability gap funding mechanism, government guarantees, and availability or performance payment in solid waste management in Sri Lanka.

- The waste-to-energy project signed a 20-year IPPA with the CEB, and long-term waste collection agreements with the relevant municipal authorities. These IPPAs and waste supply agreements can be considered as part of government support.

[231] IFC. 2018. Fairway WtE.

- The BUC recycling plant received its initial funding from a combination of central and provincial government sources as well as private organizations. This stands as an example of utilizing viability gap funding. Following inefficiencies in operating the plant, the BUC called for tenders and awarded the operations of the plant to a private party, where the private party buys the plastic collected by BUC at market price and all profits are shared between the BUC and the private party.[232]

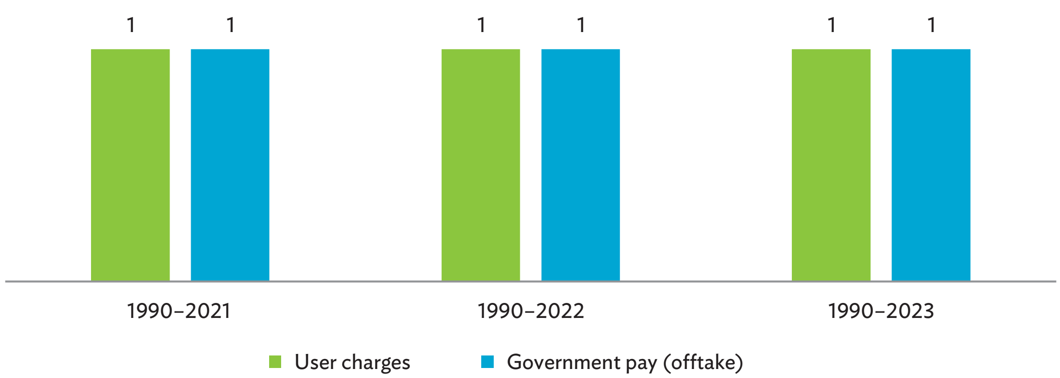
Figure 33: Government Support to Public–Private Partnership Solid Waste Management Projects



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

In terms of payment mechanisms, the BUC recycling plant is a project with user charges, while the waste-to-energy plant is considered under government pay (offtake) since the electricity generation and tipping fees are to be paid by the GOSL.

Figure 34: Payment Mechanisms for Public–Private Partnership Solid Waste Management Projects



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed April 2024).

[232] The first bid was awarded to Green Earth Waste Management Private Limited in 2014, which was held until the end of 2018. After this, BPPL Holdings PLC outbid and took over operations in 2019. Institute for Global Environmental Strategies. 2020. Effective Plastic Waste Management in Sri Lanka.

Tariffs

The tipping fee for incoming waste to the disposal sites varies depending on the type of waste and the authority collecting the fee. A data collection survey on solid waste management conducted by JICA in 2016, identified the following rates:[233]

- The tipping fee of industrial waste transported by a certified business entity itself or a private waste collection company entrusted by business entities is SLRs2,389 per t while that of industrial sludge is SLRs5,972 per t in the Kesbewa Urban Council.
- Tipping fee for night soil is SLRs2,200 per load for households and SLRs5,700 per load for businesses.

Most local authorities do not charge fees for waste collection from households, while some local authorities charge from businesses and commercial operators. Additionally, most waste management facilities in the country are backed by government and development funding assistance.

Based on our research on waste-to-energy facilities, the off-taker is the CEB with a feed-in tariff of SLRs36–SLRs37 per kWh,[234] which is considered relatively high compared with the typical electricity tariff, possibly due to the waste disposal element involved.

Typical Risk Allocation for Solid Waste Management Public–Private Partnership Projects

No information on the risk allocation for solid waste management is available because concession agreements are not public.

Financing Details in Solid Waste Management

There are no applicable details on financing for PPP projects in solid waste management.

Table 73: Financing Details in Solid Waste Management

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	0	0	0
PPP projects that received export credit agency/international financing institution support	1	1	1
Typical debt:equity ratio ^	UA	UA	UA
Time for financial close ^	UA		
Typical concession period	20 years		
Typical FIRR ^	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.
^ Project-specific information not available in the public domain.
Source: Industry research.

[233] JICA. 2016. *Data Collection Survey on Solid Waste Management in Democratic Socialist Republic of Sri Lanka—Final Report*.
[234] DailyFT. 2017. *Two waste-to-energy plants to get off the ground today*.

5. Challenges in Solid Waste Management

Demand and Supply Factors

- Significant supply gap in good quality waste management processes or facilities. Good waste management processes and facilities continue to be in high demand as only a portion of MSW comes under a collection mechanism by the authorities (only 22% of households have formal waste collection facilities).[235] The Meethotamulla garbage dump collapse in 2017 which led to the loss of several lives is an example of the critical nature of this issue.[236]
- Demand for waste as a raw material input stems from multiple economic sectors. The demand for electricity is expected to continue to rise, with a greater focus on sustainable sources of power (including biowaste). Meanwhile, Sri Lanka's apparel industry imports yarn and plastic raw material for local value addition, a considerable drain on the country's balance of payments. Waste material, particularly recycled plastic, can be used as an input for several industries, if recycling processes were expanded, collection systems were in place, and segregation at source was ensured through public awareness.
- Lack of waste management infrastructure and workers have resulted in delayed waste collection and have longer term detrimental impacts on health and environment. The lack of vehicle fleets and inadequate workforce and the consequent absence of a regular waste collection schedule has been a key reason for garbage piling up in urban public places.
  - Local authorities collect only 3,458 t of the 10,768 t of solid waste generated in Sri Lanka per day, of which over 50% contains plastics that go to open dumps and the surrounding environment.[237]
  - The haphazard dumping of waste on the roadside, wetlands, next to water bodies, and in wildlife protected areas has not only been a health hazard but has also raised environmental concerns. Health hazards have been rising recently, given the adverse weather conditions, resulting in an outbreak of dengue and other illnesses.
  - Chemicals, polyethylene, and plastic in garbage disposal sites flow into drains during the rainy season, polluting water bodies with heavy metals and other hazardous waste.[238] It was recently highlighted that there are 21 active garbage dumps near human settlements in the Western Province.[239] Ocean pollution due to the flow of plastics via water bodies to the sea is another serious area of concern.
- Inefficiencies in waste management including in collection, transportation, and disposal are due to poor planning and coordination and lack of budgetary allocations at the local authority level. Solid waste management is the responsibility of the local authority and hence policy execution is not integrated across the country. Since there are also multiple authorities involved, the lack of coordination between institutions is also a concern.
- Inefficient and ineffective recycling and processing are due to poor or no segregation of waste at the source of generation. Nonsegregation at source also leads to higher costs for the local authorities as they are then required to hire additional workers to handle segregation. Additionally, private establishments engaged in plastic recycling and waste-to-energy projects generally lack adequate segregated waste material which are inputs to their process. Similarly, there has been low public awareness on the possibilities of setting up innovative waste management schemes including waste-to-energy projects, mostly due to the lack of knowledge of outcomes and experience in such projects. This, in turn, has delayed the implementation of solid waste management projects across the island as there is community resistance to setting up of such projects near neighborhoods.

[235] Government of Sri Lanka, Ministry of Environment. 2021. *National Action Plan on Plastic Waste Management 2021–2030*.
[236] National Building Research Organization. 2017. *Disastrous Failure at the Solid Waste Disposal Site at Meethotamulla*.
[237] Government of Sri Lanka, Ministry of Environment. 2021. *National Action Plan on Plastic Waste Management 2021–2030*.
[238] Sunday Times. 2022. *Colombo municipality dumps waste creating public health risk*.
[239] Sunday Times. 2022. *Western Province sitting atop a mounting disaster*.

- Limitations in space for waste disposal and management pose a significant challenge, mainly in urban areas. This is more notable in the Western Province, where more than 50% of the country's waste is currently generated. Furthermore, transportation to landfills in distant areas increases the cost of waste management for the local authority.

Regulatory Factors

- Lack of knowledge on waste management rules and regulations results in low accountability of polluters and miscreants. The lack of knowledge of the regulatory measures available is also a concern as it enables public as well as the authorities to commit offenses by dumping garbage without due regard to laws and regulations. Although damages can be claimed under the "polluter pays" principle, lack of awareness regarding the available legal solutions has led to no action being taken against the parties committing such offenses.[236]
- Responsibilities and powers relating to solid waste management are distributed across different institutions, causing efficiencies in implementing policies. For example, the Ministry of Environment is responsible for implementation of waste management policies, but taking legal action against miscreants is entrusted with the CEA. Land use, meanwhile, is assigned to the Ministry of Local Government and the Ministry of Urban Development and Housing.[237]

G. Urban Water and Wastewater

Table 74: Key Statistics

Parameter	Value	Unit
Average annual per capita water supply	2,529	cubic meters
Access to potable water (national level)	96	% of population with access
Access to pipe-borne water (national level)	60	% of population with access
Piped water consumption (national level)	611.8	million cubic meters
Number of water connections	2.9	million
Water withdrawn for irrigation activities	13	billion cubic meters
Capacity of reservoirs^	3,940	million cubic meters
Improved access to sanitation facilities	93	% of population with access
Piped sewerage	2.1	% of population with access
Total sewerage connections	27,820	number

^ Major and medium reservoirs under the Irrigation Department.

Sources: National Water Supply and Drainage Board. 2022. *Annual Report—2022*; Central Bank of Sri Lanka. 2023. *Sri Lanka Socio Economic Data*.

1. Contracting Agencies in Water and Wastewater

The National Water Supply and Drainage Board (NWSDB) is the main government contracting agency for water and wastewater and is also the largest water supplier in Sri Lanka. The NWSDB is responsible for providing safe drinking water to the public and has an estimated 2.7 million registered metered connections. In addition to the NWSDB, a range of community-based organizations are also engaged in the supply of water. The NWSDB comes under the direct purview of the Ministry of Water Supply along with the Water Resources Board (WRB) and the Department of National Community Water Supply. The Department of National Community Water Supply is responsible for rural water supply of the country, supported by many community-based organizations that operate and maintain water supply facilities in villages.

Water supply for the agricultural needs of the country is largely handled by the Irrigation Department and the Mahaweli Authority of Sri Lanka (MASL). The total cultivated area in Sri Lanka is estimated at 1.86 million ha, out of which 728,000 ha is sustained by irrigated water while the rest is rain fed. The overall irrigation system of the country consists of 73 major, 160 medium, and more than 12,000 minor irrigation reservoirs (village tanks) and several canals. Two-thirds of the irrigated area is in the dry zone, while one-third of the area under controlled irrigation is in the wet zone.[240]

2. Water and Wastewater Laws and Regulations

Sri Lanka has about 41 institutions and 52 laws to cover all aspects of water requirements. These agencies mutually decide on the allocation and distribution of water according to demand and uses. Among these, the NWSDB and the WRB are the two key governing and managing institutions, both of which fall under the purview of the Ministry of Water Supply. The MASL and the Irrigation Department oversee the water supplies for the agricultural needs of the country.

The National Water Supply and Drainage Board Law, No. 2 of 1974, provides for the establishment of the NWSDB and for matters concerning water supply and sewerage.[241] This Act provides the NWSDB with the authority to:

- Develop, provide, operate, and control an efficient, coordinated water supply and to distribute water for public, domestic, and industrial purposes.
- Establish, develop, operate, and control an efficient, coordinated sewerage system.

The Act also vests power to the NWSDB to:

- Purchase water in bulk.
- Carry out investigations and collect and record data concerning the provision, development, and maintenance of water supply and sewerage services.
- Enter into joint schemes with any government department or any institution approved by the Minister of Water Supply for the provision, development, and maintenance of water supply and sewerage services.

The extraction and use of groundwater in Sri Lanka is regulated by the WRB, established under the Water Resources Board Act, No. 29 of 1964. The WRB works in collaboration with at least 18 authorities and organizations with regards to groundwater or surface water. The Water Resources Board Act, No. 29 of 1964 (as amended), specifically provides that the entire project should be carried out under the supervision and directions of the WRB, where any government institution, nongovernment organization, or individual uses natural water springs or groundwater for the purposes specified in the Act.

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240 Food and Agriculture Organization of the United Nations. 2022. *Efficient agricultural water use and management in paddy fields in Sri Lanka*.
241 Public Utilities Commission of Sri Lanka. 2022. *National Water Supply and Drainage Board Law, No. 2 of 1974*.

The Mahaweli Authority of Sri Lanka Act, No. 23 of 1979, proposed the establishment of the MASL with the main objective of planning and implementing the Mahaweli Ganga Development Scheme including the construction and operation of reservoirs, irrigation distribution systems and installations for the generation and supply of electricity. Additionally, the MASL is responsible for fostering and securing the full and integrated development of any Special Area (i.e., water resources of the Mahaweli Ganga or of any major river, as defined by the Minister with the approval of the President of Sri Lanka). Its other responsibilities include optimizing agricultural productivity and employment potential, generating and securing economic and agricultural development within any Special Area, and promoting and securing the participation of private capital (both internal and external) in the economic and agricultural development of any Special Area.[242] The MASL comes under the purview of the Ministry of Irrigation.[243]

The Department of Irrigation oversees land and water resources coming under its purview for irrigated agriculture, hydro power, flood control, domestic usage, industrial usage, and aquaculture development. This department is responsible for several activities that include the preparation of a master plan for river basin development, project formulation, and detailed designs of irrigation, hydro power, flood control and reclamation projects, operation, maintenance, improvements, rehabilitation, and water management of medium and major irrigation schemes.[244] The Department of Irrigation comes under the purview of the Ministry of Irrigation.[245]

The regulation of the water service industry (excluding irrigated water and bottled water) was officially assigned to the PUCSL in 2002. However, due to the lack of an Industrial Act enacted for water, the PUCSL currently has no authority to regulate. In anticipation of the envisaged regulatory role in the water services industry, the PUCSL provided inputs for the finalization of draft amendments to the NWSDB Act during 2008. Further, the PUCSL has already commenced drafting minimum standards for water quality and tariff methodology, and once the proposed Industrial Act is passed by Parliament, the PUCSL will introduce proposed regulatory tools for the sector.[246]

The main institutions involved in wastewater management are the CEA (under the Environmental Ministry), the NWSDB, the Ministry of Agriculture, and the Environmental Health and Occupational Health unit under the Ministry of Health. The key legislation is the National Environment Act, No. 47 of 1980. The National Environment Act gives general provisions for the protection, management, and enhancement of the environment; for the regulation, maintenance, and control of the quality of the environment; and for the prevention, abatement, and control of pollution.

Currently, Sri Lanka uses a traditional command and control approach for environmental protection and management. Present wastewater discharge standards are concentration-based (not based on quantity of pollutants and wastewater volume). Therefore, the pollution load released into the environment and the excessive use of water resources cannot be controlled to maintain the ambient environmental quality. The CEA is currently in the process of implementing a new approach known as the Wastewater Discharge Fee System; this economic incentive-based mechanism encourages firms to internalize the cost of pollution and provides them with an incentive to minimize the generation of wastewater and appropriately treat what is generated. This system has been developed and restructured by the CEA for selected high polluting industries. The proposed draft of the above regulation is expected to be released soon.[247]

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242 Sri Lanka Consolidated Acts. 2022. *Mahaweli Authority of Sri Lanka Act (No. 23 of 1979).*
243 Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*
244 Irrigation Department in Sri Lanka. 2022. *Overview*.
245 Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*
246 Public Utilities Commission of Sri Lanka. 2022. *Water Services*.
247 Central Environmental Authority. 2022. Special projects / programs.

The Sri Lanka Land Development Corporation was initially formed by Act, No. 52 of 1982, of the Colombo District (Low Lying Areas). The corporation is mainly responsible for reclaiming and developing marshy and low-lying areas, while retaining the custody, management, and control of such vested lands. The corporation is also responsible for ensuring a flood-free habitat by rehabilitating, creating, and maintaining pollution-free inland water bodies, and undertaking consultancy work for drainage design and land filling activities. As per the latest amendment to the Governing Act (in 2006), the corporation is empowered to take legal action against unauthorized activities and the pollution of water bodies.[248]

Furthermore, the National Thoroughfares Act, No. 40 of 2008, (although mainly governing the public road network in Sri Lanka) also relates to water and sanitation, including protecting, conserving, and managing existing waterways and drainage systems. The Act provides stringent regulations to avoid damage to water and sanitation resources and infrastructure.[249]

As an island nation, there are also many laws and regulatory authorities that govern the use of coastal resources and the conservation of coastal resources and marine life.

The table below contains the details of the roles and responsibilities of the water agencies in Sri Lanka:

Table 75: Line Ministries and Agencies and Their Functions in Water and Wastewater

Agency	Functions
Ministry of Water Supply	• Formulation, implementation, monitoring, and evaluation of policies, programs, and projects, in relation to water supply, and those subjects that come under the purview of departments, statutory institutions, and public corporations based on the national policies implemented by the GOSL. • Taking necessary measures to provide clean drinking water to all citizens. • Inspect and maintain water supply services, drainage systems, and sanitary facilities and formulate and implement new plans. • Improve water security and urban water supply schemes by coordinating rural tanks and reservoirs and irrigation systems. • Prevent wastage in drinking water distribution.
National Water Supply and Drainage Board (NWSDB)	• Operation and maintenance of water supply and sewerage schemes to provide a satisfactory service to customers. • Investigation, planning, design, and construction supervision of water supply and sewerage projects with local funds and donor assistance. Carry out feasibility studies, cost estimation and EIA for such projects. • Billing and collection through affordable tariff setting.
Water Resources Board (WRB)	• Advise the GOSL and the people on assessing, harnessing, developing, and prudently utilizing the finite groundwater resources through regulation. • Set up standard legislative protocols on water and well construction. • Establishing and updating the Centralized Groundwater Information and Data Centre for management, research, and development of ground water resources.
Public Utilities Commission of Sri Lanka (PUCSL)	• PUCSL is the official regulator of the water and sewerage sector. However, due to unavailability of an Industrial Act passed in the Parliament, PUCSL is currently unable to make any regulatory reforms to the sector.
Irrigation Department	• Facilitate the sustainable management and improvement of land and water resources for food, livelihoods, and environment, including provision of irrigation and drainage facilities for cultivable lands in irrigation and drainage projects.

continued on next page

[248] Sri Lanka Land Development Corporation. 2022. About SLLDC.
[249] Government of Sri Lanka, Department Printing. 2008. *The National Thoroughfares Act, No. 40 of 2008*.

Table 75 *continued*

Agency	Functions
Mahaweli Authority of Sri Lanka (MASL)	• Preparation of a master plan for the development of the different river basins for the optimum utilization of land and water resources, giving priority to environmental factors. • Collection, development, and management of a historical database for water resources and flood management. • Construction of drainage, flood protection, and salt-water extrusion projects for the protection of cultivable land to enable the rainfed cultivation of such lands for food crop production with minimized risk. • In parallel with the Irrigation Department, the MASL is responsible for the provision of irrigation facilities in designated areas of the country including the Mahaweli River Basin.
Central Environment Authority (CEA)	• The CEA is the main environmental regulator in the country. Its objective is to integrate environmental considerations into the development processes of the country. • The CEA is also responsible for the quality of water. This function is performed by the Water Quality Monitoring Unit of the CEA, which aims to: • Control water pollution by monitoring water and industrial wastewater. • Conserve water quality of inland water bodies. • Conduct environmental educational and awareness programs.
Sri Lanka Land Reclamation and Development Corporation	• Construction of works for the provision of public services in the areas of surface water drainage, sewerage and disposal of sewage, lighting, and water supply. • Ensure flood-free habitat and improve the environment by rehabilitating, creating, and maintaining pollution-free inland water bodies.

Sources: Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*; Public Utilities Commission of Sri Lanka. 2022. *National Water Supply and Drainage Board Law, No. 2 of 1974*; Irrigation Department in Sri Lanka. 2022. *Overview*; Central Environmental Authority. 2022. *Special projects/programs*.

Foreign Investment Restrictions in Water and Wastewater

Upon special approval from the BOI, foreign equity ownership of up to 100% is permitted for bulk water supply and treatment, wastewater treatment, and wastewater collection.[250]

Private participation in water and wastewater has been largely limited to EPC contracts due to the absence of a clear private investment mechanism and the high investment cost. Nonexistence of a feed-in tariff for private participation is also a key bottleneck for private and foreign investor participation.

Table 76: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in water and wastewater projects			
• Bulk water supply and treatment	100%	100%	100%
• Water distribution ^	100%	100%	100%
• Wastewater treatment	100%	100%	100%
• Wastewater collection ^	100%	100%	100%

Source: National Water Supply and Drainage Board. 2022. *National Policy on Private Sector Participation in Water Supply and Sanitation*.

^ As per public sources, no restriction on foreign investor participation.

250 Board of Investments. 2022.

Standard Contracts in Water and Wastewater

Specific standard contracts are not available for water and wastewater PPPs. General EPC contracts are used for PPP projects as well.

Table 77: Contract Types

Type of contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
Engineering, procurement, and construction contract	✓

✓ = Yes, × = No, NA = Not Applicable, UA = Unavailable in Public Sources.
Source: ADB. 2019. *Public–Private Partnership Monitor,* Second Edition.

Water and Wastewater Master Plan

In the national budget for 2023 (presented in November 2022), the GOSL declared water supply and sanitation as a high priority. Under the "Water for All" national plan, the GOSL planned to invest SLRs12 trillion during 2021–2025 across 1,000 community water projects.[251] There were 171 major projects identified, including initiatives to enhance production capacity, new water supply schemes, and expediting ongoing projects to ensure the entire population has greater accessibility to drinking water. The GOSL also aimed to provide pipe-borne water connections to approximately 200,000 new households in 2022, while expanding community water projects and developing reservoirs. However, given the country's recent fiscal challenges, the progress of these initiatives is unclear. While the budget for 2022 had a large allocation for development of water supply schemes, funding to these initiatives has been reduced significantly in the Interim Budget for 2022, published in August 2022. As per the national budget estimates for 2023 (presented in November 2022), the total allocation to water and wastewater was SLRs74 billion.[252]

A Sanitation Master Plan for Sri Lanka was under consideration during 2017 but was not undertaken since a national master plan for water supply and sanitation was to be prepared with Japanese funding assistance. However, the NWSDB published a pipeline of projects that includes PPP projects.

The Weliwita Bulk Water Supply Project was structured as a PPP with the assistance of the IFC in 2017. An RFP was floated, with eight private sector investors shortlisted.[253] However, due to several shortcomings, the contract was not awarded, and the project did not commence.[254] As the project was not awarded as of 2022 (after calling for RFPs), the project is noted as being in the project pipeline.

251 Government of Sri Lanka, Ministry of Finance. 2023. *Budget Estimates*.
252 Government of Sri Lanka, Ministry of Finance. 2022. *Budget Estimates—Volume III—2023*.
253 National Water Supply and Drainage Board. 2017. *Awarded Contracts*.
254 National Water Supply and Drainage Board. 2017. *Closing date of submission of Request for Qualification (RFQ) for Weliwita Bulk WS PPP is extended up to 20th March 2017.*

Listed below are the foreign-funded water and wastewater projects (as per the NWSDB).

Table 78: Priority Water Supply Projects in the Pipeline

No.	Project Name	Implementing Agency	Investment		Status
			$ million	SLRs billion	
PPP Projects					
1.	Weliwita Bulk Water Supply Project	NWSDB	160.0	48.2	Eight bidders were shortlisted from the prequalification (EOI) round. RFP yet to be floated.
Foreign-Funded Projects ^					
2.	Katupotha, Bamunakotuwa, Panduwasnuwara water supply project.	NWSDB	73.0	22.0	UA
3.	Pothuvil, Siyambalanduwa water supply project (from Heda Oya reservoir)	NWSDB	66.4	20.0	UA
4.	Mannar water supply project	NWSDB	61.7	18.6	UA
5.	Valaichchenai water supply project	NWSDB	53.1	16.0	UA
6.	Puttalam (South) water supply project	NWSDB	46.5	14.0	UA
7.	Kalpitiya water supply project	NWSDB	42.5	12.8	UA
8.	Vavuniya water supply project	NWSDB	41.8	12.6	UA
ADB/JICA-Funded Projects					
9.	Bandarawela, Haputale, Diyathalawa Integrated Water Supply Project (ADB)	NWSDB	53.8	16.2	UA
10.	Weliwita distribution (ADB)	NWSDB	36.5	11.0	UA
11.	Ruhunupura Stage II (ADB)	NWSDB	25.9	7.8	UA
12.	Eheliyagoda (ADB)	NWSDB	14.9	4.5	UA
13.	Kalpitiya water supply project (ADB)	NWSDB	1.3	0.4	UA
14.	Construction of a salinity barrier across Kalu Ganga (JICA)	NWSDB	16.6	5.0	UA

SLRs1 = $0.003319, UA = Unavailable in Public Sources.
^ As per NWSDB, these projects are funded by a range of bilateral funding arrangements.
Source: National Water Supply and Drainage Board. 2022. *Projects in Pipeline*.

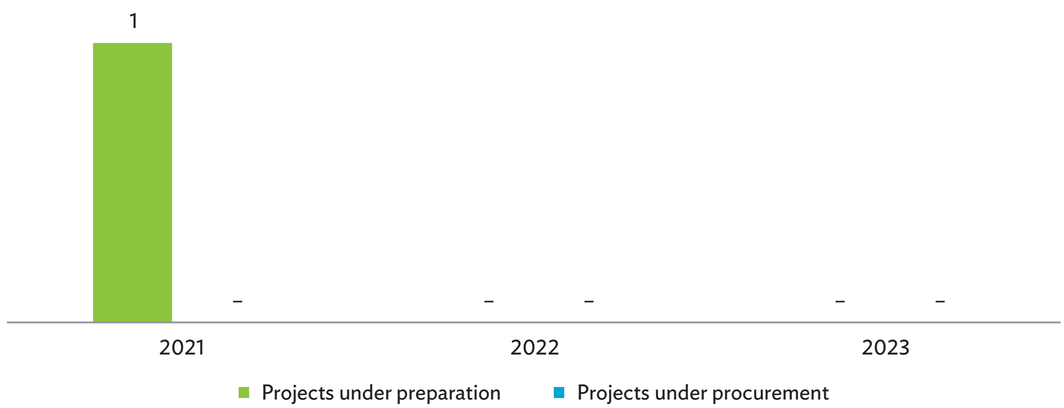
In addition, the following new sewerage projects were proposed for implementation by the NWSDB during 2021–2025. These projects are expected to have a total treatment capacity of ~130,000 m^3/day and are likely to result in ~150,000 new connections into NWSDB.

- Jaffna City sanitation project.
- Hambantota wastewater disposal project.
- Kattankudy wastewater disposal project.
- Dehiwala-Mount Lavinia sewerage project.
- Sri Jayewardenepura Kotte wastewater disposal project.
- Jaela-Ekala wastewater management project stage II.
- Coastal city sanitation project—Galle.
- Coastal city sanitation project—Unawatuna.
- Coastal city sanitation project—Kelaniya/Peliyagoda.

Water and Wastewater Projects Under Preparation and Procurement

The Weliwita Bulk Water Supply project is considered as under preparation during 2019–2021, although the project was not awarded (after calling for RFPs). The project has potential to be reviewed in future, since project structuring is done for a PPP procurement. The Jaffna Seawater Desalination Plant was under procurement during 2019 and 2020 and reached financial closure in 2021.[255]

Figure 35: Public–Private Partnership Water and Wastewater Projects Under Preparation and Procurement

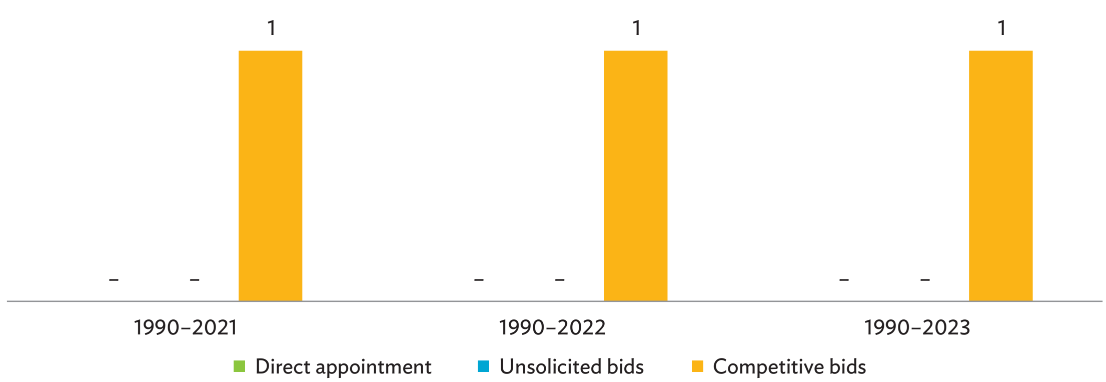


Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

3. Features of Past Public–Private Partnership Water and Wastewater Projects

According to publicly accessible information, there has been just one financially concluded water and wastewater PPP project, specifically the Jaffna Seawater Desalination Plant. The project was awarded to a French multinational company SUEZ International on a design, build, and operate basis. This project is partly financed by ADB, and construction of the plant is expected to be completed by mid-2024. As per the contract, on completion of the construction, SUEZ International will operate the plant for 7 years. This plant in Jaffna will supply water to the NWSDB under an agreed upon tariff.

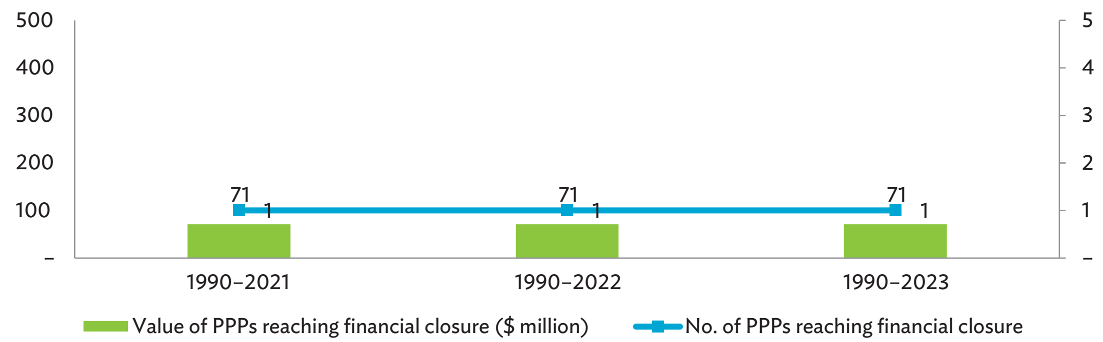
Figure 36: Procurement of Public–Private Partnership Water and Wastewater Projects



"–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

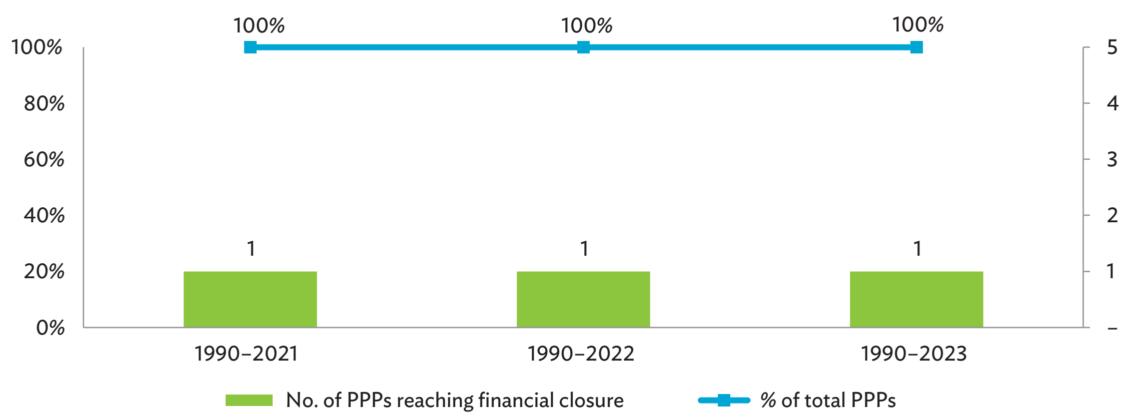
[255] World Bank Group. 2022. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

Figure 37: Public–Private Partnership Water and Wastewater Projects Reaching Financial Closure



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

Figure 38: Public–Private Partnership Water and Wastewater Projects with Foreign Sponsor Participation



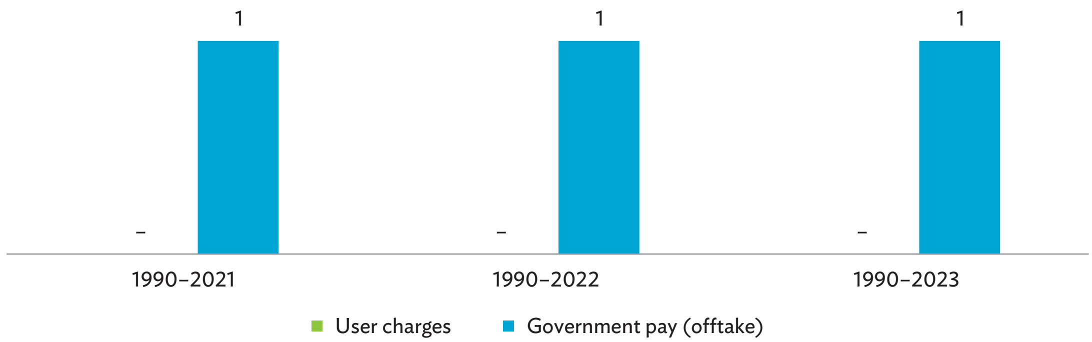
Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

As the Jaffna Seawater Desalination Plant was awarded on a design, build, and operate basis to the French multinational company SUEZ International, it is considered a foreign investment.

As per public sources, the GOSL has not provided support in terms of viability gap funding, government guarantees, or availability payments to the Jaffna Seawater Desalination Plant.

Given that the Jaffna Seawater Desalination Plant is projected to function for 7 years under SUEZ International and the concessionaire is expected to receive payments from the NWSDB, the payment arrangement for the project falls under the category of government pay.

Figure 39: Payment Mechanism for Public–Private Partnership Water and Wastewater Projects



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

Tariffs

The consumer tariff structure for water supply and sewerage was revised after a decade, in September 2022, and subsequently revised again in July 2023.[256] As the previous tariff structure prior to 2022 led to the NWSDB running significant losses (due to the gap in the actual cost vs. revenue), the new tariff is expected to reflect the NWSDB's recurring operational costs and working capital loan obligations. As per the new gazette, a cost-reflective pricing formula is in place and sewerage charges (classified under domestic, commercial, and industrial tariffs) will depend on the total consumption of water for the relevant month.

Water Tariff for Consumers

The monthly water bill for any consumer or premises includes the water charges, monthly service charges, other charges, and applicable taxes. The water bill generally displays only the total monthly charge and if necessary, the consumer can request the water bill with separate Value-Added Tax (VAT)/Simplified VAT invoices with prior registration with the NWSDB.

Table 79: Water Tariff for Consumers

No. of Units (cubic meters)	Revised (2 August 2023)		Previous (18 September 2012)		Change	
	Usage Charge (SLRs/Unit)	Monthly Service Charge (SLRs)	Usage Charge (SLRs/Unit)	Monthly Service Charge (SLRs)	Usage Charge (%)	Monthly Service Charge (%)
Domestic						
00–05	60	300	12	50	400	500
06–10	80	300	16	65	400	362
11–15	100	300	20	70	400	329
16–20	110	400	40	80	175	275
21–25	130	500	58	100	124	200

continued on next page

256 Government of Sri Lanka. 2023. *Gazette Extraordinary No. 2343/28*.

Table 79 *continued*

No. of Units (cubic meters)	Revised (2 August 2023) Usage Charge (SLRs/Unit)	Revised (2 August 2023) Monthly Service Charge (SLRs)	Previous (18 September 2012) Usage Charge (SLRs/Unit)	Previous (18 September 2012) Monthly Service Charge (SLRs)	Change Usage Charge (%)	Change Monthly Service Charge (%)
26–30	160	600	88	200	82	350
31–40	180	1,500	105	400	71	125
41–50	210	3,000	120	650	75	269
51–75	240	3,500	130	1,000	85	140
Over 75	270	4,000	140	1,600	93	119
Over 100	300	4,500	NA	NA	NA	NA
Government institutions and industrial						
00–25	110	500	58	275	90	82
26–50	110	750	58	550	90	36
51–75	110	1,500	58	1,100	90	36
76–100	110	1,750	58	1,100	90	59
101–200	110	2,000	58	1,760	90	14
201–500	110	3,000	58	2,750	90	9
501–1,000	110	5,000	58	4,400	90	14
1,001–2,000	110	10,000	58	8,250	90	21
2,001–4,000	110	15,000	58	13,750	90	9
4,001–10,000	110	30,000	58	27,500	90	9
10,001–20,000	110	60,000	58	55,000	90	9
Over 20,000	110	130,000	58	110,000	90	18
Small and medium enterprise industries						
00–25	110	500	56	265	96	89
26–50	110	750	56	525	96	43
51–75	110	1,500	56	1,050	96	43
76–100	110	1,750	56	1,050	96	67
101–200	110	2,000	56	1,680	96	19
201–500	110	3,000	56	2,625	96	14
501–1,000	110	5,000	56	4,200	96	19
1,001–2,000	110	10,000	56	7,875	96	27
2,001–4,000	110	15,000	56	13,125	96	14
4,001–10,000	110	30,000	56	26,250	96	14
10,001–20,000	110	60,000	56	52,500	96	14
Over 20,000	110	130,000	56	105,000	96	24

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Table 79 *continued*

No. of Units (cubic meters)	Revised (2 August 2023)		Previous (18 September 2012)		Change	
	Usage Charge (SLRs/Unit)	Monthly Service Charge (SLRs)	Usage Charge (SLRs/Unit)	Monthly Service Charge (SLRs)	Usage Charge (%)	Monthly Service Charge (%)
Commercial premises, tourist hotels/guest houses, private institutions, mixed developments, and bowser supply						
00–25	150	500	75	290	100	72
26–50	150	750	75	575	100	30
51–75	150	1,500	75	1,150	100	30
76–100	150	1,750	75	1,150	100	52
101–200	150	2,000	75	1,840	100	9
201–500	150	3,000	75	2,875	100	4
501–1,000	150	5,000	75	4,600	100	9
1,001–2,000	150	10,000	75	8,625	100	16
2,001–4,000	150	15,000	75	14,375	100	4
4,001–10,000	150	30,000	75	28,750	100	4
10,001–20,000	150	60,000	75	57,500	100	4
Over 20,000	150	130,000	75	115,000	100	13
BOI approved institutions						
00–25	150	500	61	290	146	72
26–50	150	750	61	575	146	30
51–75	150	1,500	61	1,150	146	30
76–100	150	1,750	61	1,150	146	52
101–200	150	2,000	61	1,840	146	9
201–500	150	3,000	61	2,875	146	4
501–1,000	150	5,000	61	4,600	146	9
1,001–2,000	150	10,000	61	8,625	146	16
2,001–4,000	150	15,000	61	14,375	146	4
4,001–10,000	150	30,000	61	28,750	146	4
10,001–20,000	150	60,000	61	57,500	146	4
Over 20,000	150	130,000	61	115,000	146	13

Sources: National Water Supply and Drainage Board. 2023. *The Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka, No. 2343/28*; Department of Printing. 2022. *The Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka, No. 1776/13—Tuesday September 18, 2012*.

In terms of irrigation-related water supplies, there are no water charges for farmers with less than 10 ha land area. Water for commercial farmers who have more than 10 ha landholding is provided by the Irrigation Department, at SLRs25 per cubic meter.[257]

[257] Food and Agriculture Organization of the United Nations. 2022. *Efficient agricultural water use and management in paddy fields in Sri Lanka*.

Sewerage Tariff for Consumers

The monthly sewerage charge for any consumer or premises includes usage charges, monthly service charges, other charges, and applicable taxes. The sewerage charge for the relevant month is based on the consumption of water, taking into consideration the utilization of all sources of water supply. Consumers can request the bill with separate VAT/Simplified VAT invoices with prior registration with the NWSDB.

Sewerage tariffs are segregated into three main categories and faced a revision in 2022:

(i) Domestic tariff—applies to sewerage services provided to premises for domestic purposes.

(ii) Commercial tariff—applies to education institutions (government and private), religious institutions, hospitals (government and private), nonstate institutions, shops, grocery stores, tourist hotels, guest houses, condominiums, and any other entity not classified as domestic or industrial.

(iii) Industrial tariff—applies to sewerage services provided to premises for mass production purposes.

Table 80: Sewerage Tariffs for Consumers

Water Consumption Units (cubic meters)	Revised (2 August 2023)		Previous (28 December 2011)		Change	
	Usage Charge (SLRs/unit)	Monthly Service Charge (SLRs)	Usage Charge (SLRs/unit)	Monthly Service Charge (SLRs)	Usage Charge (%)	Monthly Service Charge (%)
Domestic tariff						
1–05	10	250	1	200	900	25
1–10	10	400	2	200	400	100
1–15	15	400	2	200	650	100
1–20	22	500	3	200	633	150
1–25	25	500	4	200	525	150
1–30	30	500	6	200	400	150
1–40	35	600	8	200	338	200
1–50	45	600	10	200	350	200
Commercial tariff						
0–05	130	500	40	0	225	NA
06–10	130	1,000	40	0	225	NA
11–25	130	2,000	40	0	225	NA
26–50	130	3,000	40	0	225	NA
51–75	130	4,000	NA	NA	NA	NA
76–100	130	5,000	NA	NA	NA	NA
101–200	130	10,000	NA	NA	NA	NA
201–500	130	20,000	NA	NA	NA	NA
501–1,000	130	30,000	NA	NA	NA	NA
1,001–2,000	130	40,000	NA	NA	NA	NA
2,001–4,000	130	50,000	NA	NA	NA	NA
Over 4,000	130	60,000	NA	NA	NA	NA

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Table 80 *continued*

Water Consumption Units (cubic meters)	Revised (2 August 2023)		Previous (28 December 2011)		Change	
	Usage Charge (SLRs/unit)	Monthly Service Charge (SLRs)	Usage Charge (SLRs/unit)	Monthly Service Charge (SLRs)	Usage Charge (%)	Monthly Service Charge (%)
Industrial tariff						
0–10	88	1,000	65	0	35	NA
11–25	88	2,000	65	0	35	NA
26–50	88	3,000	65	0	35	NA
51–75	95	5,000	65	0	46	NA
76–100	95	10,000	NA	NA	NA	NA
101–200	95	15,000	NA	NA	NA	NA
201–500	95	20,000	NA	NA	NA	NA
Over 500	95	40,000	NA	NA	NA	NA

Sources: National Water Supply and Drainage Board. 2022. *The Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka, No. 2343/29*; National Water Supply and Drainage Board. 2011. *The Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka, No. 1738/7—Wednesday, December 28, 2011.*

Typical Risk Allocation for Water and Wastewater PPP Projects

No information on the risk allocation for water and wastewater PPPs is publicly available.

Water and Wastewater Financing Details

Only the Jaffna Seawater Desalination Plant by SUEZ International reached financial closure as of 2021 and no specific financing details on the project are available in the public domain.

Table 81: Financing Details in Water and Wastewater

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	UA	UA	UA
PPP projects that received export credit agency/international financing institution support	U/A	UA	UA
Typical debt:equity ratio	UA	UA	UA
Time for financial close	UA		
Typical concession period	UA		
Typical FIRR	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Source: National Water Supply and Drainage Board; Industry Research.

Challenges in Water and Wastewater

Demand and Supply Factors

- Revenue losses due to water leakages stemming from poor infrastructure. A major challenge faced by the NWSDB is nonrevenue water, which is a combination of unbilled metered or nonmetered consumption. These are apparent losses and revenue lost by leakages due to poor infrastructure. Overall nonrevenue water as a percentage of total water supply is at a high of 26%.[258]

[258] National Water Supply and Drainage Board. 2021. *Key Performance Indicators Report*—4th Quarter.

- There is no standard mechanism or process for outside players to enter the sector. The current contracting agencies lack expertise to facilitate and form PPPs.
- Water supply for agricultural and industrial use experiences occasional shortages, especially during the dry season. The rapid rise in urbanization and the drive for industry expansion requires relatively large sources of water supply. Nonexistence of a feed-in tariff for private participation is a bottleneck for private and foreign investor participation in the sector.
- Though irrigated agriculture is the largest consumer of water resources in Sri Lanka, the performance of the sector in terms of water use efficiency remains low. The overall irrigation efficiency in the country remains at 30%, which is far below the country's potential. Inadequate funding for repair and maintenance activities, the low standards of irrigation technology, lack of agricultural water management, improper operation of systems, and an uncoordinated approach to rehabilitation and maintenance of irrigation infrastructure are some of the major reasons for low water use efficiency. Additionally, farmers' lack of interest in participating in water management activities has also led to excessive water consumption and low water use efficiency.[259]

Regulatory Factors

- The sector lacks the policy and regulatory environment to attract private sector participation. While the PUCSL was appointed as the official regulator of the water sector, until an industrial Act for the water sector is enacted, the PUCSL will have no authority to regulate this sector.
- Sri Lanka also has a relatively high risk of water degradation due to disasters triggered by natural hazards (such as floods, droughts, and landslides), inefficient agriculture practices, and pollution from agrochemicals and industrial waste. This requires stringent policies backed by strong enforcement and monitoring. While public funding for water projects has increased to around 1% of national gross domestic product (GDP) over the last few years, the financing gap for the sector is still very large (estimated to be around five times the current budget allocation for the sector).[260]

H. Urban Social Housing

Table 82: Key Statistics

Parameter	Value	Unit
Average household size—in persons (national level)	3.7	number
% of households with access to electricity	98.8	%
% of households with a drinking water source within premises	82.9	%
% of households that own land	88.1	%
Total number of housing approvals in Greater Colombo in 2020 ^	6,597	number
Number of housing approvals in Greater Colombo below 1,000 sq. ft in 2022	376	number
Number of registered housing units (national level)	5.2	million
Housing gap (national level)	0.8	million

Sources: Central Bank of Sri Lanka. 2022. *Annual Report and Special Statistical Appendix*; Central Bank of Sri Lanka. 2022; Department of Census and Statistics—Ministry of Economic Policies and Plan Implementation. 2019. *Household Income and Expenditure Survey*; Department of National Planning. 2021. *Public Investment Programme 2021–2024*.

^ Greater Colombo includes five municipal councils (Colombo, Dehiwala-Mount Lavinia, Sri Jayewardenepura, Moratuwa, and Kaduwela), seven urban councils (Wattala-Mabole, Peliyagoda, Panadura, Maharagama, Kesbewa, Horana, and Boralesgamuwa), and eight Pradeshiya Sabhas (Homagama, Kotikawatta-Mulleriyawa, Kelaniya, Attanagalla, Wattala-Mabole, Horana, Panadura, and Mahara).

259 Food and Agriculture Organization of the United Nations. 2022. *Efficient agricultural water use and management in paddy fields in Sri Lanka*.
260 World Bank. 2021. *Sri Lanka Needs New Water and Sanitation Policies to Unlock Investment Barriers*.

1. Contracting Agencies in Social Housing

The following institutions are responsible for implementing projects in the social housing sector:

- Ministry of Urban Development and Housing.
- State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness.
- State Ministry of Rural Housing, Construction and Building Material Industries.
- State Ministry of Estate Housing and Community Infrastructure.

2. Social Housing Laws and Regulations

The following laws govern the housing sector and the provision of social housing in Sri Lanka:

- The National Housing Development Authority Act, No. 17 of 1979 (and its amendments in 1999, 2002, and 2003) provides the regulatory framework for the housing sector in Sri Lanka.
- The National Housing Act makes provisions for the establishment of a national housing fund, for the promotion of housing and building development by the establishment of building societies and by the declaration of bodies of persons as housing bodies and housing companies, and for the grant of assistance by the GOSL for such development.[261]
- The Urban Development Authority Law provides for the establishment of the Urban Development Authority (UDA) to promote the integrated planning and implementation of economic, social, and physical development of certain areas.[262]

Other legislation that may be relevant to the housing sector includes the following:[263]

- The Rent Act, No. 7 of 1972, governs the renting of property.
- Protection of Tenants (Special Provisions) Act, No. 28 of 1970, which protects tenants from property owners who may use force to remove tenants from properties.
- Ceiling on Housing Property Law, No. 1 of 1973, regulates the ownership, size, and cost of construction of housing properties.
- The Land Grants (Special Provisions) Act, No. 43 of 1979, aims to grant agricultural or estate lands to landless citizens of Sri Lanka.
- Apartment Ownership Law, No. 11 of 1973, to provide for the registration of multistoried properties and Condominium Management Authority Law.
- Housing Development Finance Corporation of Sri Lanka Act, No. 7 of 1997, established a public corporation to provide housing-oriented financial services.[264]

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[261] LawNet. 1954. *The National Housing Act*.
[262] Urban Development Authority. 1978. *Urban Development Authority Law, No. 41 of 1978*.
[263] LawNet. 1979. *The Land Grants (Special Provisions) Act of 1979 (Act No. 43 of 1979)*.
[264] HDFC. 2021. *Annual Report*.

The institutions in the housing in Sri Lanka and their functions are given in the table below:

Table 83: Line Ministries and Agencies and Their Functions in the Social Housing of Sri Lanka

Agency	Function

Ministry of Urban Development and Housing	• Provide policy guidance to relevant state ministries and formulate policies in relation to urban development and housing.
	• Responsible for the construction and development of housing complexes for shanty dwellers and low-income groups.
	• Responsible for implementing new housing projects and the provision of credit facilities to resolve housing problems of middle-class families.
	• Introduce storied housing schemes on reasonable rental basis for those seeking temporary residency on a rental basis.
	• Incentivize investors to launch new housing projects by providing lands at concessionary prices to housing construction companies.
	• Departments, statutory institutions, and public corporations under the Ministry include:
	  ◦ The National Physical Planning Department.
	  ◦ Hotel Developers Lanka PLC.

State Ministry of Urban Development, Coast Conservation, Waste Disposal and Community Cleanliness	• Assist in the formulation of policies for urban development, coast conservation, and waste disposal under the direction and guidance of the Minister of Urban Development and Housing.
	• Departments, statutory institutions and public corporations under the State Ministry include:
	  ◦ Urban Development Authority.
	  ◦ Sri Lanka Land Reclamation Development Corporation and related institutions.
	  ◦ Urban Settlement Development Authority.
	  ◦ Condominium Management Authority.
	  ◦ Marine Environment Protection Authority.
	  ◦ Department of Coast Conservation and Coastal Resource Management.

State Ministry of Rural Housing, Construction and Building Material Industries	• Assist in the formulation of policies for rural housing and construction under the direction and guidance of the Minister of Urban Development and Housing.
	• Departments, statutory institutions, and public corporations under the State Ministry include:
	  ◦ National Housing Development Authority.
	  ◦ Building Materials Corporation Limited.
	  ◦ Department of Buildings.
	  ◦ Department of Government Factories.
	  ◦ Construction Industry Development Authority.
	  ◦ State Engineering Corporation.
	  ◦ State Development and Construction Corporation.
	  ◦ National Equipment and Machinery Organization.
	  ◦ Ocean View Development (Pvt) Ltd.

State Ministry of Estate Housing and Community Infrastructure	• Assist in the formulation of policies for estate housing community under the direction and guidance of the Minister of Water Supply and Estate Infrastructure Development.
	• Departments, statutory institutions, and public corporations under the State Ministry include:
	  ◦ New Villages Development Authority for Plantation Regions.
	  ◦ Plantation Human Development Trust.
	  ◦ Thondaman Vocational Training Center.
	  ◦ Prajasakthi (E-Kiosk) Centers.
	  ◦ Thondaman Cultural Center.
	  ◦ Thondaman Sports Complex.

continued on next page

Table 83 *continued*

Agency	Function
Urban Development Authority (UDA)	• Promote integrated planning and implementation of economic, social, and physical development of certain areas declared as urban development areas. • Formulate and implement capital investment promotion programs. • Formulate and implement an urban land use policy. • Carry out building, engineering, and consultancy operations in connection with the development of urban areas. • Develop environmental standards and prepare schemes for environmental improvements. • Provide technical planning service for the need of other government institutions.

Sources: Government of Sri Lanka, Ministry of Urban Development and Housing. *About Us*; The Gazette of the Democratic Socialist Republic of Sri Lanka. No. 2289/43; Urban Development Authority. *About Us*.

Foreign Investment Restrictions in Social Housing

There are no foreign shareholding restrictions in social housing.

Table 84: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in social housing projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts in Social Housing

Specific standard contracts are not available for social housing PPPs. General EPC contracts are used for PPP projects as well.

Table 85: Contract Types

Parameter	Availability
What standardized contracts are available and used in the market?	
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable
Sources: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

3. Social Housing Master Plan

There is no master plan for social housing. However, the National Housing Sector Policy of Sri Lanka (Revision of 2017) published by the Ministry of Housing and Construction targets a well-functioning housing sector that takes care of the housing needs of all its citizens while serving the interests of all its constituents and achieving the country's broad social, economic, and sustainable development goals.[265]

[265] National Housing Development Authority of Sri Lanka. 2017. *National Housing Policy*.

As per the National Housing Sector Policy, the GOSL wishes to mobilize private capital to supplement public investments in housing, particularly to develop mixed high-density housing in strategic locations. However, the policy only discusses the possibility of offering land at agreed terms and assistance with obtaining permits, approvals, concessions, and guarantees. [266]

The GOSL has sponsored and financed many social housing projects, which are developed on government land and undertaken by the National Housing Development Authority (NHDA) and the UDA.

Social Housing Projects Under Preparation and Procurement

There are no social housing PPP projects under preparation or procurement as at 2022; both the PPP projects that reached financial closure were procured prior to 2019.

Based on public sources, there have been two social housing PPP projects.

Table 86: Social Housing Projects that reached financial closure

No.	Project Name	Implementing Agency	Investment		Status
			$ million	SLRs million	
1.	One Colombo Project	Urban Development Authority	23.2	7,000	Project awarded in 2014. The SLRs7 billion resettlement project completed in 2019, and mixed development property is under construction
2.	Mount Clifford Range—Homagama	National Housing Development Authority	22.1	6,660	Completed

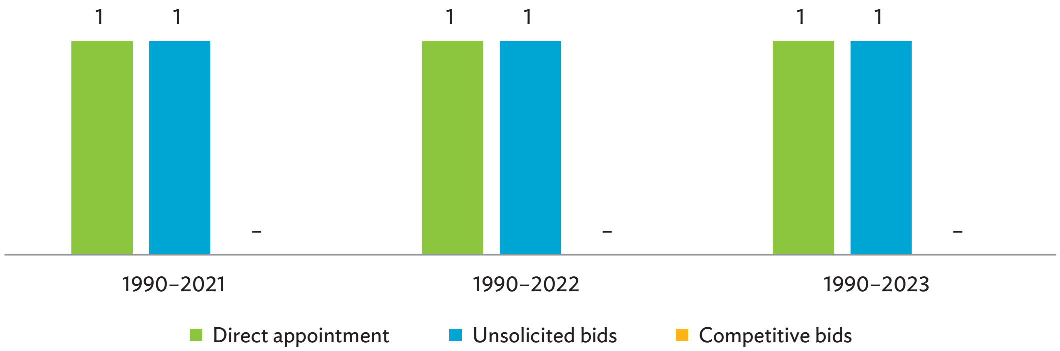
N/A = Not Applicable, UA = Unavailable in Public Sources.
SLRs1 = $0.003319
Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Daily Mirror. 2019. *Tata's Rs.10bn mixed development project likely to begin construction next year*; National Housing Development Authority. 2017. *NHDA and ICC will implement a PPP project in Mount Clifford—Homagama*.

4. Features of Past Public–Private Partnership Social Housing Projects

During 1990–2019, only two social housing PPP projects reached financial closure. The One Colombo Project Pvt., Ltd, is a 100% subsidiary of Tata Housing Development Company, Ltd., that partnered with the UDA to develop 8 acres of land in Kompanyweediya (Slave Island), Colombo. The company was expected to develop ~3 acres of land to relocate families in the area, in lieu of which ~4 acres of land would be granted for its mixed-use development project in Kompanyweediya, Colombo. The agreement for the land lease of 99 years is believed to have been signed with the UDA, with no lease charge.[267] The company was also expected to fund the cost of providing alternate housing or commercial units including the rental payments for the temporary accommodation of the displaced families. The mixed development project, through which the developer is expected to earn a commercial return (as the social housing component does not offer adequate returns to the developer), was to have a 150 room city hotel, 1.1 million sq.ft of residential apartments, 530,000 sq.ft of commercial space, and 115,000 sq.ft of retail space.[268] In August 2019, the first phase of the project was completed and handed over to displaced families. The mixed development property is currently under construction and has faced many delays.

[266] National Housing Development Authority of Sri Lanka. 2017. *National Housing Policy*.
[267] Sunday Times. 2015. *Go-ahead given to stalled TATA housing project in Slave Island*.
[268] Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*.

Figure 40: Modes of Procurement for Public–Private Partnership Social Housing Projects



Note: "–" indicates no projects, data not available, or not applicable according to the database.

Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed*.

Mount Clifford Range, Homagama, was a housing project completed by International Construction Consortium Pvt. Ltd. in partnership with the NHDA. Research indicates that 80% of the housing units were allocated for middle-income housing with a price cap of SLRs5 million per unit imposed by the NHDA, while the balance units were to be constructed and sold at the developer's discretion at market prices.[269]

Although the information available is insufficient to confirm it as a PPP, Wincon Development Ceylon (Private) Limited (which was acquired by MTD Walkers PLC) was awarded a project in the form of a tripartite agreement between the Ministry of Public Administration-Management and Reforms, the BOI, and Wincon. The project was designed to build 25,000 housing units primarily for public sector employees in identified locations, under the Nilasevana housing scheme. The agreement was signed in 2003 for a period of 30 years. By 2015, Wincon had almost completed 1,088 housing units in Galle and was expected to commence construction of 696 units in Kandy. The scheme involved selling housing units to public servants at a cost-plus margin-based price, allowing the developer to recover its cost and a margin, while the value of the land was to be absorbed by the GOSL. However, the land value of units sold to private sector individuals was expected to be paid to the BOI.[270] The land was leased to Wincon by the BOI for the construction of these houses. The BOI, holding legal ownership of the property through vesting orders, was anticipated to undertake Deeds of Transfer. These deeds would convey freehold title for each condominium parcel to the respective buyers.

The UDA released a list of potential high-rise and mid-rise mixed development projects for which land could be made available for private sector development in the form of PPPs in 2021. As per the information deck, the UDA estimates annual demand of 100,000 housing units. Land identified by the UDA for such development included those at the Welikada Prison in Borella, Chalmers Granaries in Colombo Fort, Thalawathugoda, Kurunegala, and Kottawa town center, among many others.[271]

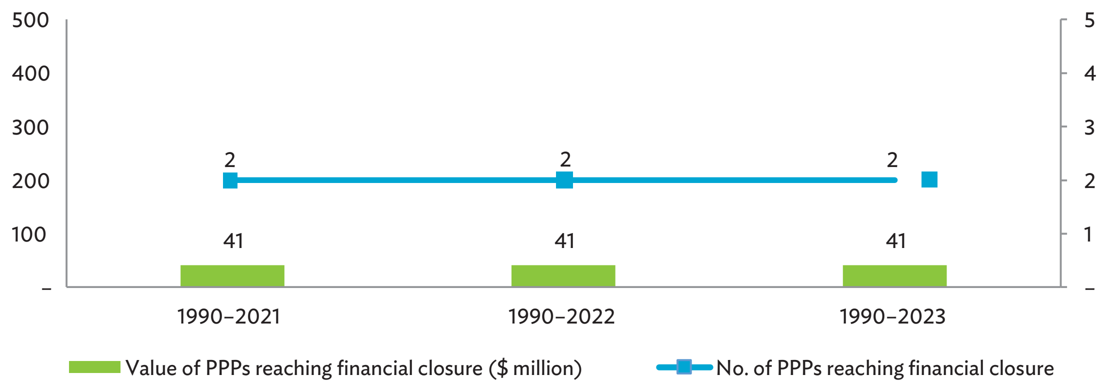
The following table presents the number of PPP projects procured through various modes including direct appointment, unsolicited bids, and competitive bids in social housing in Sri Lanka. The One Colombo Project Pvt Ltd. is a 100% subsidiary of Tata Housing Development and is considered as an unsolicited project, while Mount Clifford Range is considered as a direct appointment.

[269] Sunday Observer. 2019. *ICC's Homagama housing project - phase I completed*.
[270] MTD Walkers PLC. 2015. *Prospectus—Debenture Issue 2015*.
[271] State Ministry of Urban Development, Waste Disposal and Community Cleanliness—Urban Development Authority. 2021. *UDA Investment Forum 2021*.

Figure 54 provides the number of social housing PPP projects that have reached financial closure and the total value of those projects in Sri Lanka. By 2019, both PPP projects identified were procured (One Colombo Project and Mount Clifford Range), hence the number of PPPs reaching financial closure remained constant throughout 2019–2020.

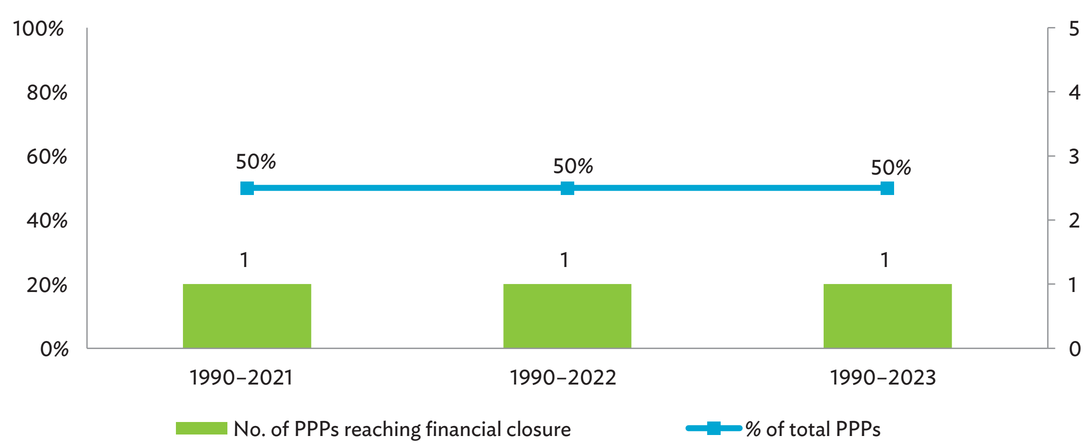
Out of the two PPP projects that reached financial closure, the One Colombo Project was funded by a foreign sponsor (Tata Housing Development).

Figure 41: Public–Private Partnership Social Housing Projects Reaching Financial Closure



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed.*

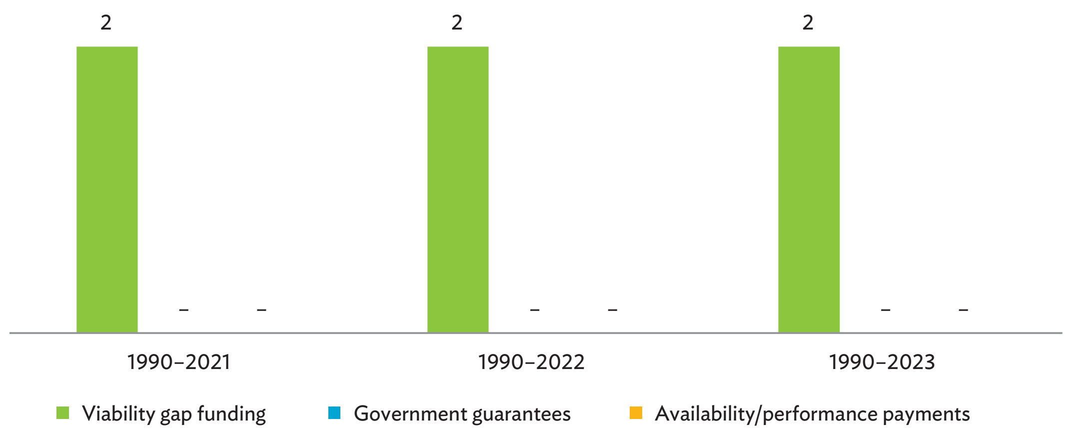
Figure 42: Public–Private Partnership Social Housing Projects with Foreign Sponsor Participation



Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed.*

For both the social housing projects that reached financial closure, government support was provided by way of offering land at concessionary rates; this can be considered as viability gap funding.

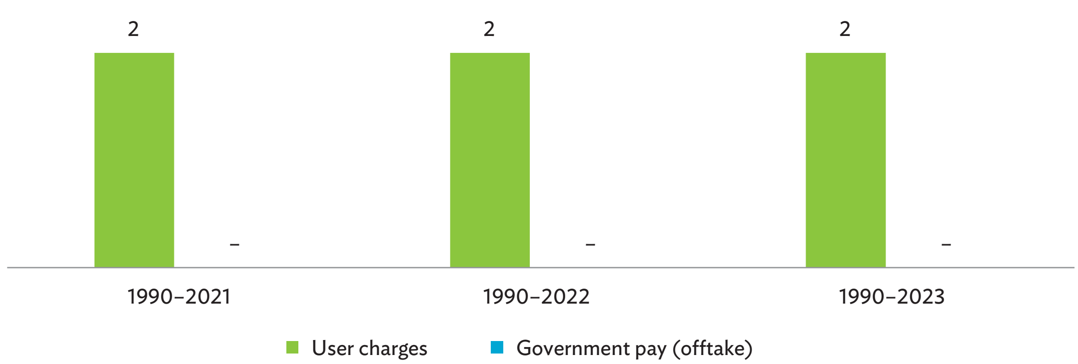
Figure 43: Government Support to Public–Private Partnership Social Housing Projects



Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed.*

Figure 44 shows the number of social housing PPP projects that have received payment in the form of user charges and government pay (offtake). Although the rehabilitated inhabitants would receive housing at no cost in the One Colombo Project, the mixed development project would require public spending, and is hence considered a project with user charges. The Mount Clifford Range project was sold at a maximum price of SLRs5 million to selected parties, while the remaining was sold at a price of the developer's choice; therefore, it is also based on user charges.

Figure 44: Payment Mechanisms for Public–Private Partnership Social Housing Projects



Sources: Sunday Times. 2014. *Tata's unusual deal with UDA; free 8-acre land with trade-offs*; Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed.*

Tariffs in Social Housing

In terms of tariffs for social housing, the GOSL usually sets a ceiling price for units to be sold under concessionary rates. This mechanism was evident in the Mount Clifford Range project, where houses were sold at a maximum price of SLRs5 million to a section of buyers shortlisted by the authority (government servants and middle-income earners).[272]

Typical Risk Allocation for Social Housing PPP Projects

No information on the risk allocation for PPPs in social housing is available because both these projects were undertaken by private companies, and there are insufficient details in publicly available sources on these arrangements.

Financing Details in Social Housing

Of the social housing projects that reached financial closure, no specific financing details are available in the public domain as they were undertaken by private companies.

Table 87: Financing Details in Social Housing

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	UA	UA	UA
PPP projects that received export credit agency/ international financing institution support	UA	UA	UA
Typical debt:equity ratio	UA	UA	UA
Time for financial close	UA		
Typical concession period	UA		
Typical FIRR	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Source: Ministry of Rural and Urban Development, Housing and Construction; Industry Research.

5. Challenges in Social Housing

Demand and Supply Factors

- Growing need for permanent and affordable housing solutions. The need for new housing or improvements to existing housing units has been outlined in the national policy for social housing based on assumptions and data obtained from the Census on Housing and Population 2012. The Public Investment Program 2021–2024 published by the Department of National Planning stated that there were approximately 800,000 families without some form of housing as of 2016, while 300,000 of the existing housing stocks were temporary establishments.[273]

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[272] Sunday Observer. 2019. *ICC's Homagama housing project—phase I completed*.
[273] Department of National Planning. 2021. *Public Investment Programme 2021–2024*; Government of Sri Lanka, Ministry of Housing and Construction. 2016. *Housing Needs Assessment and Data Survey*.

Table 88: Number of Housing Units by Different Sector

Sector	Number of Housing Units
Rural Sector	
Number of housing units to be improved	367,000
Number of new housing units	180,000
Urban sector	
Number of housing units to be improved	167,000
Number of new housing units	66,500
Estate sector ^	
Number of housing units to be improved	135,000
Resettlement housing (post conflict)	
Number of housing units to be improved	57,674
Resettlement from disaster-prone areas	
Number of units	5,190
Total number of units to be improved	726,674
Total number of new units	251,690

^ Refers to the communities living around regional plantation companies.
Source: Government of Sri Lanka, Ministry of Housing and Construction. 2016. *Housing Needs Assessment and Data Survey.*

- Prohibitive financial costs make housing unaffordable to many Sri Lankans. Costs are driven by the shortage of affordable land, the high cost of construction and high costs of financing.
    - The GOSL is the largest landowner of the country; however, no single establishment can identify all available or underutilized land in the country, resulting in supply limitations. Although the GOSL has granted land to individuals in the past under the Swarnabhoomi and other similar programs, it does not grant freehold title, making it difficult for people to borrow for housing needs, using the land as collateral.
    - Given that a majority of the construction inputs are imported, construction costs in Sri Lanka are very high, making it unaffordable for many people to build houses.
    - Borrowing costs have also remained consistently high in Sri Lanka (since 2010, the Average Weighted Lending Rate has ranged within 9.4%–16.9%). Given these factors, accessing housing has become increasingly more difficult for a large majority of the population.[274]
    - The GOSL has provided multiple concessionary loan facilities such as "Home Sweet Home," which grants a maximum loan of up to SLRs10 million with a repayment period of 25 years at an interest rate of 6%.[275] Further, the NHDA grants housing loans of up to SLRs600,000 to low and lower middle-income families that live in temporary housing.[276] Meanwhile, a percentage of the Employment Provident Fund scheme is also permitted to be withdrawn in advance for housing purposes. However, inability to provide collateral, delays and expenses relating to obtaining regulatory approvals, and other factors remain a challenge.
- Lack of a consistent, long-term housing development policy for low- and middle-income earners has made it a challenge for potential homeowners to work toward eventual ownership of a suitable home. Although the NHDA and the UDA have undertaken many projects, they have not completed the

[274] Central bank of Sri Lanka. 2023. *Data library - Central Bank of Sri Lanka; Commercial Bank Lending and Deposit Rates*.
[275] News.lk. 2019. *Eight new loan schemes under Enterprise Sri Lanka*.
[276] Government of Sri Lanka, Ministry of Urban Development and Housing—Housing and Construction Division. Obata Geyak—Ratata Hetak Housing Program.

long-term rollout plan that is visible to potential applicants. The policies for the allocation of these new housing developments to the groups most in need is also not clear and is not conducted in a consistent manner.

Regulatory Factors

- A fragmented and poorly coordinated regulatory system leads to inefficient resource allocation. A fragmented regulatory framework leads to difficulties in targeting groups eligible for subsidies. Furthermore, multiple regulatory authorities exist for urban planning stipulations, building codes, infrastructure standards, land use regulations, and environmental concerns, leading to higher transaction costs and long delays due to the lack of coordination among these authorities.
- Although the country has multiple housing finance institutions, the lack of a coherent long-term policy on housing development projects and allocation according to need is not given adequate consideration. The inconsistency of implementation of existing policies is also a concern.

I. Healthcare

Table 89: Key Statistics

Parameter	Value	Unit
Total health expenditure to GDP	3.8	% of GDP
Health spending per capita	140.0	$
Maternal mortality ratio (modeled estimates per 100,000 live births) (2020)	29	(per 100,000 live births)
Infant mortality rate (2021)	6	(below 1 year/per 1,000 live births)
Life expectancy at birth (male/female) (2020)	73.0/76.4	(years)
Children underweight	20.5	(% below 5 years old)
Child wasting (acute malnutrition)	15.1	(% below 5 years old)
Child stunting (chronic malnutrition)	17.3	(% below 5 years old)
Ranking on the Global Health Index	105.0	Number

Sources: Institute for Health Policy. *Sri Lanka Health Accounts, National Health Expenditure 1990–2019*; Government of Sri Lanka, Ministry of Health Sri Lanka. 2019. *Annual Health Bulletin*; ADB. 2020. *Cumulative Lending, Grant, and Technical Assistance Commitments*; Global Health Security Index. 2021; Budget Brief: Health Sector. Sri Lanka. 2021; UNICEF; The World Bank. *Maternal Mortality Ratio 2000–2020*.

1. Contracting Agencies in Healthcare

The following institutions are responsible for implementing healthcare projects:[277]

- Ministry of Health.
- Department of Health Services.
- Sri Lanka Medical Council (SLMC).
- National Medicines Regulatory Authority (NMRA).

[277] Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*

- State Ministry of Indigenous Medicine Promotion, Rural and Ayurveda Hospitals Development and Community Health.
- State Ministry of Primary Healthcare, Epidemics and COVID Disease Control.
- Provincial Councils (Departments of Health).

Table 90: Line Ministries and Agencies and Their Functions in Healthcare

Agency	Function
Ministry of Health	• To provide technical advice in policy formulation, planning, and programming on promotion of health through advocacy, behavior change communication, social marketing, and community mobilization. • To promote, support, and undertake planning, implementing, monitoring, and evaluation of health promotion programs in different settings. • To coordinate with health-related governmental, nongovernmental, and international agencies and organizations in promoting health of people. • To monitor and evaluate health promotive programs and facilitate monitoring and evaluation of them at different levels. • Departments, statutory institutions, and public corporations under the State Ministry include: ° National Health Council. ° Medical Research Institute. ° National Institute of Health Science. ° Sri Lanka Medical Council. ° Sri Lanka Medical College Council. ° Private Medical Regulatory Council. ° Department of Health Services. ° All national, teaching and specific government hospitals. ° Sri Jayewardenepura General Hospital. ° Vijaya Kumaranatunga Memorial Hospital. ° Ashraff Memorial Hospital. ° School of Medical Laboratory Technology. ° National Institute of Nephrology, Dialysis and Transplantation. ° National Authority on Tobacco and Alcohol. ° 1990 Suwaseriya Foundation. ° Department of Social Services. ° National Council for Elders and National Secretariat for Elders.
State Ministry of Indigenous Medicine Promotion, Rural and Ayurveda Hospitals Development and Community Health	• Assist in the formulation of policies in relation to indigenous medicine promotion, rural and ayurvedic hospital development, and community health under the direction and guidance of the Minister of Health. • Departments, statutory institutions and public corporations under the State Ministry include: ° Department of Ayurveda. ° Sri Lanka Ayurvedic Drugs Corporation. ° Ayurvedic Medical Council. ° Ayurvedic College and Hospital Board. ° Ayurveda Teaching and Research Hospitals. ° Homeopathy Hospital, Welisara. ° Homeopathy Medical Council.

continued on next page

Table 90 *continued*

Agency	Function
State Ministry of Primary Healthcare, Epidemics and COVID Disease Control	• Assist in the formulation of policies in relation to primary healthcare, epidemics, and COVID disease control under the direction and guidance of the Minister of Health.
National Medicines Regulatory Authority (NMRA)	• Protect and improve public health by ensuring medicinal products are available in the country to meet applicable standards of safety, quality, and efficacy. • Regulate medicines, medical devices, borderline products, clinical trials, and cosmetics.
Private Health Services Regulatory Council	• Develop and monitor standards to be maintained by the registered private medical institutions and evaluate the standards maintained by such private medical institutions. • Ensure the minimum qualifications for recruitment and minimum standards of training of personnel are adopted by all private medical institutions and to ensure the quality of patient care services rendered or provided.
Sri Lanka Medical Council (SLMC)	• Ensure maintenance of academic and professional standards, discipline, and ethical practice by registered health professionals.
Postgraduate Institute of Medicine	• The only institute in Sri Lanka responsible for the specialist training of medical doctors and is attached to the University of Colombo.

Sources: Government of Sri Lanka, Ministry of Health (accessed July 2023); National Medicines Regulatory Authority (accessed July 2023); SLMC (accessed July 2023); Post Graduate Institute of Medicine (accessed July 2023); Government of Sri Lanka. 2022. The Gazette of the Democratic Socialist Republic of Sri Lanka. No. 2289/43.

2. Healthcare Laws and Regulations

Multiple laws and institutions are mandated to govern and regulate different aspects of healthcare.

- The Health Services Act, 1952 provides the constitution and responsibilities of the Department of Health and for the establishment of regional hospital boards and hospital committees, and to secure more efficient administration by the local authorities in relation to public health.[278]
- The Private Medical Institutions (Registration) Act, No. 21 of 2006, established the Private Health Regulatory Council, which focuses on the development and monitoring of standards to be maintained by the registered private medical institutions and evaluates the standards maintained by such institutions.[279]
- The SLMC is a statutory body established to ensure the maintenance of academic and professional standards of healthcare workers. The body was established by the Medical (Amendment) Act, No. 40 of 1998, (previously known as the Ceylon Medical Council, established by the Medical Council Ordinance No. 24 of 1924).[280]
- The National Medicinal Regulatory Authority Act established the NMRA as an independent authority to regulate medicines and medical devices in the country.
- The State Pharmaceutical Corporation is the procurement agency for drugs and medical supplies for the Ministry of Health and was established in 1971 under the State Industrial Corporations Act, No. 49 of 1957.

278 Sri Lanka Law. 2022. *Health Services.*
279 Government of Sri Lanka, Ministry of Health. 2022. *Private Health Services Regulatory Council.*
280 World Health Organization. 2021. *Sri Lanka Health System Review.*

Foreign Investment Restrictions in Healthcare

There are no specific foreign investor restrictions in healthcare.

Table 91: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in healthcare projects			
Healthcare infrastructure	100%	100%	100%
Healthcare services	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

Standard Contracts in Healthcare

Specific standard contracts are not available for healthcare PPPs; general EPC contracts are used for healthcare PPPs as well.

Table 92: Contract Types

Parameter	
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable
Sources: ADB. 2019. *Public–Private Partnership Monitor,* Second Edition; Industry research.

3. Healthcare Master Plan

The National Health Strategic Master Plan 2016–2025 provides a framework to develop the health services needed for the country. The format for the strategic framework was designed from the document "Sri Lanka National Health Policy, 1992." The master plan covers aspects ranging from reorganizing and retooling private healthcare to national health performance monitoring and training. A new feature has also been added to the new policy document to link the strategies to achieve the UN Sustainable Development Goals.[281]

Other Developments

The GOSL also launched the policy on healthcare delivery for universal health coverage in 2018.[282] As a key strategic area of the universal healthcare policy, the Ministry of Health and the Ministry of Provincial Councils and Local Government initiated a 5-year project to strengthen primary healthcare, assisted by a $200 million loan provided by the World Bank. There were three key areas of focus: (1) reorganizing primary healthcare to meet Sri Lanka's needs; (2) improving information management systems for people-centric services; and (3) strengthening the health sector through key system improvements.[283]

Funding to execute Sri Lanka's healthcare master plan comes from the government budget, as well as multiple development finance institutions.

281 Government of Sri Lanka, Ministry of Health. 2015. *National Health Strategic Master Plan 2016–2025*.
282 Government of Sri Lanka, Ministry of Health. 2018. *Policy on Healthcare Delivery for Universal Health Coverage*.
283 Government of Sri Lanka, Ministry of Health, Nutrition and Indigenous Medicine. 2019. *Road Map for the Primary Healthcare System Strengthening Project*.

- ADB's $280 million Health System Enhancement Project is focused on developing a responsive and comprehensive primary healthcare system in Sri Lanka. The project will enhance planning and delivering of essential primary healthcare to geographically and socioeconomically deprived populations of Central, North Central, Sabaragamuwa, and Uva Provinces.[284]
- The World Bank approved $129 million to Sri Lanka for the COVID-19 Emergency Response and Health Systems Preparedness Project in 2020 and a further $80 million to implement the second round of financing for this project.[285]
- In 2021, the country received approximately $3 million from the Government of Japan through UNICEF to support the cold chain system and to strengthen the delivery of immunization services.[286]
- The People's Republic of China recently provided a grant to build a state-of-the-art outpatient department complex to the National Hospital of Sri Lanka.[287]
- The German Government contributed Euro 25 million for a six-story maternity hospital with 640 beds and six operating theaters, emergency treatment units, intensive care units, laboratories, infant intensive care units, and special pediatric units to be built in Karapitiya, Galle, which was opened in March 2024.[288]

The Ministry of Health published a national policy on organ, tissue, and cell transplantation of Sri Lanka in 2021.[289] Furthermore, in 2022, the Directorate of Noncommunicable Diseases of the Ministry of Health published a draft national policy and strategic framework for prevention and control of chronic noncommunicable diseases in Sri Lanka.[290] The Ministry also has published sector policies for several other areas including maternal and child health and immunization.[291]

Projects Under Preparation and Procurement in Healthcare

Currently, no healthcare PPP projects are under preparation and procurement.

4. Features of Past Healthcare Public–Private Partnership Projects

There have been no healthcare PPPs in Sri Lanka. However, several private hospitals have been built on government land obtained on long lease, and details of such selected projects are shown below. It has also been announced that a greenfield multispecialty hospital is planned in land designated for the GOSL at the Colombo Port City. According to the Economic Impact Assessment of the Port City Colombo published by PricewaterhouseCoopers Private Limited (Industry Sri Lanka), it is likely that the GOSL may offer its portion of plots at concessionary rates for social infrastructure development, including a hospital.[292]

284 ADB. 2022. *Sri Lanka: Health System Enhancement Project*.
285 World Bank Group. 2022. *Sri Lanka COVID-19 Emergency Response and Health Systems Preparedness Project*.
286 UNICEF. 2021. *Budget Brief: Health Sector, 2021*.
287 DailyFT. 2017. *Construction of China-funded outpatient building of National Hospital begins*.
288 Newswire. 2024. South Asia's largest maternity hospital opened in Sri Lanka.
289 Government of Sri Lanka, Ministry of Health. 2022. *National Policy on Organ, Tissue and Cell Transplantation of Sri Lanka, 2022–2031*.
290 Government of Sri Lanka, Ministry of Health. 2022. *The National Policy and Strategic Framework for Prevention and Control of Chronic Non-Communicable Diseases in Sri Lanka. 2022. Draft*.
291 Government of Sri Lanka, Ministry of Health.
292 PricewaterhouseCoopers. 2021. *Economic Impact Assessment of the Port City Colombo*. Sri Lanka..

Government Land Lease Details for Selected Private Hospitals

Table 93: Private Hospitals on Government Leased Land

Entity Name	Land Lease Details
The Lanka Hospitals Corporation PLC Top five shareholders as of 31 December 2023[a] Fortis Healthcare International Pte Ltd 28.7% Sri Lanka Insurance Corporation Ltd—Life 26.3% Sri Lanka Insurance Corporation Ltd—General 25.1% Property Development PLC 9.5% People's Bank 3.3%	Entered into a 99-year lease agreement with the UDA in 1999. The hospital is currently majority owned by state-owned Sri Lanka Insurance Corporation Ltd.
Asiri Hospital Holdings PLC Top five shareholders as of 31 December 2023[b] Softlogic Holdings PLC 55.1% TPG Growth Fund 28.9% Tundra Sustainable Frontier Fund 2.6% Mr. Chaminda Weerasinghe 0.8% (deceased) Softlogic Life Insurance PLC 0.8% (participating fund)	Asiri Hospital Holdings PLC entered into a lease agreement with the UDA for a period of 50 years commencing in January 2015. Its subsidiary, Asiri Surgical Hospital PLC, obtained leasehold rights to the land for 99 years from the BOI in March 2000.

N/A = Not Applicable, UA = Unavailable in Public Sources.

[a] Lanka Hospitals Corporation PLC. 2023. *Quarterly Financials.*

[b] Asiri Hospital Holdings PLC. 2023. *Quarterly Financials*

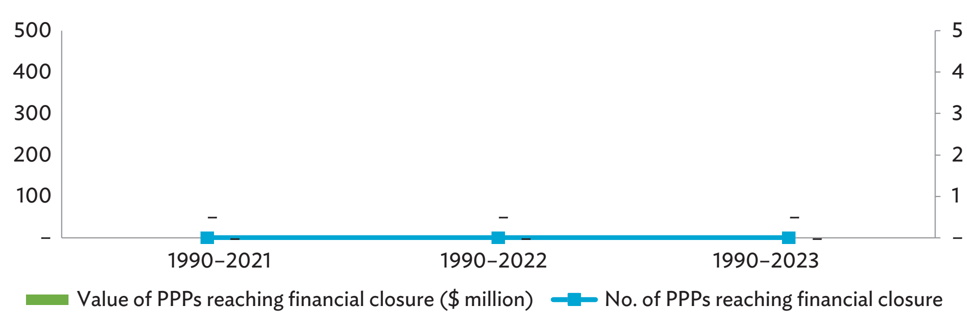
Sources: Lanka Hospitals Corporation PLC. 2022. *Annual Report; Asiri Hospital Holdings PLC*. 2022. Annual Report.

Moreover, the Sri Jayewardenepura Hospital, which is a state-owned, not-for-profit healthcare facility in Sri Lanka is currently run by an independent Board of Directors, but in conjunction with the Department of Health. The hospital was originally a gift from the Government of Japan. The hospital offers free healthcare services, while also operating a paying ward. The hospital also partnered with the Ministry of Youth Affairs and Skills Development to set up a university college to train qualified youth in health-related courses, where the costs were to be shared between the hospital and the Ministry.[293]

There are no healthcare PPP projects procured through various modes including direct appointment, unsolicited bids, and competitive bids in Sri Lanka.

There are no healthcare PPP projects that have reached financial closure (Figure 45).

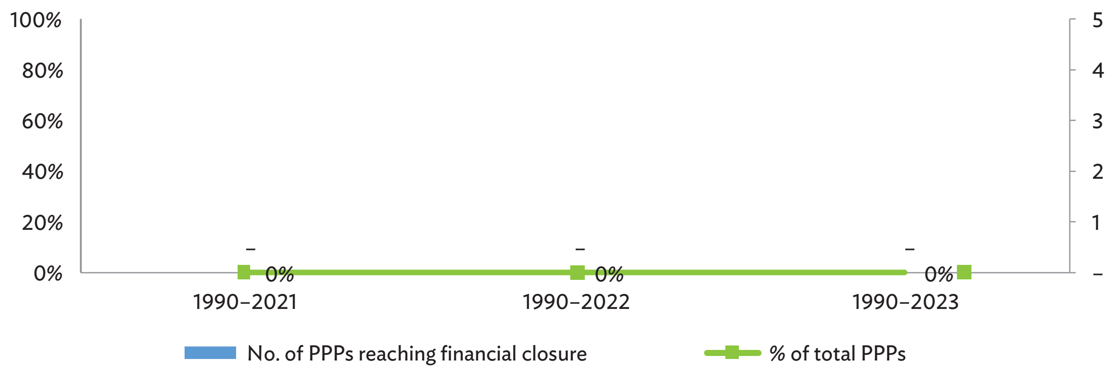
Figure 45: Public–Private Partnership Healthcare Projects Reaching Financial Closure



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: Ministry of Health & Industry research.

[293] ADB. 2017. *Innovative Strategies for Accelerated Human Resource Development in South Asia.*

Figure 46: Public–Private Partnership Healthcare Projects with Foreign Sponsor Participation



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: Ministry of Health & Industry research.

There are no healthcare PPPs to date, therefore no data on PPP projects with foreign sponsor participation or government support programs and payment mechanisms are available.

Tariffs in Healthcare

No information relating to tariffs is available. The NMRA, however, imposes maximum retail prices on drugs as well as medical equipment.

Typical Risk Allocation for Healthcare PPP Projects

There are no healthcare PPP projects to date and so there is no relevant information on risk allocation of projects.

Healthcare Financing Details

Since there are no financially closed healthcare PPPs, the parameters in the table below are not applicable.

Table 94: Financing Details in Healthcare

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A	N/A	N/A
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources.

5. Challenges in Healthcare

Demand Factors

- Lack of preventive care and diagnostics facilities despite high incidence of noncommunicable diseases. This is considered the highest-ranking cause of premature deaths in Sri Lanka, with 83% of annual deaths due to noncommunicable diseases.[294] Poor lifestyle choices combined with an aging population may be the key reasons for the high incidence of noncommunicable diseases in the country. As a result, preventive care and diagnostics for screening and early detection is critical in Sri Lanka and should be supported by advanced technology.
- High out-of-pocket expenditure due to low healthcare insurance penetration. Low healthcare insurance penetration has made private healthcare services unaffordable, with most healthcare expenses being borne by patients as out-of-pocket expenses. The current economic crisis is expected to worsen this issue given that disposable income will further decline making private healthcare less affordable. The GOSL offers health insurance for public servants (through a scheme named Agrahara) and for school children (through a scheme named Suraksha), while some private corporates also offer health insurance for employees. Nevertheless, a large majority, particularly those employed informally, do not have health insurance. The economic crisis that triggered low disposable income further reduced the purchase of health insurance policies.
- High food insecurity levels. According to UNICEF, Sri Lanka is among the top ten countries with the highest number of malnourished children.[295] As of 2019, an estimated 8.2% of the population (~1.7 million people) experienced food insecurity at moderate levels, while those experiencing severe food insecurity amounted to 0.9%.[296] Given the recent food shortages coupled with the high inflationary environment, these figures and the effects of malnutrition are likely to be much higher by the end of 2022.
- Weak regional health security measures. Regional health security has become increasingly important in recent years given the global outbreak of COVID-19. The State Ministry of Primary Healthcare, Epidemics and COVID Disease Control was responsible for responding to and recovering from the COVID-19 pandemic. In 2017, the International Health Regulations Steering Committee of Sri Lanka coordinated the preparation of a National Action Plan for Health Security.[297] Despite having numerous policies in place to face emergency health situations there have been lags in terms of coordination among institutions and timely response to emergency situations.

Supply Factors Including Workforce

- Overburdened public healthcare facilities leading to poor health outcomes. Public healthcare facilities have higher congestion and long wait-times and provide limited high-end tertiary care, particularly in rural areas. While quality of care is reasonable in public institutions (and at times better than in private), the lack of resources is the main concern. Congestion in the public institutions mainly arises from patients bypassing primary healthcare facilities to access the same directly from secondary and tertiary healthcare facilities.
- It is probable that given the current economic crisis—although it is gradually receding—along with increasing costs of private healthcare, coupled with reduced disposable income will cause more congestion within the public healthcare system, as private healthcare becomes less affordable for many individuals.

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294 World Health Organization. 2022. *Noncommunicable Diseases Progress Monitor* (accessed July 2023).
295 UNICEF. 2023. *Sri Lanka Appeal—Humanitarian Action for Children*.
296 Department of Census and Statistics—Ministry of Economic Policies and Plan Implementation. 2019. *Household Income and Expenditure Survey*.
297 Quarantine Unit of Ministry of Health. 2018. *National Action Plan for Health Security of Sri Lanka 2019–2023*.

  - The National Health Strategy Master Plan 2016–2025 as well as other publications such as "Reorganizing Primary Health Care in Sri Lanka" issued by the Ministry of Health in 2017[298] recognizes the shortcomings in primary healthcare in detail.

- Low availability of patient facilities in nonurban and rural areas. Although demand for private healthcare has seen significant growth in recent years, private beds are concentrated in the Colombo District, suggesting that there may be limitations in the availability of beds in more rural areas. Based on a survey conducted in 2017, of the total private beds in Sri Lanka, almost 50% are in the Colombo District.[299]
- Lack of specialized medical services and resource personnel in nonurban and rural areas. Some districts in the country lack specialized treatment centers and resources for cardiology, neurology, and the treatment of diseases such as cancer. For example, out of the 26 districts in Sri Lanka, 14 do not have any beds for neurology and neurosurgery; the Jaffna district has 12 available beds, while Eastern districts such as Trincomalee, Batticaloa, and Ampara have none.[300] Furthermore, as per the Ceylon Medical Journal, Sri Lanka is likely to face a shortage of medical professionals in selected specialties, including ENT, cardiac surgery, oncological surgery, and neurosurgery, as well as allied healthcare staff such as nurses and laboratory technicians if the current training programs are not adjusted to cater for future demand.[301]
- Weak laboratory diagnostics facilities especially in the public sector. The Service Availability and Readiness Assessment, conducted by the Ministry of Health in 2017, identified significant gaps in the domestic healthcare sector in terms of diagnostic services provided. The country scored 45/100 for diagnostic capacity in primary laboratory tests, 68/100 for diagnostic capacity in secondary laboratory tests, and 22/100 for high-level diagnostic equipment (e.g., X-ray machines, CT scans, and ECG). Congestion and long waiting times for laboratory and diagnostics services is also evident in the public sector.
- Inefficient resource utilization due to preference for a doctor-centric treatment model. The healthcare system in Sri Lanka is characterized by a strong doctor-centric model, where patients seek treatment from well-known doctors, rather than hospitals. Medical professionals are also permitted to work in both public and private sectors, which also leads to the private sector being significantly underutilized during peak hours and very crowded during nonpeak hours (medical professionals work at state hospitals between 8 a.m. and 4 p.m. and work in the private sector in the remaining time).
- Limited use of technology across the industry has led to healthcare inefficiencies. For example, Sri Lanka does not use technology for recording and sharing of patient data. Digital screening and treatment are limited, although in recent years there have been some increase in the offerings by the private sector.

Regulatory Factors

- Sri Lanka has not historically recognized any programs offered by private medical colleges in the country; however, with the recent Cabinet approval being granted to Kothalwala Defence University Hospital to establish a fee-paying MBBS, medical degree changes may come along in that front. However, such an experiment was carried out several years ago with the SAITM medical university, attached to the Neville Fernando Hospital, which had to be closed down due to many social, political, and union interferences within the country. The SLMC recognizes only a select number of international universities, and students graduating from these universities are registered to practice medicine in Sri Lanka after clearing a qualifying exam and completing an internship in the country. Furthermore, foreign medical professionals are only permitted to work in Sri Lanka if approved by the Ministry and the SLMC, following a very lengthy process. Room for knowledge and skills transfer to local medical professionals is therefore very limited.

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298 Government of Sri Lanka, Ministry of Health, Nutrition and Indigenous Medicine. 2017. *Reorganizing Primary Health Care in Sri Lanka.*

299 Medical Statistics Unit. Ministry of Health, Nutrition and Indigenous Medicine. 2017. *Basement Report of the Institution Frame of Private Sector of Western Medicine and State Indigenous Medicine Sector.*

300 Government of Sri Lanka, Ministry of Health. 2019. *Annual Health Bulletin.*

301 M.D. De Silva. 2017. How Many Medical Specialists do Ministry of Health-Sri Lanka need by 2025: Use of System Dynamics Modelling for Policy Decisions. *Ceylon Medical Journal.* 62(3). pp. 141–148.

- Sri Lanka lacks a National Accreditation Board and a standardized grading system for the quality of hospital infrastructure. It is essential to have a standard grading system to impose various price controls for differently graded hospitals (i.e., price controls imposed by the GOSL to be applicable to certain graded hospitals, while premium graded hospitals to be excluded from price controls). Such initiatives will be essential to encourage private participation in the healthcare industry and enable high-quality investments.

J. Education

Table 95: Key Statistics

Parameter	Value	Unit
Government expenditure on education	1.2	% of GDP
Education spending as a proportion of total government spending	9.9	%
Primary school gross enrolment	96.9	%
Tertiary gross enrolment (higher education enrolment) ^	23	%
Student teacher ratio (government schools)	16.8	Number
Student teacher ratio (universities)	19.1	Number
Total number of schools	11,095	Number
Government schools	10,126	Number
Total number of universities ^	17	Number
Total number of other higher education institutions	19	Number
Adult literacy rate	92.6	%
Scoring for skillset of graduates	4.4	1 (worst)–7 (best)
Scoring for quality of vocational training	4.3	1 (worst)–7 (best)
Scoring for digital skills among active population	4.2	1 (worst)–7 (best)

^ Only the state sector university enrolment is available in the Central Bank of Sri Lanka database. Compiled private sector university data are not available in the public domain.

Sources: World Bank. 2022. World Bank Open Data (accessed July 2024); Central Bank of Sri Lanka. 2021. *Annual Report 2021—Economic and Social Infrastructure*; The World Economic Forum. 2019. *The Global Competitiveness Report*; The Global Economy 2021. *Sri Lanka Primary School Enrollment Data*; Annual School Census of Sri Lanka. 2021. *Summary Report. Ministry of Education*.

1. Contracting Agencies in Education

The Ministry of Education (MOE) is the apex body governing education and oversees developments in primary, secondary, and tertiary education. As per the latest gazette issued with ministerial allocations, 39 state departments come under the direct purview of the MOE, with the key institutions following:[302]

- National Education Commission.
- University Grants Commission.
- Tertiary and Vocational Education Commission (TVEC).
- Department of Examinations.
- Department of Educational Publications.
- Vocational Training Authority of Sri Lanka.
- National Apprenticeship and Industrial Training Authority.

302 Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*

The National Education Commission is expected to develop and review the National Education Policy,[303] while the University Grants Commission is responsible for the planning and coordination of university education.[304] The TVEC is the apex body responsible for technical and vocational education and training, focusing on policy formulation, planning, quality assurance, coordination, and development of tertiary and vocational education.[305]

Private participation is evident from primary to tertiary education, playing a significant role in urban areas. Nevertheless, the state has a heavy presence in primary and secondary education through the government school system; government-funded national (396) and provincial schools (9,730) that operate across the island (10,126 schools in 2022)[306] provide primary and secondary education free-of-charge, while assisted schools and semigovernmental schools provide the same at subsidized rates.

At the tertiary level, universities and vocational education centers operated by the government and nonprofit organizations provide undergraduate courses free of charge. However, government-funded universities can accommodate only around 25% of qualified candidates (who meet the minimum criteria for university entrance).[307] As a result, the private participation is important in the Sri Lankan higher education sector. These private higher education providers can be categorized into four main categories:[308]

- Foreign degree-awarding institutes—these are private entities established under the Companies Act, offering both undergraduate and postgraduate programs, which are not accredited by the UGC, on a fee-paying basis. Some of these entities are registered with the BOI and enjoy investment incentives offered by the BOI. They mainly offer coaching for foreign degrees. Some of these institutions offer UGC-approved degree programs (which are subject to UGC's review process) as well.
- Cross-border institutions—this is the branch campus model, which acts as an affiliate of international universities that have their accredited curriculum being taught with supervision from the main university. These institutions act as a direct affiliate of the foreign campus.
- Professional institutions registered in Sri Lanka and overseas—offering professional qualifications (e.g., Institute of Chartered Accountants of Sri Lanka, Institute of Bankers of Sri Lanka, Sri Lanka Institute of Chartered Architects, Chartered Institute of Management Accountants—UK, British Computer Society—UK, and Chartered Financial Analyst—USA). The curriculum and standards of these institutions are determined under the supervision of the relevant professional body, and faculty members are generally part-time (coming from various professions and industries).
- UGC-approved degree-awarding institutions that offer local degrees on a fee-paying basis. Some of these institutions also offer foreign degree programs, which are not subject to UGC's review process.

Out of the above, the first three categories are not subject to regulatory interventions by the UGC or the MOE, while the fourth is subject to UGC and MOE regulations but enjoys more autonomy than state universities in their operational activities. The professional institutions have been created under specific Acts and are governed by the same (i.e., Institute of Chartered Accountants of Sri Lanka Act 1959, Institute of Bankers of Sri Lanka Act 1979, and Sri Lanka Institute of Architects Act 1996), while foreign professional bodies operate under the governance structures of the respective foreign educational body.[309]

303 National Education Commission. 2019. *Main Function* (accessed July 2023).
304 University Grants Commission. 1978. *Universities Act*. Sri Lanka (accessed June 2023).
305 Tertiary and Vocational Education Commission. 2019. *Background* (accessed June 2023).
306 Government of Sri Lanka, Ministry of Education. 2024. *Summary Report 2022 - Annual School Census of Sri Lanka—Summary Report 2022*.
307 University Grants Commission. 2022. *University Admission*.
308 ADB. 2017. *Innovative Strategies for Accelerated Human Resource Development in South Asia: Sri Lanka.*
309 Footnote 308.

As a result of private higher education being largely independent of the MOE's purview, an industry association of the Sri Lanka Association of Non-State Higher Education Institutes was created in 2016 through the initiation of seven leading private institutes. This association is focused on addressing the requirements of the nonstate higher education sector, primarily aiming to enhance the capacity of high-quality higher education to keep up with the increasing demand.[310]

2. Education Laws and Regulations

The Education Ordinance No. 31 of 1939 proposed the establishment of the Department of Education, under the purview of the Director General of Education. The Act also established a 10-member Central Advisory Council to advise the Minister on all matters relating to education. Guidelines on the establishment of a Central Advisory Council, School Examinations Advisory Council, Educational Research Council, and local advisory committees are outlined in the ordinance.[311]

The Universities Act, No. 16 of 1978, proposed the establishment of the UGC, consisting of a Chairperson, a Vice-Chairperson, and five other members appointed by the President of Sri Lanka. The UGC is responsible for planning and coordinating university education, allocating funds approved by Parliament for university education to higher education institutions and controlling their expenditure. The UGC is also responsible for the maintenance of academic standards, regulation of the administration, and the admission of students to higher education institutions.[312]

The National Education Commission Act, No. 19 of 1991, proposed the establishment of the National Education Commission to advise on the development and review of the National Education Policy. The commission comprises chairpersons of the UGC and TVEC; member representations from MOE, MOF, and provincial councils; and representatives with expertise in fields of education, administration, or management.[313]

The Tertiary and Vocational Education Act, No. 20 of 1990, proposed the establishment of TVEC, which is responsible for advising the MOE on the general policy relating to tertiary and vocational education, coordinating the system of tertiary education and vocational education, and operationalizing general policy regarding tertiary education and vocational education. Amendments introduced in 1999 to the Act proposed 10 out of 17 members of TVEC including its Chairperson, to represent the employer associations and private sector entrepreneurs.[314]

The Vocational Training Authority of Sri Lanka Act, No. 12 of 1995, proposed the establishment of the Vocational Training Authority of Sri Lanka to oversee all functions related to vocational training programs in the country. The authority is responsible for the formulation of programs for vocational training and executing them (via agency in the public or private sector) to eligible persons to enable them to acquire the necessary skills required for employment.[315]

The School Development Boards Act, No. 8 of 1993, proposed the establishment of a School Development Board for every school. Each board should consist of a principal, senior deputy principal, three teachers at the school, three parents of pupils, and three past pupils. The board is responsible for advising and assisting the principal in matters connected with the development of the school, assess and assist in the current needs and performance of the school, recommend relevant improvements to academic curricula and modes of teaching, and assist in the development and maintenance of the school infrastructure.[316]

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310 Sri Lanka Export Development Board. 2022. *SLANSHEI Contribution to Non-State Higher Education Sector* (accessed June 2023).
311 Sri Lanka Law. 2022. *Education Ordinance* (accessed June 2023).
312 University Grants Commission. 1978. *Universities Act* (accessed July 2023).
313 National Education Commission. 2022. *National Education Commission Act, No. 19 of 1991* (accessed July 2023).
314 Sri Lanka Consolidated Acts. 2022. *Tertiary and Vocational Education Act (No. 20 of 1990)* (accessed July 2023).
315 Sri Lanka Consolidated Acts. 2022. *Vocational Training Authority of Sri Lanka Act (No. 12 of 1995)* (accessed July 2023).
316 Sri Lanka Consolidated Acts. 2022. *School Development Boards Act (No. 8 of 1993)* (accessed July 2023).

The most recent notable education legal enactment was the General Sir John Kotelawala Defence University bill that was tabled in Parliament in 2021. General Sir John Kotelawala Defence University currently operates as a tertiary education provider offering education qualifications accredited by the UGC, and provides services to both state sector candidates (free education) as well as fee-paying private students. The new Bill proposed that the university operate outside UGC's purview, with the ability to make independent decisions on the entry curriculum content and quality standards. Instead of the UGC, the Board of Governors of the university (six out of nine members have a military background) were to be authorized to make the required decisions. The public viewed the proposed amendment as the militarization of the higher education system and the establishment of a nonregulated state system for private education. The Bill was not passed because of this heavy resistance.[317]

In addition, as of April 2024, the Cabinet granted permission for local students to enroll in MBBS medical degree programs, effective 2024. This will be based on a student's "Z Score" attained at their GCE Advanced Level examination, along with other relevant qualifications. This is considered a strategic move by the incumbent government, aimed at stemming the outflow of qualified medical students leaving the country to countries such as Bangladesh, Belarus, and the People's Republic of China to pursue their MBBS medical degrees.[318]

Note—General Sir John Kotelawala Defence Academy was established through the Sir John Kotelawala Defence Academy Act, No. 68 of 1981, with the main purpose of operating as a joint services academy where cadets of the armed forces of the country (Sri Lanka Army, Navy, and Air Force) are trained before they go for pre-commission training to their academies. The Act was amended in 1988, upgrading the academy to a university. Currently, the university comes under the purview of the Ministry of Defence.[319]

Table 96: Key Line Ministries and Agencies Regulating Education in Sri Lanka

Agency	Function
Ministry of Education (MOE)	• Formulation, implementation, monitoring, and evaluation of policies, programs, and projects in relation to the education sector. • Implementation of policies relating to education sector development ensuring optimum collaboration among early childhood, primary, secondary, and tertiary education. • Provision of policy guidance for the preparation of a clear road map from preschool education to completion of higher education. • Regulation of international and private schools in conformity with the National Education Policy. • Administration of School Development Boards. • Regulate and accredit private and international universities and institutions of higher education operating in Sri Lanka. • Introduction of education reforms to cover the overall education sector in line with global requirements.
National Education Commission	• Advise the President of Sri Lanka to develop a comprehensive National Education Policy and Plan. • Make recommendations on education policy with a view of enabling the education system to respond to society's changing needs, including an immediate review of education policy and plans. • Periodically review and analyze the National Education Policy and Plan in operation and, where necessary, recommend changes in such policy or plans to the President of Sri Lanka.

continued on next page

[317] Ground Views. 2021. *Killing Free Education with the Kotelawala National Defence University Bill*.
[318] DailyFT. *Medical degree admissions for local students at KDU*.
[319] Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*

Table 96 *continued*

Agency	Function
University Grants Commission	• Plan and coordinate university education coming under its purview. • Allocate funds to higher education institutions. • Maintenance of academic standards and regulation of the administration of higher education institutions. • Regulate admission of students to higher education institutions.
Tertiary and Vocational Education Commission (TVEC)	• Plan, coordinate, and develop tertiary and vocational education at all levels in keeping with the human resource needs of the economy. • Development of a nationally recognized system for granting of tertiary and vocational education awards (including certificates and other academic distinctions). • Maintain the academic and training standards of institutes providing tertiary and vocational education.
Vocational Training Authority	• Formulate and facilitate (conducting) vocational training programs to eligible persons to acquire the necessary skills required for employment. • Conduct national trade tests and examinations and issue certificates and other awards to persons who have undergone vocational training. • Offer career guidance and counseling services to persons who have undergone vocational training. • Offer job placement services, wherever possible, to persons who have satisfactorily completed vocational training.
National Apprentice and Industrial Training Authority	• Provide industry acceptable technical and vocational training to youth. • Maintain institutional-based training systems with fully fledged and up-to-date training facilities and techniques. • Develop a competent and confident professional workforce to meet the country's industry requirements and standards.
Department of Technical Education	• Direct, supervise, and coordinate technical education and training programs. • Identify the needs and prepare appropriate technical education and training programs.
Specialized institutions	• It is noted that there are several specialized institutions established by Acts of Parliament (e.g., University of Vocational Technology, Ocean University of Sri Lanka, Ceylon German Technical Training Institute, and National Institute of Business Management).
Other Industry Associations	
Sri Lanka Association of Non-State Higher Education Institutes	• Provide a forum and other mechanisms for the exchange of expertise, knowledge, best practices, and other resources of private higher education institutions. • Coordinate a unified approach among higher education institutions to resolve common issues. • Facilitate a unified view in representation of interest on higher education policies, legislation, plans, development programs, and other measures affecting the members. Conduct negotiations with appropriate government and other agencies for continued student and institutional benefits. • Promote the benefits of quality private higher education to the Sri Lankan public and to other key stakeholders. Promote nonstate higher education institutions and programs in regional markets to make Sri Lanka the "Vision of Education Hub in Asia."

Sources: Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*; Sri Lanka Law. 2022. *Education Ordinance* (accessed July 2024); University Grants Commission. 1978. *Universities Act*. (accessed July 2023); National Education Commission. 2022. *National Education Commission Act, No. 19 of 1991*; Sri Lanka Consolidated Acts. 2022. *Tertiary and Vocational Education Act (No. 20 of 1990)*; Sri Lanka Consolidated Acts. 2022. *Vocational Training Authority of Sri Lanka Act (No. 12 of 1995)*; Sri Lanka Export Development Board. 2022. *SLANSHEI Contribution to Non-State Higher Education Sector*.

Foreign Investment Restrictions in Education

Real estate infrastructure (excluding land) for education-related services enjoys full foreign ownership ability, while a 40% restriction exists for provision of education services. However, with special approval from the BOI, higher foreign ownership can be facilitated even to provide education services.[320]

Table 97: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in education projects			
Education infrastructure	100%	100%	100%
Education services	40%	40%	40%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*. https://investsrilanka.com/wp-content/uploads/2023/01/InvestmentGuide2022.pdf.

Standard Contracts in Education

Specific standard contracts are not available for education PPPs. General EPC contracts are used for education PPP projects as well.

Table 98: Contract Types

Parameter	
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

3. Education Master Plan

The MOE, in collaboration with provincial education authorities and national-level education institutions, has developed a strategic plan for 2021–2025, in accordance with the principle of "learning for all" in primary and secondary education. The medium-term plan has been prepared under the four key thrust areas: strengthening equity in education, improving quality of education, strengthening stewardship and service delivery of general education, and enhancing evidence-based education policy making and planning.[321]

[320] Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.
[321] Central Bank of Sri Lanka. 2021. *Annual Report 2021—Economic and Social Infrastructure*.

The following can be identified as potential components of the overall education masterplan.

Table 99: List of Projects in Education

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	Secondary Education Sector Improvement Program—ADB funded	MOE	400	121	Ongoing implementation
2.	Science and Technology Human Resource Development Project—ADB funded	MOE	145	44	Ongoing implementation
3.	Microsoft Initiative on Enhancing Distance Learning—Microsoft funded	MOE	UA	UA	Ongoing implementation
4.	Accelerating Higher Education Expansion and Development (AHEAD)—World Bank funded	MOE	UA	UA	Ongoing implementation
5.	Skills Sector Development Program—World Bank and ADB funded	MOE	UA	UA	Ongoing implementation
6.	New National School Development Program	MOE	5	2	Ongoing implementation

N/A = Not Applicable, UA = Unavailable in Public Sources.
SLRs1= $0.003319
Sources: ADB. 2020. *Secondary Education Sector Improvement Program*; ADB. 2019. *ADB, Universities Sign Agreements to Foster Science and Technology in Sri Lanka's Higher Education*; Central Bank of Sri Lanka. 2021. *Annual Report 2021—Economic and Social Infrastructure*; Microsoft. 2020. *Sri Lanka's Ministry of Education enables digital and interactive classrooms with Microsoft*; World Bank. 2020. *Accelerating Higher Education Expansion and Development (AHEAD)*; ADB. 2019. *Sri Lanka: Skills Sector Enhancement Program*; Government of Sri Lanka, Ministry of Education. 2020. *1,000 National Schools Program*.

The Secondary Education Sector Improvement Program funded by ADB is focused on supporting the reforms of the upper secondary education of Sri Lanka, under the GOSL's General Education Sector Development Plan 2020–2025. The program aims to achieve enhanced quality and relevance of upper secondary education in science, technology, mathematics, and commerce subject streams. The initiative also focuses on improving provincial and school capacity to implement these education reforms.[322]

The Science and Technology Human Resource Development Project is an ADB-funded initiative to improve access to employment-oriented higher technology education. Under the program, four state universities (University of Sri Jayewardenepura, University of Kelaniya, Rajarata University, and Sabaragamuwa University) will develop complete degree program curricula in technology or engineering, incorporating industry inputs and aligned with international standards. The project will also support the recruitment and training of academic staff for the new programs, while universities are expected to develop joint proposals with industry partners for research and development activities to resolve industry problems.[323]

Microsoft and the MOE signed a Memorandum of Understanding in 2020, to advance distance learning facilities by enabling educators to embrace Microsoft Office 365 tools and build their IT competence, while efficiently engaging students in virtual classrooms. Under the Memorandum of Understanding, Microsoft will support the Ministry by providing students, teachers, pirivenas (monastic education centers), teacher training schools, and Ministry officials with free access to Microsoft Office 365 tools, such as OneNote, Word, Excel, PowerPoint, and Microsoft Teams, across PCs, tablets, and smartphones.[324]

322 ADB. 2020. *Secondary Education Sector Improvement Program*.
323 ADB. 2019. *ADB, Universities Sign Agreements to Foster Science and Technology in Sri Lanka's Higher Education*.
324 Microsoft. 2020. *Sri Lanka's Ministry of Education enables digital and interactive classrooms with Microsoft*.

Accelerating Higher Education Expansion and Development (AHEAD) is a World Bank-funded Sri Lankan Government operation to support the higher education sector. The initiative has two components: (1) supporting the national higher education development program; and (2) capacity building and technical assistance that will assist the GOSL in strengthening the higher education sector. The initiative's result areas include increasing enrolment in higher education with special emphasis on study programs required for an aspiring upper-middle-income economy, broadening and deepening modern teaching and learning approaches that combine academic excellence with high-quality socioemotional skills and promoting a vibrant research and innovation culture that can support economic development, especially the growth of higher-value industries and services.[325]

The Skills Sector Development Program is a mega initiative that operated from 2014 to 2020 in skills development with funding support from ADB and the World Bank. The program expected to reorient the country's technical and vocational education and training (TVET) system to focus on increasing the gainful employment of the labor force. The program was the first sector-wide, medium-term development program incorporating several areas of training development efforts.[326]

In December 2020, Cabinet approved a proposal by the MOE to upgrade 831 selected schools to the "national school" category to increase the number of national schools in the country to 1,204. During 2021, SLRs2 billion was allocated for this program, and each of the selected schools received SLRs2 million for improvement and development of physical and learning infrastructure—as the first step, nine schools were declared national schools in early 2021.[327] Out of the total 334 divisional secretariats in the country, 123 (37%) do not have any national schools. This project will be implemented in three phases: (1) upgrading identified schools in each of 123 divisional secretariats to the national school status with facilities for advanced level (secondary) education, (2) focusing on upgrading 673 more schools to national school status, and (3) focusing on further upgrades to the existing 373 national schools.[328]

Education Projects Under Preparation and Procurement

No education PPP projects are under preparation or procurement. Given the nature of private participation, only the higher education segment is evaluated in this analysis.

During 2017–2019, a government grant was provided under the guidance of the Prime Minister's office to set up a Centre of Excellence for Higher Education on a need-blind admissions policy on a not-for-profit basis.[329] The Higher Institute of Technology (Guarantee) Ltd was proposed as a PPP, with 10 leading corporates pledging their financial support to the Prime Minister's office, which acted as the main state agency. The entity was established, and a feasibility study was conducted in collaboration with the University of California, Berkeley. In addition to the initial grant, a 125-acre plot of land in Gampaha district was also proposed to be allocated to develop a university township as a PPP. However, after the change of government in 2019, this project did not progress.[330]

4. Features of Past Education Public–Private Partnership Projects

Despite involvement by both private and public stakeholders in education, only a limited number of clear PPP initiatives can be identified. Given the nature of private participation, only the higher education segment is evaluated in this analysis.

325 World Bank. 2020. *Accelerating Higher Education Expansion and Development (AHEAD)*.
326 ADB. 2019. *Sri Lanka: Skills Sector Enhancement Program*.
327 Central Bank of Sri Lanka. 2021. *Economic and Social Infrastructure.*
328 Government of Sri Lanka, Ministry of Education. 2020. *1,000 National Schools Program*; Sunday Times. 2022. *1000 national schools project*.
329 Need-Blind Admissions Policy—policy of not considering applicants' financial capacity when enrolling and all eligible students being given priority in admissions.
330 DailyFT. 2017. *Sri Lanka to set up business college with University of California—Berkeley*.

In 1999, Sri Lanka Institute of Information Technology (SLIIT) was established as a company limited by guarantee, with seed funding and land contribution from the Mahapola Trust Fund (MTF). A loan of SLRs373 million was provided as seed funding and 25 acres of land in Malabe was also granted on a concessionary lease. Academics and professionals became members of the institute, as guarantors, which is one of the custodianship models followed by the highest ranked and most successful universities in the world. Currently, SLIIT is a leading nonstate, degree-awarding institute approved by the UGC, and a member of the Association of Commonwealth Universities and the International Association of Universities.[331]

- The MTF is an education trust fund created under the Mahapola Higher Education Scholarship Trust Fund Act, No. 66 of 1981, to aid deserving youth in completing their higher education. The MTF is controlled by a board of trustees who make decisions on fund raising; receive grants, gifts, or donations from local or foreign sources; and grant endowments or scholarships on behalf of the Fund. The Board also has authority to take, hold, sell, mortgage, lease, exchange, or dispose any movable or immovable property and invest money belonging to the Fund.[332] Currently, the Fund operates under the Ministry of Trade, Commerce and Food Security.[333]

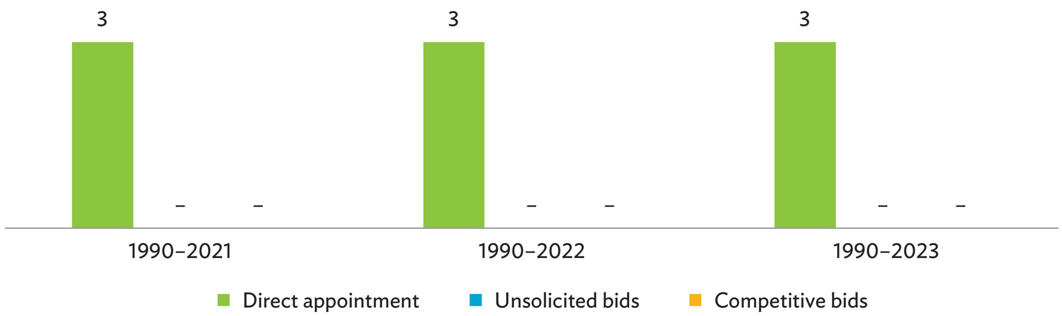
The National School of Business Management (NSBM) was established in 2011 in Homagama, as a registered company under the Companies Act, and a fully owned subsidiary of the National Institute of Business Management (NIBM). The project received a concessionary lease from the GOSL for a 25-acre plot of land to develop the university complex of over 110,000 square meters, and a concessionary bank loan of SLRs10 billion from state-owned Bank of Ceylon. The NSBM operates under the governance of a Board of Directors, which comprises industry experts and representatives of MOE and MOF. Currently, the NSBM caters to a 10,000-strong student body with approximately 3,000 annual student enrolments. The NSBM is in the process of developing Phase II of the project on a 15-acre land adjoining the current project (acquired from the UDA on a 30-year lease). The NSBM comes under the purview of the MOE via its ownership of the NIBM.[334]

- The NIBM is established under the National Institute of Business Management Law, No. 23 of 1976, to train and educate managerial and supervisory staff and facilitate specialists in the various functional areas of management for advice, consultancy, and special assignments. The NIBM is also responsible in assisting the GOSL and private organizations to improve productivity and establish performance standards. The Act proposed NIBM to invest, hold, sell, mortgage, lease, exchange, or dispose any movable or immovable property. The NIBM operates under a Board of Governors that comprises the NIBM Director General and representatives from relevant state ministries in charge of industries, planning, finance, labor, and foreign and internal trade, and the Chamber of Commerce. The NIBM also operates its own tertiary education institutions and programs, while being the owner of the NSBM.[335]

The Sri Lanka Institute of Nanotechnology (SLINTEC) was established in 2008 in Homagama as a PPP initiative, with the patronage of the GOSL and leading private corporates in the country. The GOSL provided 50 acres of land and an initial investment of SLRs250 million (for 50% of the stake), with five private partners investing SLRs40 million each for a 10% stake per partner. Currently, SLINTEC remains the pioneer in nano and advanced technology research in Sri Lanka, focusing on six primary research areas: printed electronics and sensors; technical textiles; advanced agriculture and technology; minerals and composites; energy; and rubbers, plastics, and novel polymers. The SLINTEC comes under the purview of the MOE.[336]

331 Sri Lanka Institute of Information Technology. 2022. *The True Story of SLIIT*.
332 Ministry of Justice. 2020. *Mahapola Higher Education Scholarship Trust Fund*.
333 Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*
334 NSBM Green University Town. 2021. *Our Journey 2016 to 2021*.
335 Sri Lanka Consolidated Acts. 2022. *National Institute of Business Management Law (No. 23 of 1976)*.
336 Sri Lanka Institute of Nanotechnology. 2022. *Overview*.

Figure 47: Modes of Procurement for Public–Private Partnership Education Projects



"–" indicates no projects, data not available, or not applicable according to the database.

Sources: Government of Sri Lanka, Ministry of Justice. 2020. *Mahapola Higher Education Scholarship Trust Fund*; NSBM Green University Town. 2021. *Our Journey 2016 to 2021*; Sri Lanka Institute of Nanotechnology. 2022. *Overview* (accessed July 2023).

In 2013, the University of Central Lancashire received a 120-acre plot of land from BOI at the Mirigama Export Processing Zone to establish a branch campus of the university. The project was proposed as a joint venture to establish a twinning arrangement in Sri Lanka. However, this project did not progress as per the said structure (exact details not available in the public domain).[337]

In terms of management contracting initiatives, the faculty of Graduate Studies of the University of Colombo conducts some of its programs in partnership with a private sector IT service provider through an online program. The University of Moratuwa has partnered with an IT service provider in delivering an external degree in Bachelor of Information Technology, while the university–industry interaction established supports the functions of identifying and meeting professional development needs, identifying public and private sector organizations willing to collaborate with the university, and disseminating successful university research projects within the industry through joint research and development.[338]

The SLIIT, SLINTEC, and NSBM projects reached financial closure during 1999, 2008, and 2011, respectively. Cumulative project values converted to the respective years' exchange rates total $100 million.

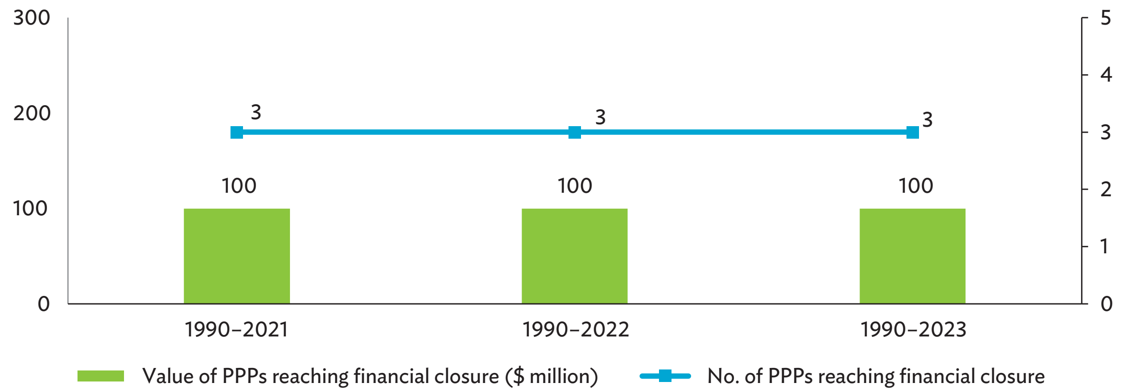
Table 100: Investment Value and Incorporation of Education Projects

Project	SLRs million	$ million	Year of Incorporation
Sri Lanka Institute of Information Technology (SLIIT)	373	5	1999
National School of Business Management (NSBM)	10,000	90	2011
Sri Lanka Institute of Nanotechnology (SLINTEC)	450	4	2008
Total	10,823	100	

Sources: Government of Sri Lanka, Ministry of Justice. 2020. Mahapola Higher Education Scholarship Trust Fund; NSBM Green University Town. 2021. Our Journey 2016 to 2021; Sri Lanka Institute of Nanotechnology. 2022. Overview (accessed July 2023).

337 ADB. 2017. *Innovative Strategies for Accelerated Human Resource Development in South Asia - Public–Private Partnerships for Education and Training*.
338 Footnote 337.

Figure 48: Public–Private Partnership Education Projects Reaching Financial Closure

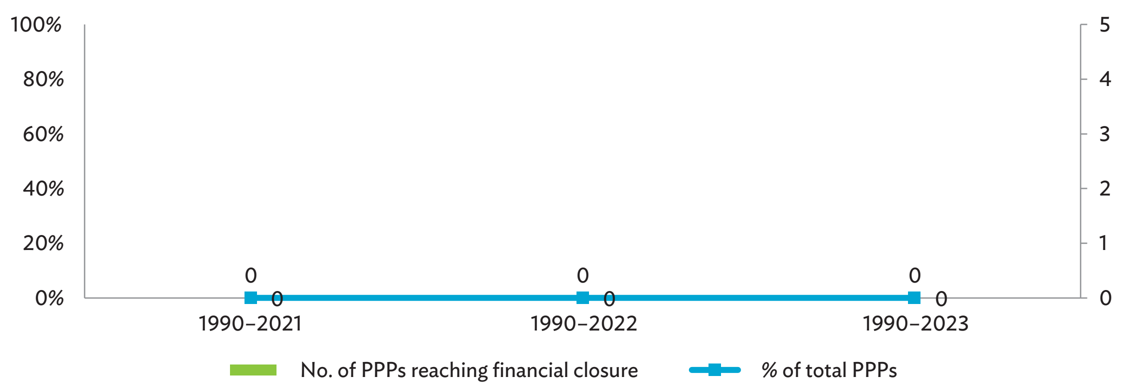


Sources: Government of Sri Lanka, Ministry of Justice. 2020. *Mahapola Higher Education Scholarship Trust Fund*; NSBM Green University Town. 2021. *Our Journey 2016 to 2021*; Sri Lanka Institute of Nanotechnology. 2022. *Overview* (accessed July 2023).

There has been no foreign sponsor participation in education PPPs in Sri Lanka.

Direct funding provided by the GOSL through state-owned entities can be considered as viability gap funding provided by the GOSL, i.e., funding received by the SLIIT from the MTF, and seed funding provided to the SLINTEC. The concessionary bank loan received by the NSBM is also considered as financial support provided by the GOSL.

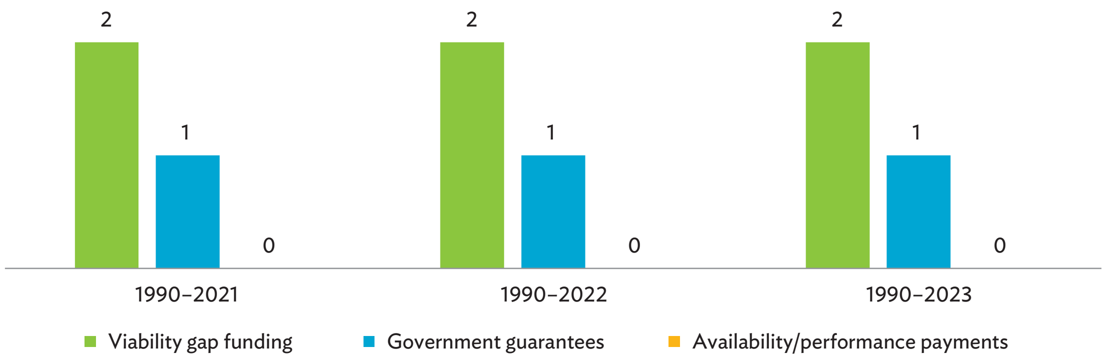
Figure 49: Public–Private Partnership Education Projects with Foreign Sponsor Participation



"–" indicates no projects, data not available, or not applicable according to the database.

Source: Industry research carried out by Deloitte.

Figure 50: Government Support to Public–Private Partnership Education Projects

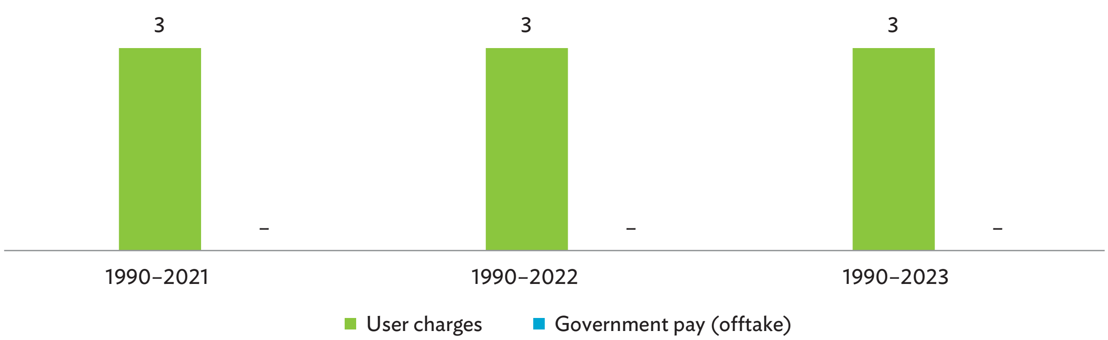


Note: "–" indicates no projects, data not available, or not applicable according to the database.

Sources: Government of Sri Lanka, Ministry of Justice. 2020. *Mahapola Higher Education Scholarship Trust Fund*; NSBM Green University Town. 2021. *Our Journey 2016 to 2021*; Sri Lanka Institute of Nanotechnology. 2022. *Overview* (accessed July 2023).

The payment mechanism for all three PPP projects can be considered as user charges since the SLIIT and NSBM are fee-levying tertiary education institutes, while the SLINTEC charges from clients for provision of research and development activities.

Figure 51: Payment Mechanisms for Public–Private Partnership Education Projects



"–" indicates no projects, data not available, or not applicable according to the database.

Sources: Government of Sri Lanka, Ministry of Justice. 2020. *Mahapola Higher Education Scholarship Trust Fund*; NSBM Green University Town. 2021. *Our Journey 2016 to 2021*; Sri Lanka Institute of Nanotechnology. 2022. *Overview* (accessed July 2023).

Tariffs in Education

State primary, secondary, and tertiary education is provided free of charge for students, with state institutions funded by the GOSL budget as well as grants and funding assistance from development finance institutions (i.e., ADB and World Bank). Private service provision is a fragmented market, with varying fee structures in school and tertiary education. The following table provides a high-level analysis on the timeline and fee charges for undergraduate and postgraduate qualifications, which are the most common higher education programs in Sri Lanka.

Table 101: Average Charges of Fee-Levying Private Higher Education

Type of Qualification	Number of Years of the Program	Estimated Total Fee (SLRs million)
UGC-approved undergraduate program (Bachelors' Degree)	4	1.5–2.5
Foreign university affiliated undergraduate program (Bachelors' Degree)	4	0.5–2.0
UGC-approved postgraduate program (Masters' Degree)	2	0.5–1.0
Foreign university affiliated postgraduate program (Masters' Degree)	2	0.8–1.5

Sources: Sri Lanka Institute of Information Technology. 2024. *Course fees*; ESoft. 2024. *Our Courses*.

Typical Risk Allocation for Education Public–Private Partnership Projects

Detailed information on the risk allocation for education sector projects is unavailable in the public domain as the projects are undertaken by private entities.

Education Financing Details

There has been no foreign financial assistance for education projects that reached financial closure. Data on other financial metrics for PPPs are unavailable.

Table 102: Financing Details in Education

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	0	0	0
PPP projects that received export credit agency/international financing institution support	0	0	0
Typical debt:equity ratio ^	UA	UA	UA
Time for financial close ^	UA		
Typical concession period ^^	UA		
Typical FIRR ^	UA		

N/A = Not Applicable, UA = Unavailable in Public Sources.

^ These project-specific details are not available in the public domain.

^^ There are no concession agreements involved in the projects that reached financial closure. Government assistance was only provided in terms of viability gap funding and government guarantees for project loans. Some entities are situated on leased land, which may have carried concessionary lease rentals.

Source: Industry research.

5. Challenges in Education

Supply Factors Including Workforce

The acute necessity of ensuring equal higher education opportunities for all eligible and qualifying students before they enter the labor market is evident. Sri Lanka's tertiary education enrolment rate is well below regional peers, largely due to a lack of resources in the public education system coupled with the affordability issues of individual families. Government budgetary constraints to develop university education has meant that access to state university that offers free education is available only for a limited number of eligible students. Consequently, more than 200,000 students enter the labor force without trained skills (of which some go through a full or partial TVET process).[339]

[339] National Human Resources Development Council of Sri Lanka. 2019. *Statistical Bulletin on Education 2019.*

- High unemployment rates due to skills gap and skills mismatch. A high youth unemployment rate remains a challenge in the Sri Lankan labor force, with youth unemployment being 26.7% for the 15–24 age group in 2023 (vs. overall unemployment rate of 4.7%).[340] Nearly one-third of public university graduates are from the arts stream, and are less employable compared to other subject streams.[341] Additionally, fluency in English and computer literacy in the labor force remain below expectations.[342] Among higher skilled workers, approximately 75% of employers expect computer literacy but only 15% of the Sri Lankan labor force is computer literate.[343]
- Teacher shortages, particularly within science, technology, engineering, and mathematics (STEM) streams. The country lacks qualified teachers to conduct modern courses of education, specifically for STEM subjects. The main reason for this has been the lack of attractive salary scales and inadequacy of tertiary-level teacher training facilities (only two out of the 17 state universities have faculties of education).[344] Teachers undergo training at teacher training colleges located island wide and operated by private and public entities. Annually, approximately 4,000 trained teachers are included in the cadre, having undergone an optional internship program before becoming qualified teachers. However, this process is protracted, marked by numerous inefficiencies and significant delays.
- Low tertiary enrolment in STEM subject streams. Given the limitations at school level (only approximately 10% of public schools have facilities to teach STEM subjects),[345] the enrolment for STEM courses at university level remains low at approximately 20% of total university student enrolments. This in turn deprives the national workforce of much needed skills required in the modern work environment and limits the availability of skills required for key areas of the economy in manufacturing and services.[346]
- Limited resources (financial and devices) restrict widespread adoption of virtual learning. The local education system has limited access to e-learning facilities and limited adaptation to a virtual learning environment. As a result of the COVID-19 pandemic that lasted more than 2 years, and a worsening economic crisis that reduced peoples' mobility, Sri Lanka made a remarkably quick transition to online higher education.[347] Nevertheless, adoption levels in primary and secondary education remained low. Only 22% of the general population aged 5–69 used desktops or laptops to connect to the internet, while 75% used smartphones. Poor internet connections and lack of access to digital devices remain key challenges for all students, with many relying on smartphones for tasks better suited for laptops or desktops and a fixed broadband connection. Low-income students and students living in remote places are the most affected.[348]
    - Online education can also be considered as an opportunity to change the current content-heavy, examination-focused education system, thus taking the lead in creating more effective methods of teaching and learning.
- Despite having a strong public school system, the Sri Lankan labor markets lack required employable education skills that match the expectations of employers, largely due to a lack of resources in the public education sector both in terms of teaching skills and infrastructure. The quality of graduates of the local education system and the relevance of their skills to the modern work environment have not been well aligned.

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340 World Bank. 2023. *Unemployment, youth total (% of labor force ages 15–24)—Sri Lanka.*
341 University Grants Commission. 2018. *Tracer Study of Graduates—Universities in Sri Lanka.*
342 World Bank. 2014. *Building the Skills for Economic Growth and Competitiveness in Sri Lanka.*
343 Institute of Policy Studies. 2017. *Sri Lanka State of the Economy 2017.*
344 Footnote 342.
345 Institute of Policy Studies Sri Lanka. 2019. *Sri Lanka State of the Economy 2019.*
346 National Human Resources Development Council of Sri Lanka. 2019. *Statistical Bulletin on Education 2019.*
347 ADB. 2022. *Progress and Remaining Challenges in Online Higher Education during the COVID-19 Pandemic.*
348 Footnote 347.

Demand Factors

- Affordable education has become a serious concern for low-income families given the country's existing economic conditions. With food and essential commodity inflation rates having risen to over 60%[349] at the height of the economic crisis, spending power of society's vulnerable groups dropped significantly leaving little to no allocation for education.
- Despite increasing demand, private participation in higher education continues to be restricted due to the misguided view that allowing more of it would deny low-income students the opportunity for a higher education. The supply gap created by this has often led to students seeking admission in universities abroad at a significant cost, not only draining foreign exchange but also resulting in a brain drain, particularly in the sciences and medical fields. Improving affordability by encouraging more widespread student loan schemes would be a partial solution.
- Limited awareness of and willingness to pursue alternative education pathways. Even a student who prefers to explore a career in skill-based professions, such as construction and mechanical work may opt to engage in Advanced Level school exams and subsequently enter the TVET segment, instead of entering a TVET program earlier (after the Ordinary Level exams). Moreover, the cultural tendency for students and parents to prefer a traditional pathway to a tertiary education (high school to university entrance to public sector job) creates undue pressure on the university system and provision of state jobs, while alternative options such as TVET programs are not widely accepted or perceived to be useful.
- Low-quality and outdated TVET curricula hamper graduate quality and hinder higher migrant worker salaries. National Vocational Qualification Level 5–7 programs (which enroll students who pass the Ordinary and Advanced Levels) are mostly outdated and of low quality and relevance. Additionally, TVET programs that lead to qualifications recognized by foreign employers are in short supply.[350]

Regulatory Factors

- The prevailing regulatory and quality assurance mechanism in education has limited coverage and excludes the larger market of nonstate institutions that operate independently. Private universities are not adequately regulated to ensure maintenance of acceptable quality standards related to all aspects of university education. The nonexistence of an accreditation system makes it difficult to regulate the quality of programs (especially the foreign affiliated degree programs conducted by tutoring colleges registered under the Companies Act).
    - In 2019, the GOSL attempted to introduce new legislations under the Bill on Quality Assurance, Equalization, Qualification and Framework to regulate degrees and diplomas offered by the nongovernment sector; however, this was not implemented due to heavy opposition by students and academics.[351]
    - The National Budget 2023 presented in November 2022 proposed to establish a Quality Assurance and Accreditation Board to ensure the quality and accreditation of degree courses conducted in universities.[352] If implemented successfully, this would provide a firm solution to the quality concerns in the Sri Lankan university education system.
    - The National Budget 2024 presented in November 2023 proposed that rules and regulations be adopted to convert four private higher education institutions (NSBM, SLIIT, Horizon Campus, and Royal Institute) as universities.[353]

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349 Central Bank of Sri Lanka. 2022. *NCPI based headline inflation decreased further in December 2022*.
350 ADB. 2021. *COVID-19 Impact on Technical and Vocational Education and Training in Sri Lanka*.
351 Council for Higher Education Accreditation. 2021. *New Quality Assurance Bill in Sri Lanka Opposed*.
352 The Parliament of Sri Lanka. 2022. *National Budget Speech—2023*.
353 The Island. 2023. Budget. *Four private higher education institutions to be converted to Universities*.

K. Micro, Small, and Medium Enterprises

Table 103: Key Statistics

Parameter	Value	Unit
Number of MSMEs ^	19,964	Number
MSMEs % established in the capital city	12	%
MSMEs % established in other cities	88	%
Employment in the MSME sector (as a % of total employment in the country)	32.4	%
MSME sector as a % of GDP	52	%
Exports by the MSME sector (as a % of total exports in the country)	20	%
MSME loans to total outstanding loans to the private sector	11.1	%
MSME loans disbursed total	827,896	SLRs million
Average MSME loan size	4,327,975	SLRs

^ Key areas sectors are wholesale and retail trade (30% of total enterprises), manufacturing (27% of total enterprises), and transportation and communication (5% of total enterprises).

Sources: ADB. 2022. *Asia Small and Medium-Sized Enterprise Monitor 2023*; Department of Census and Statistics. 2013. *Non-Agricultural Economic Activities in Sri Lanka Economic Census 2013/2014 Listing Phase*; ADB. 2022. *Five Ways to Connect Sri Lanka's Small Businesses to Global Value Chains*.

1. Contracting Agencies for Micro, Small, and Medium Enterprises

The Ministry of Industries is the apex body oversees the developments for Sri Lankan micro, small, and medium-sized enterprises (MSMEs). The Ministry directs three state ministries and 17 various statutory bodies and corporations, with some key institutions following:[354]

- Ceylon Industrial Development Board
- National Enterprise Development Authority
- National Crafts Council
- Lanka Salusala, Ltd.
- Sri Lanka Handicraft Board (Laksala)
- National Gem and Jewellery Authority

The Ceylon Industrial Development Board was established by the Government Act, No. 36 of 1969,[355] and is responsible for developing the industrial sector. This includes identifying business opportunities, assisting with quality and productivity improvement, and a wide range of project assistance (feasibility studies and reports, management, development and consultancy, business information and linkages, product development, infrastructure facilities, training services, and market development and promotion).[356] The board consists of over 50 operational units around the country, with a dedicated network of regional officers in each district. The Ceylon Industrial Development Board also operates the Centre for Entrepreneurship Development and Consultancy Services which provides entrepreneurship development services. Its main programs include the following:[357]

- Entrepreneurship development—enhance entrepreneurial capabilities, generate business ideas, and select potential business fields.

[354] Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022.*
[355] Government of Sri Lanka, Ministry of Industries. 2022. *Industrial Development Act, No. 36 of 1969*.
[356] Industrial Development Board. 2022. *Overview*.
[357] Industrial Development Board. 2022. *Centre for Entrepreneurship Development and Consultancy Services*.

- Business creation—transfer of technology for identified specific fields.
- Productivity development—implement 5S and modern productivity practices.
- Staff training—training staff members of government and private institutions according to their needs.
- Improve your business—introduce guidance to improve existing businesses.
- Start your business—introduce guidance to start businesses for potential entrepreneurs and preparation of comprehensive business plans.
- Generate your business—generates new and potential business ideas.
- Monitoring and follow up—identify output of specific projects and provide further assistance to obtain optimum results.
- Training of trainers—improve training skills of business development service providers.

The National Enterprise Development Authority was established under the National Enterprise Development Authority Act, No. 17 of 2006. Management of the affairs is by a board appointed by the Minister comprising two ex-office members, the Secretary to the Treasury, the Secretary to the Ministry in charge of the authority, and seven appointed members who have experience and knowledge in the fields of finance, trade, banking, agriculture, industry, technology, and law. The Authority assists MSMEs with identifying and encouraging targeted entrepreneurs who have the potential to undertake regional industrial business activities (one of the initial steps of business incubation).[358] Programs executed by the authority include the following:

- Business incubation—an incubation center is operated in collaboration with the University of Wayamba. The center provides technical support and product development assistance for startup enterprises. It also offers total solution for food packaging and manufacturing businesses via physical space, technical assistance for food processing, business management services, and financial linkages.[359]
- Brain into Business (Graduate Entrepreneurship)—a specialized program for motivating university graduates. The program is aimed at creating successful entrepreneurs by improving their capabilities and directing them toward business opportunities.[360]
- Trade portal—provides information and communication technology (ICT) facilities to improve the operational efficiency of MSMEs, effectiveness of procedures, documentation flow, and communication in national and international trade transactions.[361]

The National Crafts Council provides multiple services such as registering and training of craftspeople and organizing exhibitions. Additionally, the council oversees promotion of local products (mainly developed by MSMEs), development of craft villages, and supplying of raw materials. Providing facilities to export and organizing welfare programs for craftspeople are also activities conducted by the council.[362] Programs executed by the council include the following:[363]

- Master Craftspeople Training Program—knowledge of traditional handicrafts is provided to apprentices by well-practiced craftspeople chosen from each field. Training is conducted as full-time courses running for 6–12 months.
- Cultivation of Raw Material Program—island-wide program aimed at facilitation of natural raw material for production of handcrafts, including the cultivation of local trees. The import and distribution of raw materials at concessionary rates is also facilitated.

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[358] Government of Sri Lanka, Ministry of Justice. 2006. *National Development Enterprise Authority 17 of 2006*.
[359] National Enterprise Development Authority. 2022. *The Business Research and Development (BREAD) Center*.
[360] Footnote 359.
[361] Footnote 359.
[362] The National Crafts Council and Allied Institution. 2022. *Background of the NCC*.
[363] The National Crafts Council and Allied Institution. 2022. *Our Services*.

2. Micro, Small, and Medium Enterprise Laws and Regulations

Establishing a clear definition for MSMEs is a key concern, as different institutions have varying definitions. However, the small and medium-sized enterprises (SMEs) policy framework defines MSMEs based on the number of employees and annual turnover (i.e., an enterprise which employs less than 300 employees and has an annual turnover not exceeding SLRs750 million). In this context, micro enterprises are also categorized with SMEs for any policy-related measures. In terms of definition, both criteria are considered in defining SMEs. In the event of an enterprise falling under more than one category then the level of employment should be the deciding factor. The ceiling applies to individual enterprises only. Subsidiaries of holding companies are not considered as SMEs. However, if turnover and number of employees of the whole group is within the above limits, this exclusion will not arise.[364]

Given the wide range of industries that MSMEs operate in, MSMEs are governed by a diverse combination of regulations.

The National Crafts Council and Allied Institutions Act 1982[365] established multiple entities (National Craft Council, Crafts Councils, the Sri Lanka Handloom Crafts Board, and the National Design Centre) to promote, develop, and foster handicrafts including traditional handicrafts. It is governed by the Ministry of Industries, which is the main government agency for formulating a national MSME policy framework. The National Crafts Council provides multiple services such as registering of craftspeople, organizing exhibitions and competitions, training people to become master craftspeople, promoting products, developing craft villages, supplying raw materials, providing facilities to export products, and organizing welfare programs for craftsmen.[366]

Promoting locally manufactured products is a key element handled by the council and the allied institutions. The National Crafts Council and Allied Institutions (Special Provisions) Act, No. 4 of 1996, makes special provision to enable certain public officers who are engaged in the Department of Marketing and Export Promotion of Handicrafts and in the relevant sections of the Department of Small Industries and who are subsequently employed by the National Crafts Council marketing department to be eligible for a pension.[367]

The National Gem and Jewelry Authority Act, No. 50 of 1993, established the National Gem and Jewelry Authority[368] with the objective of regulating and promoting the gem and jewelry industry. The authority also provides an extensive knowledge base on jewelry designing, casting, manufacturing, and the jewelry registration process and provides help for online exports, the gem dealer license process, the lapidary license process, and the mining license process.[369]

The Sri Lanka Institute of Textiles and Apparels Act, No. 12 of 2009, established the Sri Lanka Institute of Textile and Apparel by merging the clothing industry training institute and textile training and services center, which jointly served the apparel industry for 25 years.[370]

- The Sri Lanka Institute of Textile and Apparel comes under the purview of the Ministry of Industries and is empowered to award diploma degrees at graduate and postgraduate levels. It has also entered a Memorandum of Understanding with leading universities such as the North Carolina State University and the Bunka Fashion College, Japan to help students prepare for technical and managerial positions in the textile and apparel industry.[371]

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364 ADB. 2022. *Asia Small and Medium-Sized Enterprise Monitor 2022*.
365 The National Crafts Council and Allied Institution. 1982. *National Crafts Council and Allied Institutions Act, No.35 of 1982, English.*
366 The National Crafts Council and Allied Institution. 2022. *Background of the NCC*.
367 The National Crafts Council and Allied Institutions. 2022. *National Crafts Council and Allied Institutions (Special Provisions) 4 of 1996*.
368 The National Gem and Jewelry Authority. 1993. *National Gems and Jewelry Act, No. 50 of 1993*.
369 The National Gem and Jewelry Authority.
370 The Sri Lanka Institute of Textile and Apparel. 2022. *The Sri Lanka Institute of Textile and Apparel Act, No. 12 of 2009*.
371 The Sri Lanka Institute of Textile and Apparel. 2022. *About us*.

The Agrarian Development Act 2000 abolished the previous Food Department and established the Department of Agrarian Development with the objective of providing necessary facilities to Sri Lankan farmers. Empowered by the Paddy Lands Act, No. 46 of 1958, the Agrarian Development Act, No. 46 of 2000, and its subsequent amendments, the Department of Agrarian Development provides agricultural lands in compliance with the agricultural policies of the GOSL, protects the cultivation rights of agricultural landowners, and initiates actions to solve tenant cultivation problems.

In terms of providing financial assistance to MSMEs, the MOF supports MSME development and access to finance. The Department of Development Finance helps provide financial assistance to MSMEs. The Department of Samurdhi Development, meanwhile, empowers the disadvantaged and minimizes regional disparities by offering small loans and microfinancing programs.[372]

Table 104: Key Line Ministries and Agencies Regulating MSMEs in Sri Lanka

Agency	Function

Ministry of Industries	• Implementing an integrated program with relevant institutions for resolving issues.
	• Formulating and implementing mechanisms to strengthen existing industries and broadening investment opportunities to create access to new industrial fields.
	• Implementing a program to resuscitate businesses and failed industries.
	• Protecting and strengthening local entrepreneurs and businessmen.
	• Formulating and implementing policies, programs, and projects covering all provinces to strengthen export-related production processes.
	• Departments, statutory institutions, and public corporations under the state ministry include:
	  ◦ National Enterprise Development Authority
	  ◦ Ceylon Industrial Development Board
	  ◦ SME Venture Capital Company
	  ◦ SME Authority
	  ◦ Timber-related Design Centre
	  ◦ National Crafts Council
	  ◦ Sri Lanka Handicraft Board (Laksala)
	  ◦ Department of Textile Industries
	  ◦ Lanka Salusala, Ltd.
	  ◦ National Design Centre
	  ◦ National Gem and Jewellery Authority

Department of Development Finance (under the MOF)	• Mobilizing the financial resources and removing market impediments for the development of MSMEs. • Enhancing rural entrepreneurship especially for low-income entrepreneurs. • Facilitating appropriate policies, strategies, and programs for the development of MSMEs in the economy. • Monitoring and reviewing market data to identify key issues and provide solutions to the smooth growth of the MSME and microfinance sectors. • Facilitating in enacting legislations for banking, insurance, MSMEs, and financial sector if the market review sees the need. • Implement budget proposals and donor-funded projects related to MSME, primary, and other sectors coming under the purview of this department. • Compile all data on MSMEs of industrial, agriculture, and service sectors and identify the impediments and policy interventions. • Facilitate the annual budget preparation process of the GOSL concerning MSMEs. • Arrange local bank financing for MSME development projects in line with GOSL policy.

continued on next page

[372] ADB. 2021. *Asia Small and Medium-Sized Enterprise Monitor 2021*.

Table 104 *continued*

Agency	Function
National Enterprise Development Authority	• Facilitate growth, expansion, and development of Sri Lanka's economy by encouraging, promoting, and facilitating SME development within the country. • Stimulate and encourage the establishment and operation of MSMEs outside Sri Lanka. • Formulate policies, plans, and promotional incentives to support and promote trade and development in the industry. • Establish a Technology Development Fund to promote research and development.
Regional Development Department (under the Central Bank of Sri Lanka)	• Promote regional development by coordinating, facilitating, and implementing concessionary credit schemes and delivering credit supplementary services for MSMEs through formal financing. • Encourage participating financial institutions (PFIs) to provide credit facilities to vulnerable segments in the country, such as agriculture, livestock, fisheries, and any other income generating activity related to MSMEs including individuals and self-employed. This includes interest subsidiaries and credit guarantees for the loans provided by PFIs. • Monitor, coordinate, and evaluate the activities of the National Financial Inclusion Strategy of Sri Lanka to increase the country's financial inclusion. • Conduct awareness and capacity-building programs to enhance financial literacy, entrepreneurship development, and project management skills of MSMEs and the general public, mainly targeting underserved segments in line with the objectives of the National Financial Inclusion Strategy. • Offer Central Bank of Sri Lanka services at the regional level through regional development activities such as forums and field visits to identify regional issues and new business opportunities.

Sources: Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*; Government of Sri Lanka, Ministry of Justice. 2006. National Development Enterprise Authority Act, No.17 of 2006; Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2022. Department of Development Finance section Responsibilities; Central Bank of Sri Lanka.

Micro, Small, and Medium Enterprise Foreign Investment Restrictions

Foreign investment restrictions exist in a range of MSMEs, most notably in retail, agriculture, and fisheries.

Table 105: Foreign Investment Restrictions

Parameter	2021	2022	2023
Retail trade with a capital of less than $5 million	0%	0%	0%
Production for export of goods subject to international quotas	40%	40%	40%
Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar, and spices	40%	40%	40%
Timber-based industries including local timber	40%	40%	40%
Deep-sea fishing	40%	40%	40%

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

3. Micro, Small, and Medium Enterprise Standard Contracts

There are no specific standard contracts for MSME PPPs, and general EPC contracts are used for these projects.

Table 106: Contract Types

Parameter	2021	2022	2023
What standardized contracts are available and used in the market?			
PPP/concession agreement	×	×	×
Performance-based operation and maintenance contract	×	×	×
EPC contract	✓	✓	✓

✓ = Yes, × = No, NA = Not Applicable
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

Micro, Small, and Medium Enterprise Master Plan

Micro, small, and medium enterprises are of strategic importance due to their role as a catalyst for inclusive economic growth, regional development, employment generation, and poverty reduction. Given the MSMEs' many challenges, a National Policy Framework for MSME development was formulated in 2015 by the Ministry of Industry and Commerce.[373] Key focus areas in the policy framework included cluster support for MSMEs at every stage in the value chain, promotion of high potential sectors, encouraging local raw material usage, promotion of exports and green technologies, and job creation in rural areas.

To support and encourage SMEs, the high potential and promising clusters have been identified. In determining the promising clusters, criteria such as value addition, use of local raw materials, export orientation and export connectedness, forward and backward linkages, and flagship sectors with high spillover effects, technologically driven innovative products, and employment generation aspects have been considered.

To facilitate more accessible and affordable financial services for underserved individuals and enterprises, including MSMEs, the Central Bank of Sri Lanka published the National Financial Inclusion Strategy for Sri Lanka (2021–2024). The strategy was developed with technical and financial assistance from the IFC in partnership with the Government of Australia.[374] Further, the Central Bank of Sri Lanka also published the key survey findings of its most recent Financial Literacy Survey, which was conducted as a part of the implementation of the National Financial Inclusion Strategy for Sri Lanka.[375]

[373] Government of Sri Lanka, Ministry of Industry and Commerce. 2015. *National Policy Framework for Small Medium Enterprise (SME) Development*.
[374] Central Bank of Sri Lanka. *National Financial Inclusion Strategy for Sri Lanka (2021–2024)*.
[375] Central Bank of Sri Lanka. 2021. *Financial Literacy Survey Sri Lanka 2021*. .

The table below identifies potential projects in the MSME master plan. The table also includes selected projects implemented by the Central Bank of Sri Lanka via the Regional Development Department.

Table 107: List of Projects in MSME Sector

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	Enterprise Sri Lanka Program	Department of Development Finance	UA	UA	Ongoing implementation
2.	Made in Sri Lanka Program	Ministry of Industries	UA	UA	Ongoing implementation
3.	United Nations Development Programme (UNDP) Tourism Sector MSME Program (Connecting Business Initiative)	UNDP	UA	UA	Ongoing implementation
4.	DFCC Bank Partnership with USAID	DFCC Bank, USAID	UA	UA	Ongoing implementation
5.	Sri Lanka Go Digital Program	Export Development Board	UA	UA	Ongoing implementation
6.	Central Bank Special Credit Support Scheme	Central Bank of Sri Lanka	UA	UA	Completed
7.	Tea Development Project—Revolving Fund	Central Bank of Sri Lanka	36.5	11	Ongoing
8.	Smallholder Agribusiness Partnership Programme (SAPP) 4P Agribusiness	Central Bank of Sri Lanka	36.2	10.9	Ongoing

N/A = Not Applicable, UA = Unavailable in Public Sources.

SLRs1 = $0.003319

Sources: Department of Development Finance. 2017. *Enterprise Sri Lanka Program Concept Paper*; Government of Sri Lanka, Ministry of Industries. 2022. *Made in Sri Lanka. English*; Ministry of Tourism. 2022. *UNDP and the EU Partner to Support the revitalization of Sri Lanka's Tourism Industry together with the Ministry of Tourism*; DFCC Bank. 2022. *DFCC Bank Partners with USAID to support Sri Lanka's MSMEs, with a focus on Women led Enterprises*; Information and Communication Technology Agency. 2018. *Sri Lanka Go Digital Program Empowering Entrepreneurs with applied knowledge on digitizing the SME sector*; Central Bank of Sri Lanka. 2020. *Credit Support to Accelerate Economic Growth*; Central Bank of Sri Lanka. 2021. *Annual Report*.

Among the main initiatives undertaken to support MSMEs is the Enterprise Sri Lanka Program. This program consists of 18 specialized financial and nonfinancial schemes, funded both locally and by donors. By providing affordable capital for mechanization and the adoption of modern agricultural technologies, the initiative aims to support farmers and transform small-scale subsistence agriculture and agro-based MSMEs into commercial-scale agriculture.

In a move to raise MSMEs to the next level, the Ministry of Industries and the National Enterprise Development Authority launched the "Made in Sri Lanka" program in December 2022. The program's main objective is to encourage customers to purchase locally manufactured products and provide a platform for entrepreneurs to showcase their products to the global market. The Made in Sri Lanka program has supported MSMEs to generate 100,000 jobs in the rural sector and has supported agriculture, handicrafts, horticulture, poultry, inland fishing, dairy farming, garment manufacture, IT services, and food processing. To increase the demand for Made in Sri Lanka products, any government department or institution that purchases these products will be granted a 50% waiver on the tax (on the profits generated from sale of Made in Sri Lanka products).

Further, MSME owners of Made in Sri Lanka labeled products have separate access to the banking sector regarding any financial concerns.[376]

As the MSMEs in tourism suffered disproportionately from the Easter Sunday terror attacks in 2019 and through the COVID-19 pandemic, the United Nations Development Programme (UNDP) launched an initiative to create partnerships with the private participants to promote tourism along the southern coastal belt. This joint initiative—Building Disaster Resilience of Micro, Small, and Medium Enterprises in the Tourism Sector of the Southern Province in Sri Lanka by the UNDP and the United Nations Office for the Coordination of Humanitarian Affairs—is supported by the Asia Pacific Alliance for Disaster Management Sri Lanka. The project works with key stakeholders such as the Sri Lanka Tourism Development Authority (SLTDA), Ruhunu Tourism Bureau, the National Craft Council of the Southern Provincial Office, and the Galle, Matara, and Hambantota district chambers.

To provide financial support to MSMEs, domestic development bank DFCC Bank partnered with USAID CATALYZE to finance female-led MSMEs in high growth areas including tourism, ICT, commercial, apparel, and food processing. The initiative has three main objectives: to create and improve capacity and competitiveness among MSMEs, to increase accessibility and availability of financing, and to increase the economic resilience of MSMEs to help overcome the impact from the COVID-19 pandemic.[377]

The Export Development Board's (EDB's) Sri Lanka Go Digital program is a Digital Transformation and Technology Adoption Program, aimed at educating and empowering regional MSME entrepreneurs on sourcing, building capacity, and scaling up. The program, initiated in 2018, was rolled out across four regions and included approximately 115 female participants and over 15 differently abled individuals.

An additional policy measure implemented recently by the GOSL to drive MSME growth is the introduction of credit digital technologies. This program supports the digitization of credit scoring by the Credit Information Bureau of Sri Lanka.[378] Other policy measures to help MSMEs access finance is the creation of the Empower Board on the CSE to aid in the market listing and equity raising initiative of MSMEs.[379]

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376 Daily News. 2020. *Made in Sri Lanka Program launched*.
377 DFCC Bank. 2022. *DFCC Bank Partners with USAID to support Sri Lanka's MSMEs, with a focus on Women led Enterprises*.
378 EconomyNext. 2022. *CRIB: Shaping the future of Sri Lanka's credit market*.
379 Central Bank of Sri Lanka. 2021. *Annual Report Catalyzing Micro, Small and Medium Sized Enterprises (MSMEs) as a Growth Driver and Challenges*.

4. Micro, Small, and Medium Enterprise Projects Under Preparation and Procurement

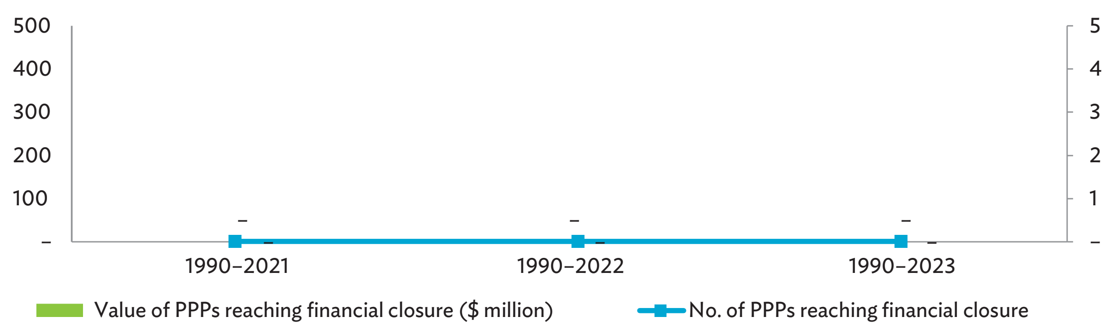
As per public sources, no MSME PPP projects are under preparation or procurement.

5. Features of Past Micro, Small, and Medium Enterprise Public–Private Partnership Projects

There have been no specific MSME PPP projects. Initiatives related to MSMEs are largely executed by individuals who own the business or enterprise. While the GOSL and development financing institutions assist MSMEs with concessionary funding assistance on the grounds of social development, limited potential exists for PPPs.

No PPP projects have reached financial closure in Sri Lanka's MSME sector.

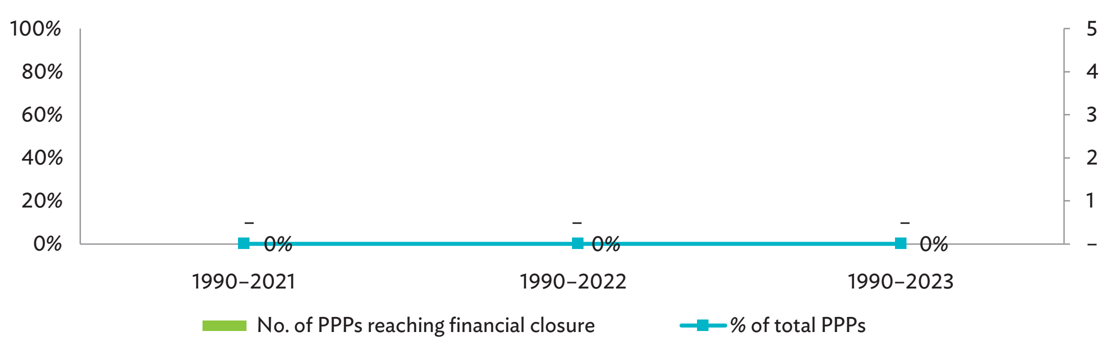
Figure 52: MSME Public–Private Partnership Projects Reaching Financial Closure



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

No MSME PPP projects were implemented.

Figure 53: MSME Public–Private Partnership Projects with Foreign Sponsor Participation



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

6. Micro, Small, and Medium Enterprise Tariffs

As MSMEs include a range of industries and varied subsegments, no standardized tariff evaluation can be conducted.

7. Typical Risk Allocation

No MSME PPP projects were implemented.

8. Financing Details

No MSME PPP projects were implemented.

Table 108: MSME Financing Details

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A	N/A	N/A
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Source: Ministry of Industries & Industry research.

9. Micro, Small, and Medium Enterprise Challenges

Demand and Supply Factors

- Lack of cohesive national development plans limits market access. By nature of their size, MSMEs generally have difficulty in accessing customers and markets, and Sri Lankan MSMEs are no exception. However, integration with the global supply chain is crucial for expansion and unlike many other peer nations, Sri Lanka lacks a clear SME promotional plan or policy framework that would help increase the competitiveness of local SMEs in the global marketplace.[380] This lack of connectivity with the value chain has led to poor networking among the industry stakeholders, which also affects price discovery for smaller players in the industry.
- The fragmented market results in lack of scale and low connectivity. Sri Lanka's MSMEs are highly fragmented (across all industries) leading to a lack of scale which makes price discovery and access to markets difficult for participants. Moreover, there is significant lack of connectivity among the MSME community, especially as there are no specific MSME parks or economic zones developed to host MSMEs. Initiatives to develop dedicated MSME zones would enhance business scalability, while providing an ecosystem for more workforce participation.
- Limited access to capital results in over-reliance on informal financing channels. Access to finance is one of the main issues faced by MSMEs operating in Sri Lanka. These challenges include lack of land and building ownership that could be used as collateral, inadequate financial records, high fees and transaction costs, inability to prepare a business proposal, and over-reliance by banks on the Credit Information Bureau reports.[381] As a result, most MSMEs depend on informal financing at exorbitantly high interest rates (particularly to fund working capital), thus hindering their expansion prospects.

380 Advocata Institute. 2019. *Empowering Our SMEs*.
381 Central Bank of Sri Lanka. 2021. *Annual Report 2021*.

- Weak capacity to invest in technology impedes competitiveness and innovation. Funding shortfalls along with a lack of awareness has prevented Sri Lankan MSMEs from investing in technology more aggressively. This, in turn, has hampered both competitiveness and innovation levels. For instance, the lack of awareness about technology-led productivity enhancements has led to inefficiency and poor productivity levels in agriculture. Limited links to end-consumers has meant that MSMEs are usually unaware of the changing preferences and trends in the global markets, which makes their products less competitive on a global scale.
- Low digital adoption by MSMEs hinders eventual transition to larger enterprises. Only 30% of all MSMEs in Sri Lanka can be classified as high ICT-using enterprises and only 20% utilize software for greater operational efficiencies.[382] High ICT use is strongly correlated with MSMEs transitioning into larger enterprises; a recent study showed that high ICT-using MSMEs have higher monthly incomes than low ICT-using MSMEs due to greater branding and advertising opportunities.[383]
- Complex business registration processes keep MSMEs out of formal business channels. Most MSMEs in Sri Lanka are managed informally because participants opt to avoid formal business registration due to the complex procedures involved and the lack of awareness of the processes involved. The absence of a one-stop-shop service for the sector to obtain the relevant information, along with the high costs and long time-lags to formalize business operations, have been cited as the main reasons for businesses and individuals remaining in the informal space. Moreover, remaining in the informal space has meant that MSMEs have poor bookkeeping and record maintenance.
- Labor shortages due to increased labor migration and poor perception of MSME employment. Labor shortages are a major impediment for MSME development and a problem that has been aggravated by greater outward labor migration on the back of the current economic crisis. The issue has been most notable in agriculture as youth perceive cultivation and farming as unattractive and opt instead to take lower paying jobs in the city or migrate abroad as low-skilled labor.
- Low worker retention due to weak job security and poor upskilling opportunities. Many MSMEs in the informal space employ individuals on a contract basis with no statutory payments, and with the possibility of quick layoffs during times of crisis. This was particularly evident in the tourism sector, which struggled disproportionately from the Easter terror attacks and COVID-19 pandemic. The MSMEs also do not invest in human capital and training and development or upskilling of employees. Both these factors have led to poor worker retention and worsen the MSME labor shortages.

Regulatory Factors

- High set-up costs due to complexities in the regulatory framework. The biggest barriers to conducting a MSME business are complicated government procedures and protocols required to obtain business registrations and other approvals. Currently there are 43 institutions affiliated with MSME governance in Sri Lanka.[384] Registering property for a SME takes almost 258 days and 5% of the land value.[385] The absence of a clear and consistent institutional framework governing the SME sector has led to many challenges such as high administration efforts and costs. Unnecessary red tape has also limited employment creation and productivity for MSMEs while worsening the issue of accessing financing as bureaucratic procedures delay the issuing of permits and licenses which are sometimes required to obtain formal financing.
- Constant policy changes that occur without a proper basis have also become a challenge for the sector (i.e., the chemical fertilizer ban in 2021). Most MSMEs also have less capacity to study regulatory complexities and may find it difficult to comply with stringent regulatory requirements with no support or guidance.

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382 The Morning LK. 2020. *SMEs urged to digitalise to survive–November 2020*.
383 LIRNEasia. 2020. *Internet and ICT connectivity linked to SME business success in Sri Lanka– March 2020*.
384 Advocata Institute. 2019. *Empowering Our SMEs*.
385 DailyFT. 2017. *A SME policy finally in Sri Lanka*.

- The restrictions on foreign investments (most notably in industries such as retail, agriculture, and fisheries where foreign ownership is restricted to below 40%) means that technology and skills transfer into MSMEs has been relatively low. These skills transfer gaps potentially inhibit MSME competitiveness especially when accessing global markets.

L. Agribusiness

Table 109: Agribusiness Key Statistics

Parameter	Value	Unit
Agriculture, forestry, and fishing total output	686,478	SLRs million
Agriculture, forestry, and fishing GDP output as a % of GDP	8.7	%
Arable land (% of land area)	22.2	%
Agricultural land^ (including arable land) (% of land area) (2021)	45.4	%
Land owned by the government (% of land area) (2021)	85	%
Fertilizer consumption (kg per hectare in arable land) (2021)	153.9	kg
Total agricultural exports (% of total exports) (2021)	21.8	%
Annual cereal production (i.e., paddy and maize as a % of agriculture output in 2021)	19.2	%
Employment in agriculture (as a % of total employed population in 2022)	26.5	%

^ Agricultural land refers to the share of land area that is arable, under permanent crops, and under permanent pastures. Arable land includes land defined by the Food and Agriculture Organization of the United Nations as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow.

Sources: Central Bank of Sri Lanka. 2021, 2022. *Annual Report and Special Statistical Appendix*; World Bank. 2021, 2022. *World Bank Open Data Bank* (accessed April 2024); CBSL. 2021, 2022. *Annual Report 2021, 2022*.

1. Contracting Agencies in Agriculture

The following organizations are responsible for implementing agriculture projects.[386]

The Ministry of Agriculture is the central government ministry responsible for agriculture. It is tasked with formulating and implementing a national policy on agriculture and related matters. Key objectives include the development of supportive agricultural policies for both food and allied crops, fostering food and nutrition security, and ensuring price stability for agricultural products.

The Ministry of Plantation Industries is responsible for providing policy guidance to relevant state ministries within the plantation industry; its responsibilities include formulating policies related to plantations and reorienting the overall plantation industry toward greater value-added production for the purpose of export.

The Ministry of Fisheries is the central government ministry responsible for fisheries and is responsible for formulating and implementing a national policy on fisheries and aquatic resources development and other subjects that come under its purview.

[386] Government of Sri Lanka, Presidential Secretariat. 2022. *Government Gazette Notification 22 July 2022*.

The EDB is the country's premiere organization for the development and promotion of exports. It is responsible for the formulation of national export development plans and facilitating diversification of products and services. The EDB was established under the Ministry of Finance, Economic Stabilization and National Policies.

2. Agriculture Laws and Regulations

The regulatory framework of agriculture is constituted by many laws and ordinances under the departments, statutory institutions, and public corporations, governed by the ministries listed above. The regulations can be categorized as overall agriculture sector regulations, as well as plantation, dairy, and fisheries regulations.

Agriculture Regulations

A few of the laws and ordinances applicable under the Ministry of Agriculture follow.

- Seed Act, No. 22 of 2003, established guidelines and principals to ensure production and distribution of seed and planting materials of the highest quality and advising the ministry on all matters regarding the production of quality seeds and planting materials.[387]
- Paddy Marketing Board Act, No. 14 of 1971, established the Paddy Marketing Board to carry out business as a purchaser, seller, supplier, distributor, miller, or processor of paddy and rice.[388]
- State Agricultural Corporation Act, No. 11 of 1972, established the State Agricultural Corporation for planning, coordination, and development of agriculture undertakings.[389]
- In 1972, the GOSL introduced the Land Reform Act 1972 to specify a maximum limit of land owned by a person. The law ensured that no person could own agricultural land more than the ceiling limit of 50 acres and 25 acres if the land comprises exclusively paddy. Any excess land is deemed to be owned by the Land Reform Commission (the State). The purpose of this Act was to utilize the lands for agricultural purposes and generate more employment. The lands were disbursed among state corporations, state plantations, and agricultural companies to boost agriculture and production output in Sri Lanka thus creating employment opportunities for people.[390]
- Under the Land Grants (Special Provisions) Act, No. 43 of 1979, the lands vested under the Land Reform Commission were transferred free of charge to the landless.[391]
- State lands can be issued by a permit for low-income earners who are landless. Permit holders can use the land as specified in the permit for residential or cultivation purposes. State lands can also be issued by a grant scheme such as Swarnabhoomi, Jayabhoomi, and Ranbima. The permit holders have the option to convert their permit into a grant or a deed subject to conditions. Lands distributed under the grant schemes cannot be transferred.[392]

Plantation Regulations

The plantation industry is mainly governed through the following laws, which cover the crops exported to foreign markets and used for local consumption.

- Coconut Development Act, No. 46 of 1971, provides the development and regulation of the coconut industry and the utilization of land in and for coconut plantations.[393]

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387 Commonwealth Legal Information Institute. 2003. *Seed 22 of 2003*.
388 Commonwealth Legal Information Institute. 1971. *Paddy Marketing Board Act, No. 14 of 1971*.
389 Commonwealth Legal Information Institute. 1972. *State Agricultural Corporation No. 11 of 1972*.
390 Commonwealth Legal Information Institute. 1972. *Land Reform Act 1972*.
391 Commonwealth Legal Information Institute. 1979. *Land Grants (Special Provisions) Act, No. 43 of 1979*.
392 Centre for Policy Alternatives (CPA). 2014. *A brief guide on land rights of Sri Lanka*.
393 Commonwealth Legal Information Institute. 1971. *Coconut Development Act, No. 46 of 1971*.

- Sri Lanka Tea Board Law, No. 14 of 1975, provides for the establishment of the Tea Board and to promote and develop the tea industry in Sri Lanka.[394]
- Promotion of Export Agriculture Act, No. 46 of 1992, provides for the promotion of export agriculture and the redesignation of the Department of Minor Export Crops as the Department of Export Agriculture.[395]
- Rubber Control Act, No. 11 of 1956, provides for the registration of rubber plantations and their proprietors and for the control of the planting and replanting of rubber.[396]

Dairy Regulations

- Milk Board Act, No. 12 of 1954, provides for the constitution of a board to establish and maintain facilities and services for the efficient and inexpensive production and marketing of milk, and to promote the establishment and maintenance of such facilities and services.[397]

Fisheries Regulations

The following are a few of the laws and ordinances applicable under the Ministry of Fisheries.

- Fisheries and Aquatic Resources Act, No. 2 of 1996, provides for the management, regulation, conservation, and development of fisheries and aquatic resources in Sri Lanka.[398]
- National Aquaculture Development Authority Act, No. 53 of 1998, established the national aquaculture development authority to develop aquatic resources and the aquaculture industry.[399]

The following table shows the functions of the agencies associated with agriculture departments, statutory institutions, and public corporations listed under the Ministry.

Table 110: Line Ministries and Agencies and Their Functions in Agriculture

Agency	Function
Ministry of Agriculture	Formulation, implementation, monitoring, and evaluation of policies, programs, and projects in relation to agriculture, and provision of public services under the purview of the Ministry. Departments, statutory institutions, and public corporations under the Ministry include: • Department of Agriculture • Elkaduwa Plantation Company Ltd. • Department of Export Agriculture • Department of Agrarian Development • Agriculture and Agrarian Insurance Board • Paddy Marketing Board • Hector Kobbekaduwa Agrarian Research and Training Institute

continued on next page

[394] Commonwealth Legal Information Institute. 1975. *Sri Lanka Tea Board Law No. 14 of 1975—Section 19, Amendment of Act No. 16 of 1959*.
[395] Commonwealth Legal Information Institute. 1992. *Promotion of Export Agriculture Act, 46 of 1992*.
[396] Commonwealth Legal Information Institute. 1956. *Rubber Control 11 of 1956*.
[397] Commonwealth Legal Information Institute. 1954. *Milk Board 12 of 1954*.
[398] Commonwealth Legal Information Institute. 1996. *Fisheries and Aquatic Resources 2 of 1996*.
[399] Commonwealth Legal Information Institute. 1998. *National Aquaculture Development Authority 53 of 1998*.

Table 110 *continued*

Agency	Function
	• Sri Lanka Council for Agricultural Research Policy • Pulses and Grain Research and Production Authority • National Institute of Post Harvest Management • National Agricultural Diversification and Settlement Authority • National Fertilizer Secretariat • Ceylon Fertilizer Company, Ltd • Colombo Commercial Fertilizer Company • National Hunger Eradication Campaign Board of Sri Lanka (National Food Promotion Board) • Institute of Post-Harvest Technology • Department of Animal Production and Health • National Livestock Development Board and affiliated companies • Milco (Pvt) Ltd • Mahaweli Livestock Enterprise Limited (under MOF now)
Ministry of Plantation Industries	Formulation, implementation, monitoring, and evaluation of policies, programs, and projects related to the plantation industries, and provision of public services under the purview of the Ministry. Departments, statutory institutions, and public corporations under the Ministry include: • National Institute of Plantation Management • Tea Small Holdings Development Authority • Tea and Rubber Estates (Control and Fragmentation) Board • Sri Lanka Tea Board • Sri Lanka State Plantation Corporation • Department of Rubber Development • Department of Export Agriculture • Sri Lanka Cashew Corporation • Kantale Sugar Company, Ltd • Spices and Allied Products Marketing Board • Coconut Cultivation Board
Ministry of Fisheries	Formulation, implementation, monitoring, and evaluation of policies, programs, and projects related to fisheries and those subjects that come under the purview of departments, and provision of public services, under the purview of the Ministry. Departments, statutory institutions, and public corporations under the Ministry include: • Department of Fisheries and Aquatic Resources • National Aquatic Resources Research and Development Agency • North Sea, Ltd • National Aquaculture Development Authority • Ceylon Fisheries Corporation • Ceylon Fishery Harbours Corporation • Cey-Nor Foundation, Ltd • National Fisheries Federation

Sources: The Gazette of the Democratic Socialist Republic of Sri Lanka. No. 2289/43; Government of Sri Lanka, Ministry of Agriculture and Plantation Industries; Government of Sri Lanka, Ministry of Plantation Industries.

3. Foreign Investment Restrictions in Agriculture

Foreign investments in agriculture are restricted to 40% ownership in some industries.[400] However, a foreign ownership of >40% (in restricted industries) can be pre-approved on a case-by-case basis under the authority of the BOI.

Table 111: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in agriculture projects			
Agriculture sector (with exceptions)	100%	100%	100%
Exceptions include:			
Production for export of goods subject to international quotas ^	40%	40%	40%
Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar, and spices	40%	40%	40%
Timber-based industries using local timber	40%	40%	40%
Deep-sea fishing	40%	40%	40%

^ International quotas and restrictions are imposed by the importing country (e.g., the Indo-Sri Lanka Free Trade Agreement has quota restrictions imposed by India on Sri Lanka for trade items).

Source: Board of Investment of Sri Lanka. 2023. *Exchange Control Laws Applicable for Foreign Investments*.

Restrictions in Acquiring Land

Foreign investors are permitted to acquire land on a leasehold basis, subject to a maximum tenure of 99 years. Outright transfer of ownership is permitted when the foreign shareholding of a company is less than 50%. Acquisition of land by foreigners, foreign companies, or a Sri Lankan company with more than 50% foreign shareholding is prohibited subject to a few exemptions.[401]

- If the foreign company is listed on the CSE or is taking steps to reduce the foreign shareholding to less than 50% within 6 months from its increase of foreign shareholding.
- Foreign companies not listed on the CSE but engaged in banking, financial, insurance, maritime, aviation, advanced technology, or infrastructure development projects identified and approved as strategic development projects may also be exempted from restrictions imposed by the Land Act of 2014.[402]

Table 112: Land Ownership Restrictions

Parameter	2021	2022	2023
Permission to acquire lands for foreign investors and companies			
On leasehold basis up to 99 years	✓	✓	✓
On freehold basis (companies with more than 50% foreign ownership) with some exceptions, as mentioned above)	×	×	×

✓ = Yes, × = No, NA = Not Applicable

Source: Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

[400] US Department of State. 2021. *2021 Investment Climate Statements*.
[401] US Department of State. 2021. *2020 Investment Climate Statements: Sri Lanka*.
[402] Footnote 400.

4. Standard Contracts in Agriculture

Specific standard contracts are not available for agriculture PPPs. General EPC contracts are used for PPP projects as well.

Table 113: Contract Types

Parameter	2021	2022	2023
What standardized contracts are available and used in the market?			
PPP/concession agreement	×	×	×
Performance-based operation and maintenance contract	×	×	×
EPC contract	✓	✓	✓

✓ = Yes, × = No, NA = Not Applicable

Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition; Industry research.

5. Agriculture Master Plan

There is no specific master plan currently available for agriculture. However, a detailed action plan was published by the Ministry of Agriculture in 2021. The action plan identified key projects including the Agriculture Sector Monetization Project, the climate smart irrigated agriculture project and smallholder agribusiness partnership program. Much of the budget was allocated to these projects.[403]

An agriculture policy paper was also published by the Department of National Planning in July 2019. The policy brief outlines the importance of a strategic response to evolving priorities and challenges and envisions transforming Sri Lanka into a "knowledge-based, export-oriented competitive economy" while achieving "sustainable food security to achieve national prosperity." The policy paper addresses some of the weaknesses prevalent in agriculture and proposes a wider economic development framework to tackle these issues. The paper identifies five core areas: (1) increasing farming productivity, (2) energizing domestic farm–market linkages and the rural economy, (3) increasing export earnings, (4) mainstreaming gender and youth, and (5) implementing effective mechanisms to coordinate, guide, and monitor sector development.[404]

In terms of agricultural research policy, the Sri Lanka Council for Agriculture Research Policy is the main state authority with the mandate to formulate the national agricultural research policy and priorities. A policy and strategy paper focusing on the main policy changes required and covering the period 2018–2027 has been published. The study evaluated each agricultural subsector and identified the pertinent issues and proposed solutions for each.[405]

The Sri Lanka e-Agriculture Strategy establishes a roadmap by which ICT developments can contribute toward achieving the country's agricultural vision and development objectives. It integrates standalone ICT experiments under a collaborative and inclusive framework while prioritizing solutions that can be scaled up and supported through the required ecosystem. The strategy is guided by the Agriculture Policy Framework, National Agriculture Policy Framework and National Food Production Program (2016–18), and documents have been published by the Ministry of Agriculture.[406]

403 Government of Sri Lanka, Ministry of Agriculture. 2021. *Action Plan for Year 2021*.
404 Department of National Planning. 2019. *Sri Lanka—Overarching Agricultural Policy, Revised Draft (Final)*.
405 The Sri Lanka Council for Agriculture Research Policy. 2021. *National Agriculture Research Policy and Strategy*.
406 Food and Agriculture Organization of the United Nations. 2021.

Within the plantation industry, however, several master plans by the relevant ministry or department in charge exist or are being planned. A national agenda for rubber industry development was published in 2017 with technical assistance from ADB. The agenda included an initiative to develop a rubber industrial park within four zones in a suitable location within the Western Province Megapolis region. A minimum land area of 100 ha is required for the initiative and would need to be confirmed by a feasibility and market study. The rubber industry master plan focused on the following: obtaining maximum productivity from existing rubber plantations, expanding the extent of farms, higher value addition, providing soft and hard infrastructure, and policy and regulatory support. The master plan also proposed the development of a Finite Element Analysis Simulation Center (an ICT-based tool of design analysis). Although a second master plan was expected to be drafted in 2020, this has not been published. Nevertheless, a project with the SLINTEC to develop rubber-based innovations utilizing nanotechnology is currently ongoing.[407]

Similarly, the Ministry of Plantation Industries was expected to prepare a 5-year plan,[408] while tea industry stakeholders were expected to simultaneously prepare a 10-year road map to 2030 to overcome the challenges in the industry across the entire value chain. Meanwhile, to revive coconut cultivation in Sri Lanka, a master plan was jointly introduced in 2021 by the Ministry of Plantation Industries, the Coconut Cultivation Board, the Coconut Development Authority, and the Coconut Research Institute.[409]

Several key agriculture projects with international donor assistance are currently ongoing as shown in the table.

Table 114: List of Agriculture Projects

No.	Project Name	Year	Funding Organization	Amount Granted/ Invested ($ million)	Amount Granted/ Invested (SLRs billion)	Status
1.	Agriculture Sector Monetization Project	2016	World Bank	125	38	Ongoing
2.	Smallholder Agribusiness Partnerships Program	2017	International Fund for Agriculture Development (IFAD)	105	32	Ongoing
3.	Smallholder Agribusiness and Resilience Project	2019	IFAD	82	25	Ongoing
4.	Smallholder Tea and Rubber Revitalization Project	2015	IFAD	65	20	Ongoing
5.	Agricultural Supply Chain Development project	2021	ADB and JICA	80	24	Ongoing
6.	Food for Progress Initiative	2022	US Department of Agriculture	27	8	Ongoing
7.	Development of Geographical Indication for Ceylon Tea	2021	Agence Française de Développement	1	0.3	Ongoing

N/A = Not Applicable, UA = Unavailable in Public Sources.

SLRs1 = $0.003319

Sources: Government of Sri Lanka, Ministry of Agriculture. 2021. *Action Plan for Year 2021*; Government of Sri Lanka, Ministry of Agriculture. 2021. Agriculture Sector Monetization Project; JICA Group. 2022. Asian Development Bank and JICA-funded "LEAP."

407 Government of Sri Lanka, Ministry of Plantations. 2017. *Rubber Master Plan*.

408 History of Ceylon Tea. 2022. *10-year Road Map—Tea Industry*.

409 Daily News. 2022. *Coconut Master Plan*.

The Agriculture Sector Modernization Project is a World Bank-funded project designed to increase agriculture productivity, improve market access, and enhance value for smallholder businesses and agribusinesses in Sri Lanka. The project has three components covering agriculture value chain development, productivity enhancement and diversification, project management, and monitoring and evaluation. The total project financing is estimated at $125 million and will be fully financed by the World Bank's International Development Association. The European Union issued an additional $25 million to support this project in 2021.[410] Since 2017, the project has awarded grants to prospective entrepreneurs to contribute and increase export revenue with value additions in their respective agricultural fields. A total of SLRs4.8 billion has been disbursed as of January 2022 among 769 prospective agriculturists working in horticulture, spices, other food and nonalcoholic beverages, fisheries, aquaculture, coconut (non-kernel), coconut (kernel based), medicinal and aromatics, livestock, agriculture machinery, and equipment solutions.[411]

Projects under International Fund for Agriculture Development (IFAD)—there are three ongoing projects, smallholder agribusiness partnerships program, smallholder agribusiness and resilience project, and smallholder tea and rubber revitalization project.

- Smallholder agribusiness partnerships program—financed through an IFAD loan of $34 million plus $19 million from the GOSL, this program aims to alleviate rural poverty and undernutrition in the poorest rural areas. Approximately 57,500 poor rural households are expected to increase their income and food security levels through this initiative. The total program is projected to cost $105 million, and the private sector is expected to finance the remaining project cost.[412]
- Smallholder agribusiness and resilience project—aims to reduce smallholder poverty levels and improve food security in the dry zone. The development objective is to build resilience and market participation of 40,000 rural smallholder households in the project area (180,000 persons). The total project cost is $82 million of which $42 million will be funded by IFAD and the remaining by the private sector.[413]
- Smallholder tea and rubber revitalization project—aims to make smallholders' economic activities in tea and rubber more productive, profitable, and resilient. This IFAD-funded project will benefit approximately 32,000 smallholder households. The total project cost is $65 million, with $26 million funded by IFAD and the remainder by the private sector.[414]

Agricultural supply chain program—ADB and JICA (through JICA-funded Leading Asia's Private Infrastructure Fund) entered into an agreement to invest up to $80 million in John Keells Holdings PLC (the largest conglomerate in Sri Lanka with interests in retail, logistics, leisure, and property). The investment will be used to construct facilities for distribution, transportation, and storage for John Keells Holdings, while improving the company's agricultural supply chain (from producers to consumers). In addition to the investment assistance, ADB will provide technical assistance for organic farming to 2,000 farmers.[415]

Food for Progress initiative—a dairy development initiative funded by the US Department of Agriculture is a $27 million grant to double the milk production of Sri Lankan dairy farmers. The project began in late 2017 and has already benefited 25,000 dairy farmers, increasing their milk production by an average of 68%.[416]

410 Government of Sri Lanka, Ministry of Agriculture. 2021. *Agriculture sector modernization project*.
411 DailyFT. 2022. *Agriculture Sector Modernization Project disburses Rs. 4.8 b among 769 prospective agriculturists*.
412 International Fund for Agriculture Development (IFAD). 2021. *Smallholder agribusiness partnership program*.
413 International Fund for Agriculture Development (IFAD). 2021. *Smallholder agribusiness and resilience project*.
414 International Fund for Agriculture Development (IFAD). 2021. *Smallholder tea and rubber revitalization project*.
415 JICA Group. 2022. *Asian Development Bank and JICA-funded "LEAP"*.
416 US Embassy of Sri Lanka. 2022. *Food for Progress initiative*.

Development of Geographical Indication for Ceylon Tea—an EUR 1 million grant was provided by the French Development Agency, Agence Française de Développement, to the Sri Lanka Tea Board to develop a Geographical Indication for Ceylon Tea.[417] Geographical Indications are exclusively for unique offerings like Ceylon Tea, or Ceylon Cinnamon which identify the product as originating within Sri Lanka. The creation of a Geographical Indication for Ceylon Tea is intended to promote quality products, protect traditional know-how, and enhance commercial value and recognition in international markets.

6. Projects Under Preparation and Procurement in Agriculture

There are currently no agriculture PPP projects.

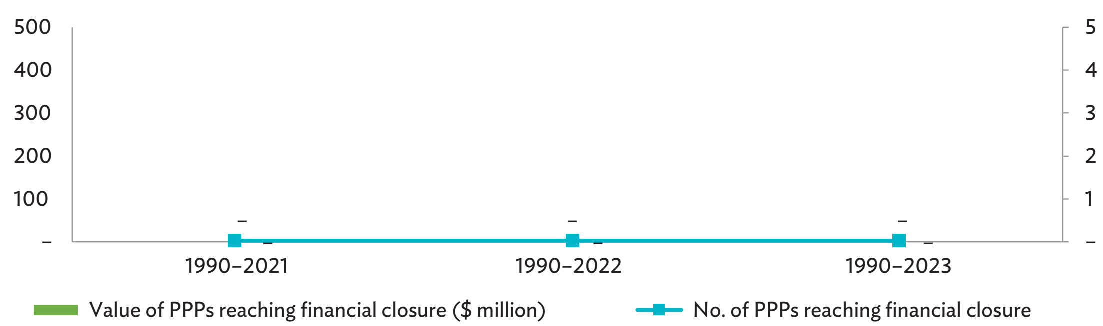
7. Features of Past Public–Private Partnership Projects in Agriculture

There are no agriculture PPPs as the privatization within the plantation industry in the 1980s and 1990s cannot be considered PPP projects.

Several state-owned plantation companies were privatized and listed on the CSE during the 1980s and 1990s. The restructuring resulted in 450 plantation estates being managed by 23 state-owned regional plantation companies (RPCs). However, the management of these entities was privatized. While the state continues to own these plantation lands, the private sector companies are the primary owners and operators of these companies, and they are all currently listed on the CSE. The Secretary to the Treasury holds a “golden share” (a type of share that gives its holder veto power over changes to the company’s charter) in each of the RPCs, with rights relating to subleasing of land and amending the Articles of Association, etc. In 1995, the GOSL privatized the entire operation of RPCs by leasing out the land for a period of 53 years. However, as mentioned above, these are not considered PPPs since the public sector does not have any role in these companies.

No PPP projects have reached financial closure in agriculture in Sri Lanka (Figure 54).

Figure 54: Public–Private Partnership Agriculture Projects Reaching Financial Closure

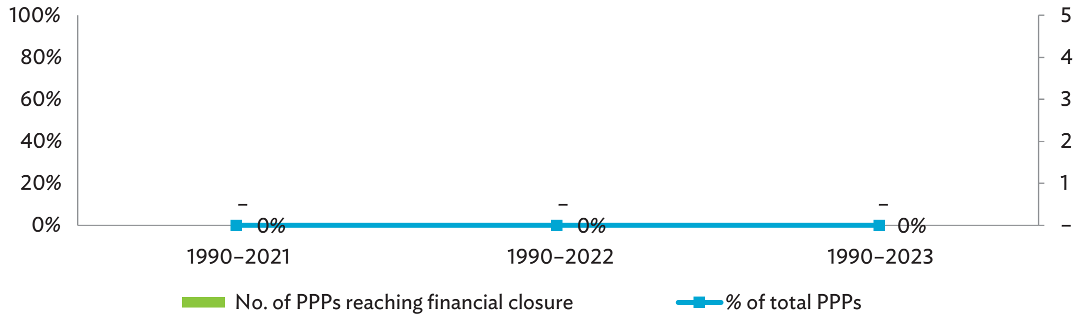


Note: “–” indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. 2022. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

417 French Embassy in Colombo. 2021. *The French Development Agency grant.*

No agriculture PPP projects in Sri Lanka have foreign sponsor participation (Figure 55).

Figure 55: Public–Private Partnership Agriculture Projects with Foreign Sponsor Participation



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Source: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024).

No PPP projects in agriculture in Sri Lanka have received government support including viability gap funding, government guarantees, and availability or performance payment sector.

No agriculture PPP projects have received payment in the form of user charges and government pay (offtake) in Sri Lanka.

8. Tariffs in Agriculture

Information on the tariffs for agriculture projects is unavailable. Concessionary land lease is the only form of government involvement that can be identified, and such concessions vary based on land location, type of crop, and government policy toward such crops.

9. Typical Risk Allocation for Agriculture Public–Private Partnership Projects

Information on the risk allocation for agriculture projects is unavailable as there are no PPPs.

10. Financing Details in Agriculture

There are no financially closed PPPs in agriculture, and so the parameters listed below are not applicable.

Table 115: Financing Details in Agriculture

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A	N/A	N/A
Time for financial close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Source: Ministry of Agriculture, Lands, Livestock, Irrigation, Fisheries and Aquatic Resources; Industry research.

11. Challenges in Agriculture

Demand and Supply Factors

- Funding constraints due to market fragmentation. The agriculture sector is highly fragmented with many smallholder farmers operating within the sector. Such smallholder farmers and businesses find it challenging to access low-cost finance as the banking sector is quite risk-averse and therefore reluctant to provide loans to this sector, given the high likelihood of default and lack of collateral. This has led to many smallholder farmers relying on informal financing and borrowing at very high interest rates.
- Land constraints prevent efficiencies and economies of scale. Due to the scarcity of land in the island, the Land Reform Commission—under the Land Grants (Special Provisions) Act, No. 43 of 1979—issued land and permits for landless low-income earners for residential and cultivational purposes. Since land granted in such forms was small plots, the agriculture industry has remained fragmented and unable to achieve economies of scale. This, in turn, has made agriculture operations in Sri Lanka costly and unproductive, with many farmers also unaware of best agricultural practices that could improve productivity.
- Weak adoption of technological farming and agriculture methods. Although agriculture has undergone some technological transformation, the country is still far behind regional peers in terms of technologically advanced farming techniques. Both labor shortages and low land productivity are key challenges and could potentially be addressed with the greater use of technology. Further, the use of technology could also support the industry in achieving competitiveness in the region. However, information dissemination across the value chain has been limited with many smallholder farmers not being aware of global advancements in technology, while affordability also remains a concern given the limited access to finance.
- Low foreign exchange earnings from agri-exports due to limited and low value-added agriculture exports. Sri Lanka's export basket has been limited to a few products in the past, and value addition in agriculture exports has also been limited. This has led to the industry facing significant volatility in earnings. Value addition and expansion of the export basket to include niche products such as organic produce could demand premium pricing and higher margins. However, this requires adequate information dissemination across the value chain to ensure consistent scale and quality is achieved by all stakeholders. Although privatization of the RPCs was meant to create efficiency and innovation in the subsectors of tea, rubber, and coconut, apart from a few companies, very few others have invested in accessing markets, building brands, innovating new products, adopting modern technology, or upgrading factories.
- Smallholder farmers are unable to source capital to invest in research and development for innovation, to obtain certifications and conduct marketing, aspects that need to be supported and driven by either the GOSL or larger private sector players to ensure greater market access. Lack of access to modern agricultural practices and inability to manage wastage and postharvest losses is another shortcoming experienced by farmers.
- Labor shortages are a common problem across agriculture subsectors as most youth are reluctant to pursue jobs in agriculture and opt instead for blue- or white-collar opportunities. In addition, as a consequence of the current economic crisis, even though the economy is slowly recovering, farmers are also migrating for better job opportunities, creating a further gap in labor markets.
- Farming has been seen as an unattractive and risky entrepreneurial activity due to various bottlenecks in facilitating agricultural activity and its dependence on and sensitivity to the vagaries of the weather. Low farmgate prices as opposed to high prices to the consumer has meant that middlemen and transporters extract most of the value creation while the absence of technology-based price dissemination and price discovery mechanisms have deprived farmers from securing fair prices for their produce. Lack of cold storage and equivalent facilities have exposed farmers to high volatility in prices for agricultural products, which has a knock-on effect for consumers as well.

Regulatory Factors

- The lack of a consistent national agriculture policy that would be implemented by all stakeholders on a timely basis has hampered growth in agriculture. Despite various policy developments and regulatory amendments, agriculture largely operates on traditional practices with limited innovation and technology integration. Farmers continue to be dependent on government subsidies (i.e., fertilizer subsidies) and favorable purchase prices for crops (by state authorities), while consumers also expect the GOSL to intervene to reduce market prices. Thus, the GOSL continues to compensate both stakeholders at a loss to the Treasury, instead of providing long-term development plans to improve efficiencies in agricultural practices and eliminate supply chain bottlenecks.
- Critical decisions undertaken by the GOSL without accurate studies and long-term planning have resulted in long-term setbacks in the industry. The chemical fertilizer and pesticides ban imposed in April 2021 is an example of such an ad-hoc decision; the outcome was a >50% reduction in crop yield, which led to surging food prices across the country. Though the ban was partially lifted in November 2021, it took longer than anticipated for sector yields to recover. Moreover, there has been a significant increase in illegal pesticide use after the ban, which will require more time to rectify.[418] The ban on palm oil cultivation is another such decision made by the GOSL; not only did this result in significant disruptions to one of the most profitable business segments for plantation companies, it also negatively impacted foreign exchange inflows to the country.[419]
- Restriction on foreign investor participation also has a negative impact on agriculture. To date, a ceiling of 40% on investor participation is applicable in some industries,[420] such as timber-based industries using local timber, deep-sea fishing, and growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar, and spices.
- Undue strong collective bargaining power hampers plantation profitability. The GOSL continues to give into the demands of the plantation labor unions and collective bargaining agreements through which higher wages are demanded (with some revisions, removing productivity-linked payments). The RPCs have also been affected by government regulations on salaries, as these affect profitability and hamper growth prospects.
- Domestic trade barriers are a significant issue to the growth and diversification of agriculture exports. There are many barriers when importing inputs (e.g., seed and fertilizer) and exporting the final output. Weak stakeholder consultation, poor design, and failure to regularly update and review the existing regulations are known regulatory trade barriers. Procedural barriers such as inefficient procedures (e.g., physical inspections in airports) and weak interagency coordination and informational barriers (e.g., ad-hoc changes in procedures) are a few of many trade barriers in Sri Lanka.[421]

418 International Service for the Acquisition of Agri-biotech Applications. 2022. *Impacts of the 2021 Ban on Conventional Pesticides and Fertilizers in Sri Lanka*.
419 Sunday Times. 2021. *Reversing back import ban on palm oil*.
420 US Department of State. 2021. *2021 Investment Climate Statements*.
421 Verite Research. 2022. *Sri Lanka's Domestic barriers to Trade*.

M. Tourism

Table 116: Key Statistics

Parameter	Value	Unit
Annual income from tourism (pre-Easter attacks/COVID-19, i.e., 2018)	4.4	$ billion
Annual Income from tourism (2023)	2.07	$ billion
Annual tourist arrivals (pre-Easter attacks/COVID-19, i.e., 2018)	2,333,796	No. of people
Annual tourist arrivals (2021)	1,487,303	No. of people
Accommodation capacity (graded) *	54,512	No. of beds
Receipt per tourist per day (2023)	164.4	$
Average duration of stay	8.44	No. of days
Annual room occupancy (pre-Easter attacks/COVID-19, i.e., 2018)	73%	%
Annual room occupancy (2022)	30.4%	%
Direct employment	190,521	No. of jobs
Indirect employment (estimated)	195,715	No. of jobs
Loans and advances of banks to the tourism sector	1.8	$ billion
Nonperforming loans ratio in the tourism sector (pre-Easter attacks/COVID-19, i.e., 2018)	4.7%	%
Nonperforming loan ratio in the tourism sector (2022)	23.4%	%

NA = Not Applicable, UA = Unavailable in Public Sources.

* Graded—Boutique/Classified and Tourist (Unclassified) Hotels

Sources: Sri Lanka Tourism Development Authority. 2023. *Tourism Highlights—1985 to 2023*; Central Bank of Sri Lanka. 2022. *Annual Report—2022*; The Morning. 2023. *NPL ratio reaches 11.3%*; Sri Lanka Tourism Development Authority. 2022, 2023. *Year in Review*; BOI. 2023. *Tourism Sector*.

1. Contracting Agencies in Tourism

The main contracting agency in tourism is the SLTDA. There are several associated agencies within the SLTDA that also play key roles within the industry. These include the Sri Lanka Tourism Promotion Bureau, which undertakes destination marketing activities; the Conventions Bureau, which is responsible for event-based tourism; and the Sri Lanka Institute of Tourism and Hotel Management, which is responsible for human resource development. The SLTDA is empowered to invest in any business within or outside Sri Lanka, which could contribute to the promotion of the tourism industry and can also enter into a joint venture with any party to discharge its functions. The SLTDA comes under the purview of the Ministry of Tourism and Lands.[422]

2. Tourism Laws and Regulations

In 1966, with the intention of developing tourism in a planned and a systematic manner, the GOSL set up an institutional framework and thus established the Ceylon Tourist Board (created by the Ceylon Tourist Board Act, No. 10 of 1966) and the Ceylon Hotels Corporation (created by the Ceylon Hotels Corporation Act of 1966). The Ceylon Hotels Corporation was a joint stock company with public and private sector involvement. It was intended to be the commercial arm of the GOSL for the purpose of developing accommodation and other facilities for tourists.

[422] Department of Government Printing. 2022. *Gazette Extraordinary of The Democratic Socialist Republic of Sri Lanka No. 2289/43*.

The Tourist Development Act, No. 14 of 1968, was enacted to vest the Ceylon Tourist Board with powers to acquire land for tourism development purposes; introduce classification codes, registration, and licensing of all tourist facilities and services; and to impose price control regulations. The legislation also covered the establishment of a national holiday resort company, which planned various types of accommodation and resort areas. Moreover, it included setting up an authority under the Ceylon Tourist Board to manage and administer each resort. The Act conferred powers for the Protection of Highways and Places of Scenic Beauty and vested authority in the Ceylon Tourist Board for the Registration and Classification of Tourist Hotels and all other tourist services including travel agencies.

In October 2007, the Tourism Act, No. 38 of 2005, was enacted to repeal the Ceylon Tourist Board Act, No. 10 of 1966, as well as certain provisions of the Tourist Development Act, No. 14 of 1968, and to address related matters. The Act provided for the setting up of the SLTDA, thereby replacing the Ceylon Tourist Board.

The SLTDA was vested with powers to plan and implement policy relating to the tourism industry and other related industries and to regulate and monitor the industry. Additionally, under the Act, the SLTDA could invest in any business within or outside Sri Lanka, which could contribute to the promotion of the tourism industry in the country. The authority could also enter a joint venture with any party to discharge its functions. The SLTDA also has the required authority for the planning of the environment and preservation of archeology stipulated in the National Environmental Act (once an area is declared as a tourism development area). When tourism development areas are identified, regulations may be made describing the tourist services and commercial and other activities that could be carried out within the designated areas.

Another provision of the Tourism Act, No. 38 of 2005, was the legal constitution of the Tourism Development Fund. The Fund was established to be utilized for the development and promotion of tourism and was to be managed and administered by the SLTDA. The fund had two main income sources: (1) one-third of the sum collected by way of Embarkation Levy in terms of section 2 of the Finance Act, No. 25 of 2003; and (2) as per section 12 of the Finance Act, No. 25 of 2003, a Tourism Development Levy, on the turnover of every institution, licensed under the Tourist Development Act, No. 14 of 1968 (1% of the turnover).

However, with an amendment to the Finance Act, No. 18 of 2018, effective January 2019, institutions licensed under the Tourist Development Act, No. 14 of 1968, and institutions licensed under the Tourism Act, No. 38 of 2005, are liable to pay a Tourism Development Levy as follows:[423]

- If the annual turnover is less than SLRs12 million or a quarterly turnover is less than SLRs3 million—0.5% of turnover.
- If the annual turnover exceeds SLRs12 million or a quarterly turnover exceeds SLRs3 million—1% of turnover.

In July 2021, a newly proposed Tourism Act was presented to Cabinet. The Act was to provide for the establishment of the Sri Lanka Tourism Authority which would essentially merge three out of four existing tourism agencies (i.e., SLTDA, Tourism Promotion Bureau, and Conventions Bureau) and would be responsible for facilitating the planning, promotion, and implementation of the GOSL policies on tourism development. Further, the new Act provides significant focus on improving the regulatory framework to facilitate increased investments in infrastructure and tourist products. This Act is yet to receive Cabinet approval and has been met with considerable resistance from stakeholders.[424]

[423] Sri Lanka Tourism Development Authority. 2019. *Tourism Development Levy*.
[424] DailyFT. 2022. *Private sector draws fresh battle lines against new Tourism Act*.

Table 117: Line Ministries and Agencies, Stakeholders, and Their Functions in Tourism in Sri Lanka

Agency	Function
Ministry of Tourism and Lands	• Develop the tourism industry and promote high standards in line with the national policy while raising Sri Lanka's image. • Registration and regulation of travel agencies and those involved in the tourism industry. • Popularize Sri Lanka as a unique touristic island among domestic and foreign tourists, highlighting its biodiversity, heritage, environment, climate, oceanic resources, etc. • Promote holiday resorts and hotel facilities, internationally recognized conference centers, exhibition, and entertainment facilities, and air and sea travel. • Provide required facilities to encourage those engaged in the tourism trade and related entrepreneurs. • Ensure safety of tourists.
Sri Lanka Tourism Development Authority (SLTDA)	• Plan and develop regulations and policy implementation of tourism and related industries. • Promote Sri Lanka as a coveted tourist hotspot, elevating its status to that of a leading tourism destination in Asia and positioning it as the primary foreign exchange earner for the country. • Obtain quantitative and qualitative information related to tourism. • Publish statistical data related to the tourism sector. • Scrutinize the impact of the tourism sector on the domestic economy. • Maintain relationships with international tourism organizations such as the World Tourism Organization and the Regional Tourism Corporation. • Participate in international and regional tourism forums.
Sri Lanka Institute of Tourism and Hotel Management	• The only approved institute that offers courses in hotel and hospitality as well as travel and tourism. • Identify, design, and deliver training and education programs in order to produce the highest quality professionals in the tourism and hospitality industry, on par with international standards. • Train a workforce to adapt to changes and challenges in the industry and meet the demand for tourism and hospitality. • Promote Sri Lankan hospitality and the values of the industry. • Ensure sustainable growth in the tourism and hospitality industry. • Take steps to expand the delivery capacity of tourism and hospitality education by collaborating with other local as well as international education entities. • Conduct research on tourism and hospitality.
Sri Lanka Tourism Promotion Bureau	• Market and promote Sri Lanka as a quality travel destination in collaboration with the SLTDA, the Sri Lanka Tourism Promotion Bureau, the Sri Lanka Institute of Hotel Management, and other main travel and tourism stakeholders in the country.
Sri Lanka Convention Bureau	• Develop the meetings, incentives, conferences and exhibitions industry and activities to receive optimum revenue from related tourism.

continued on next page

Table 117 continued

Agency	Function
Industry associations and other related institutions	
The Hotels Association of Sri Lanka	• Promote and foster tourism and the tourist hotel industry to promote commerce and economic development. • Cooperate with the GOSL to promote and improve the tourist hotel industry and advise the GOSL and any relevant authority on measures that should be taken to stimulate the tourist hotel industry. • Organize, finance, and participate with local and international organizations to promote and improve the tourism and tourist hotel industry. • Affiliate with local and international organizations that have similar objectives. • Carry out activities aimed at promoting and increasing tourism/tourist hotels industry and the benefits to Association members. • Foster unity and cooperation among Association members.
Sri Lanka Tourism Alliance	• Founded in 2019 by a group of private sector leaders that came together to launch www.lovesrilanka.org, a consumer website to promote travel to Sri Lanka. • Aims to foster one united industry voice, and share information, education, and collaboration across the entire tourism sector. • Initiate projects to reflect the GOSL's initiatives and strategies and focus on high-impact activities.
Sri Lanka Association of Inbound Tour Operators	• Formed in 1975 by several destination management companies to be the voice of the inbound tourism industry in Sri Lanka. • Represent the interests of all stakeholders in the industry, and ensure Sri Lanka takes its rightful place in the global tourism community. • Promote long-term and sustainable growth of Sri Lanka tourism and lobby government and relevant authorities on behalf of member companies to create the policy framework that will ensure the growth of the industry.
Association of Small and Medium Enterprises in Tourism	• Founded in 2005 by SME stakeholders in tourism. Includes members from SME businesses in accommodation, tour operators, travel agents, transport providers, and restaurants. • Empower SMEs by attending to the specific needs and aspirations and the development of these SMEs as a whole. • Drive the formalization of the informal tourism sector.

Sources: Department of Government Printing. 2022. *Gazette Extraordinary of The Democratic Socialist Republic of Sri Lanka No. 2289/43*; Department of Government Printing. 2022.*Tourism Act, No. 38 of 2005*; Sri Lanka Tourism Development Authority. 2022. *About Us*; Sri Lanka Tourism Alliance. 2022. *About Us*; Sri Lanka Association of Inbound Tour Operators. 2022. *About SLAITO*.

Foreign Investment Restrictions in the Tourism Sector

There are no specific restrictions applicable to tourism PPPs, apart from the land ownership considerations.

Table 118: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in tourism projects (excluding land ownership)	100%	100%	100%

Sources: Sri Lanka Tourism Development Authority. 2022. *Investment Support*; Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments*.

While there is no restriction on equity investment for foreign investors, there are restrictions on land ownership. Under the Land (Restrictions on Alienation) Act, No. 38 of 2014, foreign nationals, foreign companies, and Sri Lankan companies of which 50% or more is held either directly or indirectly by foreigners or a foreign company, are prohibited from owning freehold land in Sri Lanka.

However, they are permitted to lease government-owned land for a maximum tenure of 99 years; currently, this is only offered for 30 years.[425] However, following an amendment to this Act in 2018, companies of which 50% or more was held either directly or indirectly by foreigners or a foreign company and which are listed on the CSE, were permitted to own freehold land.[426]

Standard Contracts in Tourism

Specific standard contracts are unavailable for tourism PPPs and general EPC contracts are used.

Table 119: Contract Types

Type of Contract	Availability
PPP/concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, NA = Not Applicable, UA = Unavailable in Public Sources.
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

3. Tourism Master Plan

As tourism plays a significant role in Sri Lanka's economy, there have been numerous efforts by various government authorities and prominent industry associations to promote and develop it, including several publications released over the last decade outlining strategies for development:

- The Tourism Development Strategy 2011–2016 by the Ministry of Economic Development
- The Sri Lanka Tourism Strategy Plan 2017–2020 by the Ministry of Tourism Development and Christian Religious Affairs
- Sri Lanka Strategic Plan for Tourism 2022–2025
- Sri Lanka Tourism Vision 2025
- The National Tourism Policy, 2021.

These reports highlight the challenges the industry faced at the time and the potential strategies to address these challenges, including introducing collaborative and PPP mechanisms for integrated development projects. In the previous two iterations of strategy plans released by the Ministry and the SLTDA, several broad transformative tourism projects were proposed, and a few focus areas identified. These included coastal forts, ecotourism discovery circuits, and east coast sunrise corridors.[427]

[425] Board of Investment of Sri Lanka. 2022. *Investment Opportunities*.
[426] Department of Government Printing. 2022. *Land (Restrictions on Alienation) (Amendment) Act, No. 21 of 2018.*
[427] Government of Sri Lanka, Ministry of Tourism Development and Christian Religious Affairs. 2017. *The Sri Lanka Tourism Strategy Plan 2017–2020*.

Following the introduction of the concept of tourism zones, the SLTDA identified selective areas for tourism development (Table 120).

Table 120: Zones Identified as Suitable for Tourism Development by the SLTDA

Region	Areas
Colombo and Greater Colombo Resort Region	Negombo, Colombo, Mount Lavinia
South Coast Resort Region	Wadduwa, Kalutara, Beruwala, Bentota, Dedduwa, Madu Ganga, Balapitiya, Ahungalla, Hikkaduwa, Galle, Unawatuna, Koggala, Weligama, Mirissa, Matara, Tangalle, Hambantota, Tissamaharama
East Coast Resort Region	Arugam Bay, Pasikudah, Trincomalee, Nilaveli
West Coast Resort Region	Kalpitiya, Marawila, Waikkala
High Country Resort Region	Nuwara Eliya, Bandarawela, Maskeliya
Ancient Cities Resort Region	Polonnaruwa, Habarana, Sigiriya, Giritale, Anuradhapura, Dambulla, Kandy, Matale, Victoria
Other Resort Regions	Yala, Udawalawa, Wasgamuwa, Pinnawala, Ratnapura

Source: Sri Lanka Tourism Development Authority. 2022. *Key Development Projects*.

Within these zones, the SLTDA is encouraging the leasing of government-owned land for tourism infrastructure projects (Table 121).

Table 121: Tourism Infrastructure Projects Promoted by SLTDA and the BOI of Sri Lanka

Project Name	Located District	Land Available	Minimum Investment ($ million)	Land Lease Period
Dedduwa Lake Resort	Galle	1,700 acres	500	30 years
Kalpitiya Project	Puttalam	556 acres	200	30 years
Kuchchaveli Beach Resort	Trincomalee	368 acres	80	30 years
Amusement Park and mixed development project	Colombo	37 acres	80	50 years
Beruwala Tourist Hotel / Leisure Project	Kalutara	4 acres	60	30 years
Lake Gregory Theme Park	Nuwara Eliya	13 acres	35	UA
Passikudah Resort	Batticaloa	UA	UA	UA
Yala Wild Resort	Hambantota	UA	UA	30 years

SLRs1 = $0.003319

NA = Not Applicable, UA = Unavailable in Public Sources.

Sources: Board of Investment of Sri Lanka. 2022. The Kuchchaveli Tourism Development Project; Board of Investment of Sri Lanka. 2022. The Dedduwa project; Board of Investment of Sri Lanka. 2022. Kalpitiya Integrated Tourism Resort Program (KITRP); Board of Investment of Sri Lanka. 2022. Lake Gregory Theme Park; Board of Investment of Sri Lanka. 2022. Amusement Park and Mixed Development Project; Sri Lanka Tourism Development Authority. 2022. Projects at SLTDA.

It has also been acknowledged that improved connectivity within the country will serve as a major factor in positioning Sri Lanka as a highly attractive tourist destination.

With this in mind, a few core strategies were set in place which identified PPP as a mechanism for engaging in project development and financing.

Table 122: Key Actions Proposed to Improve Connectivity for Tourism

Actions	Lead Agency and Partners	Current Status
Assess feasibility of express luxury coach services to specific tourism hubs in season under a PPP and issue a request for proposals	SLTDA, private companies	UA
Increase number of first class online-bookable train carriages on major tourist routes under a PPP	SLTDA, Railways Department	UA
Advocate for a regular luxury Orient Express style railway operation on two major tourist routes under a PPP	SLTDA, Railways Department	UA
Negotiate with relevant government bodies for a fixed annual price and allocated space in fisheries harbors and ports for leisure boats	SLTDA, other government departments	UA
Develop strategy for domestic airport upgrades in line with national plans and tourism growth profiles. Ensure consideration of visitor services and experience in terminals	SLTDA, Civil Aviation Authority, provincial governments	UA
Assess tourism jetties, piers, and marinas in strategic locations and develop a holistic implementation plan with PPP; issue request for proposal	SLTDA, Sri Lankan Ports Authority	UA

NA = Not Applicable, UA = Unavailable in Public Sources.

Source: Government of Sri Lanka, Ministry of Tourism Development and Christian Religious Affairs. 2017. *The Sri Lanka Tourism Strategy Plan 2017–2020*.

Table 123: Possible Use of International and Domestic Airports in Sri Lanka

Airport	Status	Service Potential
International		
Katunayake	Existing international airport domestic terminal to be located at BIA instead of Ratmalana	
Mattala	Existing international airport underused	Access to popular south and east coast
Jaffna	Upgraded to an international airport in 2019	Access to the northern region of the country
Ratmalana	Commenced international flights from 2022	
Domestic		
Hingurakgoda	Currently an Air Force base	Access to Polonnaruwa and Dambulla (national parks in the vicinity) and to Kandy. Potential to be accessed for international flights.
Trincomalee	Existing Air Force and domestic airport	Access to east and northeast
Kandy	To be constructed	Direct access to hill country and central highlands
Batticaloa	Air Force base operating as domestic airport since July 2016	Access to east and southeast including Arugam Bay
Ampara	Existing Air Force and domestic airport	Access to east and southeast
Jaffna	Existing Air Force and domestic airport	Access to north
Anuradhapura	Currently an Air Force base	Access to Cultural Triangle and Cultural Heartland Zone
Palavi	Currently an Air Force base	Access to west including Kalpitiya and national parks

Sources: Government of Sri Lanka, Ministry of Tourism Development and Christian Religious Affairs. 2017. *The Sri Lanka Tourism Strategy Plan 2017–2020*; Industry research.

Table 124: Current and Potential Locations for Marinas for Consideration

Type	Existing Locations	Potential future locations
Mini/small marina or jetty	Beruwala, Mirissa	Department of Aquaculture Resources identified locations—Mannar, Kalpitiya
Leisure marina (medium sized)	None	Colombo, Galle, Tangalle, Trincomalee, Battiacloa, Jaffna, Kalmunai
Working marina	None	Dikkowita, Oluvil, Kankasanthurai

Source: Government of Sri Lanka, Ministry of Tourism Development and Christian Religious Affairs. 2017. *The Sri Lanka Tourism Strategy Plan 2017–2020.*

While the above mobility and connectivity infrastructure projects were proposed under the strategic plans of the SLTDA and the Ministry, implementation of these initiatives has been slow. The GOSL is also currently looking into upgrading the existing passenger terminal at BIA with better facilities to attract high-end tourists.

More recent sector development plans include (1) a new National Tourism Policy and (2) the establishment of a centralized investment facilitation and promotion unit within the SLTDA. In November 2021, the GOSL called for public views to complete the first draft of the National Tourism Policy blueprint, aimed at building a more resilient sector. The blueprint focused on four thrust themes: integrated governance, inclusive and sustainable tourism, informed stakeholders, and incentive strategies. The draft policy document envisioned tourism generating employment of over one million people and a revenue of over $10 billion by 2025.[428] The 10-year National Tourism Policy document was tabled at Cabinet in September 2023, which led ministers to request for it to be further reviewed by a committee comprising industry experts; subsequently, after all deliberations and recommendations were considered, the proposal was approved by Cabinet in February 2024.[429] Meanwhile, the new investor relations unit at the SLTDA aims at assisting potential investors in Sri Lanka tourism. The unit is a one-stop location and point of contact for investors seeking information and assistance on tourism investments. Services would include information on potential tourism-related investments, provision of a land directory, fast-tracked project clearance permits, fast-tracked approvals from government agencies, coordination with BOI incentive schemes, recommendation for visas, and monitoring and facilitating construction progress. According to the SLTDA, recent improvements to the investment approval process have reduced the time taken for project approvals by up to 40%.[430]

Tourism Projects Under Preparation and Procurement

No tourism PPP projects are under preparation or procurement.

However, in the past, some land allocations for large-scale development of resorts have been carried out as PPPs where state land was leased to private parties. Such land allocations have happened in multiple areas of the country. Within the city of Colombo, land parcels have been allocated by the GOSL for high-end hotel and mall projects such as the Colombo Hilton, Shangri-La Hotel, and One Galle Face.

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428 Government of Sri Lanka, Ministry of Tourism and Lands. 2021. *Draft National Tourism Policy.*
429 DailyFT. 2024. *Cabinet nod to implement National Tourism Policy*.
430 Sri Lanka Tourism Development Agency. 2022. *Investor Relations Unit (IRU)*.

4. Features of Past Tourism Public–Private Partnership Projects

There have been no tourism PPPs, and this information is unavailable.

However, as stated previously, government land has been offered on long-term lease agreements for many tourism-related development projects. There have also been government-owned hotel projects which have been given for private management; for example, the Colombo Hilton—the property is held by Hotel Developers (Lanka) Ltd, a 100% government-owned entity—and some have been privatized (e.g., Ceylon Hotels Corporation).

Typical Risk Allocation for Tourism Public–Private Partnership Projects

As no tourism PPP projects have been implemented, information on typical risk allocation for PPPs is unavailable.

Tourism Financing Details

Since there are no financially closed tourism PPPs, the parameters below are not applicable.

Table 125: Financing Details in Tourism

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	N/A	N/A	N/A
PPP projects that received export credit agency/international financing institution support	N/A	N/A	N/A
Typical debt:equity ratio	N/A		
Time for finance close	N/A		
Typical concession period	N/A		
Typical FIRR	N/A		

N/A = Not Applicable, UA = Unavailable in Public Sources.
Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); Industry research.

5. Challenges in Tourism

Demand and Supply Factors

- Businesses related to tourism were under substantial pressure due to low tourist arrivals during most of 2019, 2020, 2021, and 2022. Situations such as the Easter Sunday attacks and the COVID-19 pandemic, followed by the macroeconomic crisis that led to public protests and fuel shortages left many private tourism players struggling as tourist arrivals dropped and remained well below average for four consecutive years. Outstanding borrowings by the sector rose sharply (over SLRs600 billion as of mid-2023) while nonperforming loans rose to 23.4%, and low to middle end players in the sector in particular have continued to struggle with a large debt burden, an inability to find capital for refurbishments, and to retain staff for prolonged periods.
- MSMEs who play a significant role in tourism have been the most affected by the downturn, creating a knock-on effect on tourism overall and potentially delaying its recovery. Many tourism activities had been undertaken by MSMEs (estimated to account for as much as 80%).[431] In order to recuperate the MSME contribution to tourism, assistance needs to be consistently provided to overcome challenges such as funding bottlenecks, skill shortages, and access to digital technologies and promotional platforms.

[431] Daily News. 2021. *Recognizing vital role of SMEs in Sri Lanka's Tourism Sector*.

- Persistent labor market shortages were worsened by skills gaps and outward migration. Tourism was challenged by labor shortages even prior to the pandemic, with the demand per annum being 25,000–30,000, while the training institutes produced only approximately 10,000 trainees annually. The average output of the Sri Lanka Institute of Tourism and Hotel Management for 2015–2020 was 3,315 students annually.[432] This issue was further worsened by the current crisis, leading to a rise in the outflow of migrant workers with specialized skills in the industry, particularly youth, leaving Sri Lanka in search of better career opportunities overseas.
    - Skills gaps also exist in the workforce engaged in informal tourism such as tour guides, drivers, restaurant operators, and entertainment providers, as well as within the larger community engaged in tourism via sale of handicrafts and provision of other recreational services such as safaris, boat rides, and diving.
- Sri Lanka has struggled to attract diverse and high-spending tourists unlike neighboring countries such as the Maldives. This may be owing to several limitations connected to both quality of product and promotions, some of which are detailed below.

  Product-related shortcomings:
    - Insufficient connectivity both within the island and the lack of direct international flights to lucrative tourist locations, limited expressway connections, and inadequate internal transportation links to certain parts of the island are some of the shortcomings.
    - Inadequate public transport system, infrastructure, and connectivity and the lack of easy access to booking train and bus tickets.
    - Gaps in the field of entertainment and recreational activities such as theme parks and events and an integrated offering showcasing the diversity of attractions the country has to offer.
    - The need for better quality tourism infrastructure, such as rest rooms and souvenir shops, at key tourist sites.
    - Lack of trained guides and ancillary service providers.

  Promotion-related shortcomings:
    - Insufficient promotional activities in diverse market segments. Industry stakeholders highlight the slow procurement process for destination promotion campaigns and overall lack of funds for participating in tourism promotion events as problems.
    - Insufficient digital marketing activities and weak digital presence for booking activities related to tourism.

Regulatory Factors

- Weak tourism governance stemming from fragmentation of planning, management, and policymaking and a lack of coordination between public agencies.
- Land ownership ceilings restrict entry and dampen interest of foreign investors in the tourism property development sector. Premium quality tourism establishments (required to promote high-end tourism) require large investments with long payback periods. Since land can only be held by foreign investors under a long-term lease, risk factors such as uncertainty and lack of policy consistency take precedence when promoting such investments and sourcing financing partners.
    - Additionally, challenges in obtaining timely project approvals discourage potential investors. Currently, most hotel properties have been established by local investors, except for TAL Lanka Hotels PLC (Taj Samudra Colombo), Shangri-La Hotels, and ITC Hotels (India Tobacco Company Group). Typically, it is foreign hotel management companies that display significant interest in Sri Lanka. However, enhancing the industry significantly will require attracting greater equity capital, particularly in the form of foreign direct investment and green financing (for eligible sustainable tourism initiatives).

[432] The Sri Lanka Institute of Tourism and Hotel Management. 2021. *Annual Report 2021.*

N. Information and Communication Technology

Table 126: Key Statistics

Parameter	Value	Unit
Fixed telephone subscribers	12	per 100 inhabitants
Cellular phone subscribers	143.08	per 100 inhabitants
Internet subscribers	10.08	Rank out of 149
Internet bandwidth for fixed internet	12.65	Mbps
ICT sector attrition rates	13	% of total population
Mobile penetration	148.2	% of total population
Internet penetration	56.3	% of total population
Public sector digital literacy	40.3	% of total population
Total number of IT professionals	175,000	Number

ICT = Information and Communication Technology, NA = Not Applicable, UA = Unavailable in Public Sources.

Sources: World Bank. 2022. *Fixed telephone subscriptions* (accessed April 2024); The Global Economy. 2022. *Mobile phone subscribers*; The Global Economy. 2022. *Internet subscribers*; Digital Outlook Sri Lanka. 2024; JLL. 2021. *Asia's Emerging IT/ITeS destination*; Datareportal. 2024. *Digital 2024*; Daily News. 2023. *ICT for service-based economy in Sri Lanka*.

1. Contracting Agencies in Information and Communication Technology

The Ministry of Technology is the main government body that oversees ICT-related developments in Sri Lanka. It is responsible for the formulation and implementation of policies related to the regulation and growth of technology and scientific research in the country. The Information and Communication Technology Agency (ICTA), the Sri Lanka Computer Emergency Readiness Team (SLCERT), Sri Lanka Telecom PLC, and the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) all come under the purview of the Ministry of Technology.[433]

The ICTA is the GOSL's apex ICT institution and is a wholly owned government institution formulated and operationalized to implement the e-Sri Lanka Development Project funded by the World Bank from 2004 to 2011. Under the Information and Communication Technology Act, No. 27 of 2003 (ICT Act), the ICTA was mandated to take all necessary measures to implement the GOSL's policy and action plan in relation to ICT. The ICTA is required to assist Cabinet in the formulation of the National Policy on ICT and provide all information necessary for its formulation under Section 6 of the ICT Act.[434]

The TRCSL was established under the Sri Lanka Telecommunication (Amendment) Act, No. 27 of 1996, as the national regulatory agency for telecommunications in Sri Lanka. The TRCSL works to promote sustained development in the telecommunication industry by shaping the regulatory process, protecting public interest, and being responsive to challenges in an increasingly competitive market.[435] It is responsible for formulating pricing policies and tariff regulations, enforcing the Telecommunication Act by the licensed operators, and frequent monitoring and quality checking of licensed operators, numbering, compliance, manage competition in the telecommunication market, and other administrative activities. The TRCSL is also responsible for the issuing, renewing, modifying, revoking, and transferring ownership of telecommunication licenses.

433 Government of Sri Lanka, Ministry of Technology. 2021.
434 ICTA. 2021.
435 TRCSL. 2021.

The SLCERT was established as Sri Lanka's national computer emergency readiness team by the ICTA in 2006. The main reason for establishing CERT was to address the potential increase of cybersecurity incidents because of the rapid growth of Sri Lanka's IT infrastructure.[436]

The Centre of Excellence in Robotics Application was granted approval at a Cabinet meeting held in August 2016. With the establishment of the center, it was expected to function as a technology transfer agency for the design, development, and conduct of research with respect to robotic systems and vehicles for government and industrial customers.[425]

The Personal Data Protection Authority is recognized as the regulator of personal data that it governs. While the Personal Data Protection Authority is set to be implemented in phases, in October 2023, the President appointed a seven-member Board of Directors, who will oversee the authority's regulatory affairs.[437]

Information and Communication Technology Industry Associations

The Sri Lanka Association for Software Services Companies (SLASSCOM) is the national chamber for the IT/business process management (BPM) industry. The SLASSCOM acts as a catalyst for growth in the IT/BPM industry, working closely with both the GOSL and relevant public and private entities to facilitate trade and business, propagate education and employment, encourage research and innovation, capacity, and skills development and to influence the national policy framework. The member organizations of SLASSCOM include 400+ member companies and 60,000+ employees.[438]

2. Information and Communication Technology Laws and Regulations

Several ICT laws govern technology and internet usage in Sri Lanka including the ICT Act (2003), the Electronic Transactions Act (2006), and the Computer Crime Act (2007). Three new Acts were recently introduced: the Personal Data Protection Act, No. 9 of 2022; the Cyber Security Act, No. 1 of 2019, making Sri Lanka the first South Asian country to enact comprehensive data protection legislation; and the Online Safety Act, No. 9 of 2024.

The ICT Act (2003) provides for the following: (1) establishment of the National Committee on Information and Communication Technology, (2) setting out a national policy on ICT and for the preparation of an action plan, (3) appointment of a task force for ICT, (4) establishment of the Information and Communication Technology Agency of Sri Lanka charged with the implementation of the national policy in both the public and private sectors, and other related matters.[439]

The Electronic Transactions Act (2006) recognizes and facilitates the formation of contracts; the creation and exchange of data messages, electronic documents, electronic records, and other communications in electronic format in Sri Lanka; and provides for the appointment of a certification authority and accreditation of certification service providers and other related matters.[440]

The Computer Crime Act (2007) provides for the identification of computer crime and the procedure for the investigation and prevention of such crimes and other related matters.[441]

436 SLCERT. 2024.
437 Government of Sri Lanka, Presidential Secretariat. 2023.
438 SLASSCOM. 2024.
439 CommonLII. *Consolidated Acts*.
440 CommonLII. *Consolidated Acts*.
441 Government of Sri Lanka. 2007. *Computer Crime Act, No. 24 of 2007*.

The Cyber Security Act, No. 1 of 2019, ensures the effective implementation of the National Cyber Security Strategy in Sri Lanka that will prevent, mitigate, and respond to cyber security threats and incidents effectively. The Act facilitates the setting up of the Cyber Security Agency of Sri Lanka, to empower the institutional framework to provide a safe and secure cyber security environment and protect the critical information infrastructure.[442]

The Personal Data Protection Act, No. 9 of 2022, identifies and strengthens the rights of data subjects and provides for the designation of the data protection authority to regulate the dissemination of unsolicited messages using personal data.[443]

The Online Safety Act, No. 9 of 2024, established the Online Safety Commission, which is intended to provide safety from prohibited statements made online, to prevent the use of online accounts and inauthentic online accounts for prohibited purposes, to make provisions to identify and declare online locations used for prohibited purposes in Sri Lanka, to suppress the financing and other support of communication of prohibited statements, and for matters connected therewith or incidental thereto.[444]

The following table provides the key agencies regulating and operating ICT in Sri Lanka.

Table 127: Key Line Ministries and Agencies Related to Information and Communication Technology in Sri Lanka

Agency	Function
Ministry of Technology	• Formulate policies, programs, and projects, and monitor and evaluate digital infrastructure and information technology. • Provision of digital infrastructure facilities for all by adoption of modern technology. • Assist in adopting appropriate information technological solutions for promoting productivity and efficiency in the delivery of services by the public sector. • Implement programs to promote computer literacy. • Develop strategies to encourage the use of information technology.
Information and Communication Technology Agency (ICTA)	• Implement the GOSL's ICT policy and action plan. • Assist Cabinet in the formulation of the National Policy on ICT and provide all information necessary for its formulation. • Provide national-level guidance and coordination for national priorities including providing efficient and citizen-centric services with the simplification of market processes and state mechanisms. • Establish international e-commerce and e-payment systems and design new laws and organizational frameworks for data protection, cyber security, and intellectual property rights.

continued on next page

[442] Sri Lanka CERT.
[443] The Parliament of Sri Lanka.
[444] The Parliament of Sri Lanka.

Table 127 continued

Agency	Function

Telecommunications Regulatory Commission of Sri Lanka (TRCSL)	• Process applications for licenses including:
	  ◦ Licenses to operate telecommunication systems in Sri Lanka under Section 17 of the Act.
	  ◦ Licenses for use of radio frequency and radio frequency emitting apparatus under Section 22 of the Act.
	  ◦ Licenses to operate a private network under Section 20 (ii) of the Act.
	  ◦ Vendor licenses under Section 21 of the Act.
	  ◦ Licenses for cabling works under Section 22A (1) of the Act.
	• Tariff regulations:
	  ◦ Determine tariffs in consultation with the Minister as specified under Section 5(k) of the Act.
	  ◦ Formulate pricing policies.
	• Monitor and ensure compliance with the Act (including rules and regulations made thereunder) and licenses by the licensed operators.
	• Monitor and ensure proper utilization of the radio frequency spectrum.
	• Respond to consumer complaints and hold inquiries and investigations.
	• Provide information to the public on quality and variety of telecommunication services and encourage their participation by conducting public processes and public hearings.

Sri Lanka Computer Emergency Readiness Team (SLCERT)	• Protect information technology users in public and private organizations and the public by providing up-to-date information on potential threats and vulnerabilities and by undertaking computer emergency response handling services. • Act as the most authoritative national source for all ICT security-related issues across the nation.
Industry associations and other related institutions	
Sri Lanka Association for Software Services Companies (SLASSCOM) (an industry association)	• Facilitate trade and business. • Propagate education and employment. • Encourage research and innovation. • Support the creation of a progressive national policy framework.

Sources: Government of Sri Lanka, Ministry of Technology. 2021; ICTA. 2021; TRCSL. 2021. SLCERT. 2021. Techno Park Development Company (Pvt.) Ltd. 2021; SLASSCOM. 2021.

3. Foreign Investment Restrictions in Information and Communication Technology

There are no foreign investment restrictions in ICT.[445]

Table 128: Foreign Investment Restrictions

Parameter	2021	2022	2023
Maximum allowed foreign ownership of equity in ICT sector projects	100%	100%	100%

Source: Board of Investment of Sri Lanka. 2024. *Investment Incentives*.

Standard Contracts in Information and Communication Technology

Specific standard contracts are unavailable for ICT PPPs. General EPC contracts are used for PPP projects as well.

Table 129: Contract Types

Type of contract	Availability
PPP/ concession agreement	×
Performance-based operation and maintenance contract	×
EPC contract	✓

✓ = Yes, × = No, N/A = Not Applicable.
Source: ADB. 2019. *Public–Private Partnership Monitor*, Second Edition.

4. Information and Communication Technology Master Plan

There is no official national master plan released by the GOSL to date.

However, the GOSL in its efforts to digitally empower Sri Lanka for innovation, inclusion, and sustainable growth has—as of April 2024—unveiled its national digital strategy, titled "Digital Sri Lanka 2030," along with an implementation plan. To achieve the goals of this strategic plan, six strategic areas have been identified: infrastructure, connectivity, and access; skills, literacy, industry, and jobs; connected digital government; cybersecurity, safety, and privacy; digital financial services; and digitalization across sectors and MSMEs. The GOSL expects the proposed digital strategy to be an integral part of the country's economic recovery and growth between 2024 and 2030 and foresees the digital plan's implementation across several phases. In essence, the strategy recognizes the importance of building a robust, export-oriented economy, and a need to create strong economic and technological partnerships with stakeholders around the world. While the focus of the digital strategy is to reconstruct, rebuild, and set the stage for the future of Sri Lanka's digital landscape, other desired outcomes include sustainable economic growth and competitiveness, greater social inclusion, a stronger skills base, good and well-paying jobs with dignity, and trusted and inclusive services.[446]

Moreover, export earnings from telecommunications and computer services have continued to grow over the years (5.5% CAGR during 2018–2022, with forex earnings of $ 1.7 billion in 2022) and the GOSL has identified ICT (especially IT/BPM) as a thrust industry to be given development priority. Earnings from ICT are expected

[445] Board of Investment of Sri Lanka. 2022. *Exchange Control Laws Applicable for Foreign Investments.*
[446] DailyFT 2024. *Govt unveils National Digital Economy Strategy*.

to reach an export target of $5 billion by 2030,[447] a target recently revised up from $3 billion. A Presidential Task Force has been set up to accelerate the sector's growth, recognizing the importance of investment and increasing competitiveness of Sri Lanka with ICT-specific policies aimed at facilitating this growth.[448]

Table 130: ICT Sector Masterplan elements

No.	Project	Implementing Agency	Estimated Project Cost		Status
			$ million	SLRs billion	
1.	National Export Strategy	EDB and ICTA	UA	UA	Ongoing
2.	The National Skills Platform	ICTA	UA	UA	Under discussion
3.	Talent development	SLASSCOM	UA	UA	Ongoing
4.	Future Careers Bridge	SLASSCOM	UA	UA	Ongoing
5.	Tech Kids	SLASSCOM	UA	UA	Ongoing
6.	ESG forum	SLASSCOM	UA	UA	Ongoing

N/A = Not Applicable, UA = Unavailable in Public Sources.

Sources: Government of Sri Lanka, Ministry of Technology. 2022. (accessed September 2023); SLASSCOM. 2020. *Sri Lanka IT-BPM Industry: State of the Industry Report*.

As laid down by the National Export Strategy and developed by the EDB and ICTA's Digital Sri Lanka Vision 2024, sector growth is expected to be achieved through the collaborative actions of all industry stakeholders. The IT/BPM industry strategy aims to achieve four strategic objectives:

(i) Support investment and exports in IT/BPM through a business enabling, predictable, and transparent policy and regulatory framework.

(ii) Drive export growth through innovation and entrepreneurship.

(iii) Improve the supply of skilled, highly qualified professionals to satisfy the growing IT/BPM market.

(iv) Administer targeted interventions aimed at achieving nonorganic revenue growth.

As a part of the GOSL's vision to catalyze a technology-centric economy, several key initiatives to enable digital services and its underlying infrastructure have been launched over the past few months.

- To continually scale up the skills and talent of the IT workforce, the period 2021–2030 was declared as the Decade of Skills Development by the GOSL. Initiatives such as establishing several city universities are expected to improve IT-graduate numbers. The industry has faced a shortage of skills both due to rapid sector growth as well as labor migration to more developed countries. Currently the graduate output in the sector is 225,000 while the requirement stands at 300,000 ICT professionals to be employed in multiple sectors by 2024.[449]
- The National Skills platform is a program initiated by the ICTA using the Skills Framework for the Information Age, which is a model for describing the skills and competencies required by professionals in the ICT sector. The project will be funded by the GOSL and will help to map ICT qualifications to the training institute that provides those qualifications.

[447] ICTA. 2021. *Investment and Export Promotion.*
[448] SLASSCOM. 2020. *State of the Industry Report.*
[449] ICTA. 2022. *Digital Economy.*

As part of the sector's talent development strategy, the SLASSCOM works collaboratively with government, academia (state and nonstate), and industry to transform general education, higher education, and professional and vocational education to build capacity and skills to achieve the target of creating a 200,000-strong highly skilled workforce by 2025. Listed below are some of the key initiatives:

- Future Careers Bridge—an initiative to encourage youth (post Ordinary Levels and Advanced Levels or undergraduates) to pursue self-study pathways and showcase their capabilities to the industry. Once their skills are made visible, the industry can evaluate and onboard them, students gain the opportunity to work in the industry while reading for a part-time degree or qualification. The SLASSCOM partners with its member companies to provide internship opportunities for students who excel in Future Career Bridge challenges.
- Tech Kids—an IT education initiative to develop the coding and robotics skills of children aged 6–16 and conducted in collaboration with the Royal Norwegian Embassy. IT/BPM companies have partnered with the SLASSCOM to roll out Tech Kids code clubs for the children of their staff and customers. Furthermore, large corporates have come onboard to benefit from this initiative for their staff and customers' children. Several schools are also running coding clubs through their computer societies.[450]

The SLASSCOM is also engaged in several other initiatives to encourage the further development of IT/BPM. These are intended to make Sri Lanka a "Sustainable IT/BPM Solutions" provider, and one of its early initiatives has been the partnership with Sri Lankan commercial and development bank DFCC to provide a special green loan scheme exclusive for SLASSCOM member companies and their employees to purchase solar energy systems.[451] Encouraging a vibrant startup ecosystem is also one of the SLASSCOM's goals, with a strategy to launch programs that will create the right domestic conditions to ignite entrepreneurship, creativity, and innovation to catalyze 1,000 startups aimed at creating the next generation of digital disruptors by 2030.[452]

Other Recent Developments in Information and Communication Technology

- Sri Lanka's digital literacy in 2023 was 63.8%, up from 60.0% in 2022.[453] The rapid uptake of homegrown ride-hailing and grocery-buying apps such as PickMe also attests to the country's improvement in digital readiness.
- Several digital payment mechanisms and other digital solutions were introduced by the GOSL during 2022. The ICTA, together with the MoPE launched the "National Fuel Pass" QR code system for fuel rationing for all motorists in August 2022, and over six million users subscribed to it. This provided the public a convenient and easily accessible solution to obtain fuel and facilitate an allocation-based fuel distribution method, thus putting an end to long fuel queues and public uprising at the time.[454]
- Sri Lanka has seen a rapid adoption of cashless online payment platforms such as JustPay, WEBXPAY, Orel Pay, PayHere, HelaPay, FriMi, Ipay, and PayMaster, which have facilitated considerable ease, flexibility, and acceleration in conducting transactions.
- The CBSL has taken measures to mitigate risks arising from FinTech usage by introducing a Blockchain technology based Know-Your-Customer data sharing process between banks as well as introducing a regulatory sandbox for the FinTech service providers to test their products and services without breaching regulatory requirements.[455]

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[450] SLASSCOM. 2020. *State of the Industry Report*.
[451] SLASSCOM. 2022. *ESG Forum*.
[452] SLASSCOM. 2024. *About Us*.
[453] Department of Census and Statistics. 2024. *Computer Literacy Statistics, Annual Bulletin*.
[454] ICTA. 2022. *National Fuel Pass*.
[455] CBSL. 2021. *Annual Report- BOX 11 The FinTech Invasion: Way forward for Banking Supervisors*.

- The ICTA introduced the COVID-19 Smart Vaccine Certificate for the public for any overseas travel. This was in collaboration with the Ministry of Health and the World Health Organization.[456]
- The ICTA along with the Ministry of Technology has also taken the initiative to develop a national digital ID system. The digital ID framework has been developed and the project is expected to launch in the future.[457]
- Acquisition by Dialog Axiata PLC (subsidiary of Axiata Group Berhad) of 100% issued shares of Bharti Airtel Ltd in Sri Lanka as of April 2024. The TRCSL has approved this merger.[458]
- As part of the GOSL's strategic SOE divestiture strategy, the GOSL intends to divest a controlling stake of 50.23% of Sri Lanka Telecom PLC to an experienced telecom investor.[459] Out of three bidders, two companies were shortlisted: one based in India and another in Hong Kong, China. The GOSL expects to conclude the transaction by August 2024.[460]
- The ICTA also initiated the digitization of government services such as the land registry, with the launch of the eLand Registry system in 2018. This facilitates property registration in the country through the land registries and is currently being implemented in Colombo. Other projects include:
    - Introduction of the e-Revenue License as the national-level centralized solution for issuing of Vehicle Revenue License in Sri Lanka. The system is being used by ~2,500 divisional secretarial staff to issue revenue licenses.
    - Launch of the e-registrar of companies platform, which facilitates the online registration of companies. This has been live since April 2018 and has reduced the average time to register a company to one day.

5. Information and Communication Technology Projects Under Preparation and Procurement

No ICT PPP projects are under preparation and procurement in Sri Lanka.

6. Features of Past Information and Communication Technology Public–Private Partnership Projects

The following projects can be identified as past PPPs in the ICT sector:

(i) Dialog Telekom Ltd (1993)—unsolicited bid.
(ii) Mobitel Pvt., Ltd. (1993)—unsolicited bid.
(iii) Lanka Bell Pvt., Ltd (1996)—unsolicited bid.
(iv) Sri Lanka Telecom (1997)—unsolicited bid.

These projects do not fully meet the definition of a PPP (refer to Definition of Terms) as the risks and rewards lie with the private operators, while the GOSL is only playing a regulatory role (i.e., granting of licenses and setting prices).

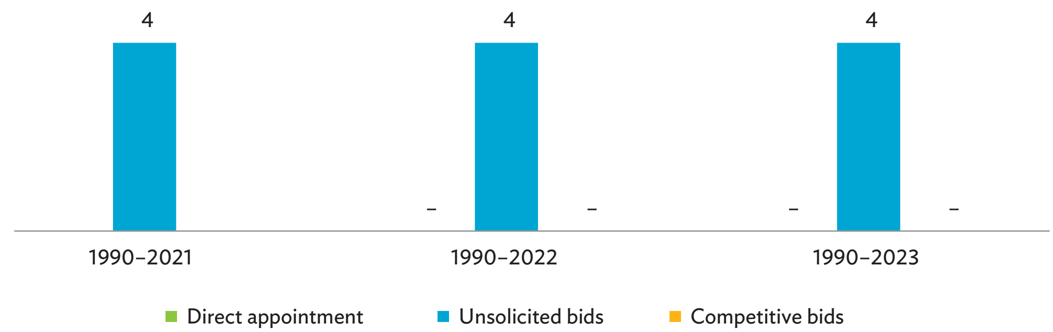
[456] ICTA. 2021. *Online Portal Launched to Obtain Covid-19 Smart Vaccine Certificate*.
[457] ICTA. 2022. *Digital ID project is ICTA's priority*.
[458] DailyFT. 2024. *Dialog, Axiata Group and Bharti Airtel sign definitive deal for merger in SL*.
[459] Ada Derana. *Sri Lankan govt reveals shortlisted bidders for key SOEs; transaction to end by August*.
[460] Treasury. 2023. *Sri Lanka Telecom PLC*.

From the above projects, Lanka Bell, Mobitel, and Dialog Telekom are considered private telecommunication operators. All sponsors relevant for each company are also private players.

The Sri Lanka Telecom project was a divestiture, and as per the definition of PPP (refer to Definition of Terms), privatizations and divestitures are excluded.

Figure 56 shows the number of PPP projects procured through various modes including direct appointment, unsolicited bids, and competitive bids in Sri Lanka's ICT sector. The four projects mentioned above are considered unsolicited based on publicly available information.

Figure 56: Modes of Procurement for Public–Private Partnership ICT Projects



"–" indicates no projects, data not available, or not applicable according to the database.

Note: Only active and concluded projects are considered.

Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); Industry research.

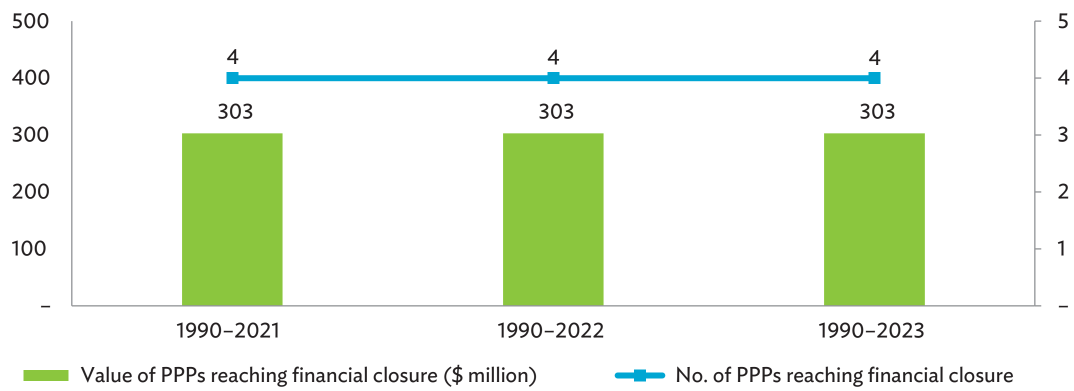
Although not considered a PPP project, the 350-meter-tall Lotus Tower was constructed in Colombo City with financial support of the Export-Import Bank of China. The project, funded through government-to-government funding is currently not operational as a communication tower. The Lotus Tower is expected to serve as a communication tower in the Greater Colombo area.[461] At present the tower is operated by the Colombo Lotus Tower Management Company and has been opened to the public since September 2022 for recreation and leisure purposes.[462]

Figure 57 shows the number of ICT PPP projects that have reached financial closure and their total value in Sri Lanka.

[461] JICA. 2014. Ex-Ante Evaluation (for Japanese ODA Loan).

[462] Daily News. 2022. *Lotus Tower to blossom with Rs. 3 bn projected annual revenue.*

Figure 57: Public–Private Partnership ICT Projects Reaching Financial Closure

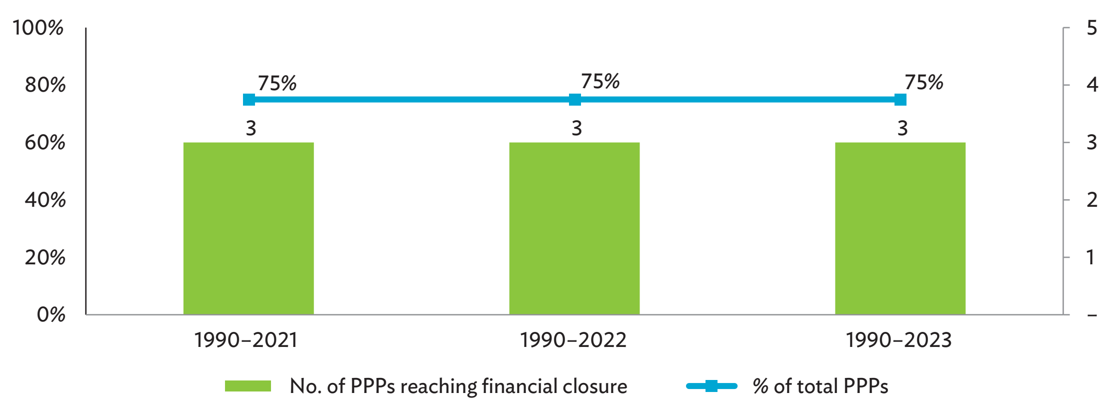


Note: Only active and concluded projects are considered in the above graph.
Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); Industry research.

In terms of financial closure, Lanka Bell Pvt., Ltd. reached financial closure in 1996 (project cost was $50 million),[463] Mobitel Pvt., Ltd. reached financial closure in 1993 (project cost of $13 million), Sri Lanka Telecom reached financial closure in 1997 (project cost of $225 million), and Dialog Telekom Ltd. reached financial closure in 1993 (project cost of $15 million).[464]

Figure 58 presents the number of ICT PPP projects which have received foreign sponsor participation.

Figure 58: Public–Private Partnership ICT Projects with Foreign Sponsor Participation



Note: Total projects include projects that are active, cancelled, distressed, and concluded.
Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); Industry research.

[463] World Bank. 2022. *Infrastructure Finance, PPPs and Guarantees. Country Snapshots.*
[464] World Bank Group. 2021. *Private Participation in Infrastructure (PPI)—Sri Lanka.*

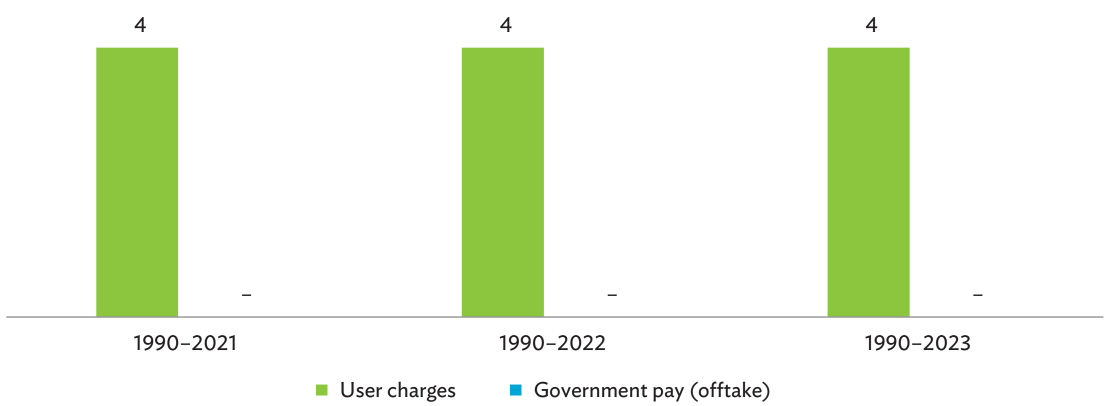
The three projects mentioned above include the following foreign participation:

(i) Mobitel Pvt. Ltd.—Nippon Telegraph and Telephone Corporation (NTT Group), Japan (36%).
(ii) Sri Lanka Telecom—Usaha Tegas Sdn Bhd, Malaysia (45%).
(iii) Dialog Telekom Ltd—Axiata Group Berhad/ Malaysia Telekom (85%).

No ICT PPP projects have received government support including viability gap funding, government guarantees, and availability or performance payment.

In terms of payment mechanisms, all four projects mentioned previously received payment from the end users and none are government pay (Figure 59).

Figure 59: Payment Mechanisms for Public–Private Partnership ICT Projects



Note: "–" indicates no projects, data not available, or not applicable according to the database.
Sources: World Bank. *Private Participation in Infrastructure (PPI)—Sri Lanka* (accessed July 2024); Industry research.

7. Information and Communication Technology Tariffs

The TRCSL provides tariffs on its website for different service providers. These tariffs are divided into mobile operator, fixed operator, and other operator tariffs. As an illustrative example, the table below shows the Dialog Axiata PLC tariffs applicable for each operator segment.

Table 131: Operator Tariff Rates

Tariffs	Minimum value (SLRs)	Maximum value (SLRs)	Data Usage (SLRs)
Mobile operator—voice minutes	1.5/minute		0.3 per MB
Mobile operator—monthly rental plan	355/month	3,925/month	0.3 per MB
Fixed operator	199/month	7,500/month	N/A
Other operators	358/month	2,149/month	N/A

Source: TRCSL. *Dialog Axiata* (accessed April 2024).

8. Typical Risk Allocation for Public–Private Partnership Projects in Information and Communication Technology

Information on typical risk allocation for ICT PPP projects is unavailable.

9. Financing Details in Information and Communication Technology

No specific financing details on these projects are available in the public domain as the projects reached financial closure during 1993–1997.

Table 132: Financing Details in Information and Communication Technology

Parameter	1990–2021	1990–2022	1990–2023
PPP projects with foreign lending participation	UA	UA	UA
PPP projects that received export credit agency/international financing institution support	UA	UA	UA
Typical debt:equity ratio	UA	UA	UA
Time for financial close	UA		
Typical concession period	UA		
Typical FIRR	UA		

NA = Not Applicable, UA = Unavailable in Public Sources.

10. Information and Communication Technology Challenges

Demand and Supply Factors

- The shortage of numbers in the ICT workforce has been a continuing challenge. Due to the rapid growth in ICT, the demand–supply gap is widening; based on a survey conducted in 2019, total demand for ICT graduates was 21,216, while the supply of graduates was 9,706.[465] This demand–supply gap creates a problem for companies when hiring skilled personnel to scale up their operations, driving up wage rates.
  - Additionally, many skilled staff opted to migrate during the economic crisis, widening the skilled workforce gap. To counter heavy migration, ICT companies were compelled to peg staff salaries from SLRs to US dollars, which became a continuous cost implication.
- Regional expansion plans restricted by foreign exchange regulations imposed by the CBSL. Local ICT companies have been increasingly evaluating options for regional expansion to enhance their footprint, and effectively utilize resource allocation (expand service offerings by onboarding regional staff, if specific skills are not available locally). Having a fully functional regional office expedites such sourcing activities.
- Slow internet speed, coupled with poor quality broadband services is an impediment for ICT, as it requires fast and reliable broadband services to provide uninterrupted service to its users. In Sri Lanka, 3G and 4G coverage is not available in all localities and there are complaints from customers about the lack of coverage and poor connectivity.

[465] EconomyNext. 2019. *High quality ICT graduates severely short in Sri Lanka, soft-skills gap: survey*.

Regulatory Factors

- Sri Lanka has been relatively slow to adopt digital platforms and next-generation technologies such as electronic payments, e-shopping, and e-government. These shortcomings stem from a lack of digital adoption and digital literacy in the country, across industries, and between the public and private sectors and from irregular implementation of the policies and actions on digitalization.
  - Policymakers and regulators should work in tandem to ensure that all Sri Lankans have access to high-quality, next-generation technologies at affordable rates and offer important social services through digitally enabled platforms. The digitization of such offerings would also lead to greater efficiency and optimal resource utilization and minimize loss and wastage of funds.

O. Other Public–Private Partnership Projects

Potential PPP projects not covered in the preceding sections are presented below.

Table 133: Other Sector PPP Projects

No.	Project Name	Location	Implementing/ Promoting Agency	Value ($ million)
1.	Pharmaceutical Zone Development	Arabokka, Hambantota	BOI	5
2.	Pharmaceutical Manufacturing Zone	Oyamaduwa, Anuradhapura	BOI	83
3.	Textile Zone Development	Eravur, Batticaloa	BOI	10
4.	High Rise Mixed Development Project 1—Beira Lake Intervention Area Development Plan	Colombo Fort	BOI	40
5.	High-Rise Mixed Development Project 4—Beira Lake Intervention Area Development Plan	Colombo Fort	BOI	96
6.	Office Tower Development Project—Sethsiripaya Stage IV	Battaramulla	BOI	65
7.	Residential Tower Development Project—RMV Land	Narahenpita, Colombo	BOI	100
8.	Residential Towers Development—Summit Flat Land	Colombo	UDA	210
9.	High Rise Mixed Development—Welikada Prison Land	Colombo	UDA	1,500
10.	Bloemendhal Project Phase 1—Residential Towers Development	Colombo	UDA	59
11.	Logistic Hub	Hambantota	UDA	123
12.	Multi Storied Public Car Park	Bogambara, Kandy	UDA	2
13.	Multi Storied Public Car Park—Hospital Square Land	Norris Canal, Colombo	UDA	7
14.	Multi Storied Public Car Park—Sethsiripaya Stage I	Battaramulla	UDA	8
15.	Multi Storied Public Car Park—Katunayake Export Processing zone	Katunayake	UDA	17

Sources: Board of Investment. 2023. *Investment Opportunities*; Urban Development Authority. 2021. *UDA Investment Forum 2021—Investment Models and Opportunities*.

IV. Local Government Public–Private Partnership Landscape

Table 134: Key Statistics

Parameter (for the year 2022)	Value	Unit
Number of Subnational Governments (SNGs)		
Provincial Level	9	Number
Municipal Level	24	Number
Urban Level	41	Number
Village Council	276	Number
Total Number of Local Governments	341	Number
Total Number of SNGs	350	Number
SNG Expenditure Profile		
Total SNG Expenditure as % of GDP	1.63	%
• SNG Recurrent Expenditure as % of GDP	1.59	%
• SNG Staff Expenditure as % of GDP	1.24	%
• SNG Investment as % of GDP	0.04	%
Current Expenditure of SNG as % of Total SNG Expenditure	97.50	%
Staff Expenditure of SNG as % of Total SNG Expenditure^	76.45	%
Investments of SNG as % of Total SNG Expenditure	2.48	%
Total SNG Expenditure as % of the Total General Government Expenditure (% of Total Public Expenditure)	8.78	%
• SNG Current Expenditure as % of Total Current Expenditure of the General Government	8.56	%
• SNG Staff Expenditure as % of Total Staff Expenditure of the General Government	30.50	%
• SNG Investment as % of Total Investment of the General Government	1.03	%
SNG Expenditure by Function		
Health	1.2	% of GDP
Education	1.4	% of GDP

continued on next page

Table 134 *continued*

Parameter (for the year 2022)	Value	Unit
SNG Revenue Profile		
SNG Tax Revenue as % of Total SNG Revenue	81	%
SNG Other Revenue as % of Total SNG Revenue	18.84	%
SNG Grants and Subsidies as % of Total SNG Revenue	820	%
Total SNG Revenue as % of GDP	0.31	%
• SNG Tax Revenue as % of GDP	0.20	%
• SNG Grants and Subsidies as % of GDP	1.32	%
• SNG Other Revenue as % of GDP	0.06	%
Total SNG Revenue as % of Total General Government Revenue	3.67	%
• SNG Tax Revenue as % of Total General Government Tax Revenue	3.03	%
• SNG Other Revenue as % of Total Other Revenue	6.09	%
Value of Central Government Transfers to SNGs	1.32	% of GDP
Value of Actual Budgetary Allocation to SNGs from National Government as % of Total SNG expenditure (2021)	75.61	%
Value of Deviation of Actual Against the Budgeted Transfers to SNGs (2021)	0.01	%

[a] As SNG (provincial council) revenue is only ~15% of its total expenditure, central government transfers cover the majority of SNGs' expenditure.

[b] SNG grants and subsidies are not included in revenue.

Sources: Central Bank of Sri Lanka. 2022. *Annual Report 2022—Fiscal Policy and Government Finance*; Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2022. *Annual Report—2021.*

Local Governance System in Sri Lanka

Sri Lanka is a unitary democratic republic with three levels of government: national, provincial, and local. The relationship between the three levels is clearly identified in the 13th Amendment to the Constitution. The central government holds authority over the formation and structure of local authorities as stipulated by the Constitution.[466] Provincial councils are responsible for the supervision and administration of the local authorities and have legislative power over matters relating to agriculture, health, housing, etc. There are nine second-tier provinces and 341 third-level local governments within this; the 341 consists of 24 municipal councils, 41 urban councils, and 276 Pradeshiya Sabhas (village councils). Local authorities are vested with the power to create by-laws passed with the approval of the Minister and the Parliament or provincial councils.[467]

Each form of local government functions under its own legislation, namely, the Municipal Council Ordinance, No. 16 of 1947, the Urban Council Ordinance, No. 61 of 1939, and the Pradeshiya Sabha Act, No. 15 of 1987. The broad responsibilities of local government include providing and overseeing community welfare, including functions relating to thoroughfares, public health, and public utility services.[468]

466 Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. 2021. *Review of Financial Performance of Local Authorities for the Mid-year 2021.*

467 Central Bank of Sri Lanka. 2021. *Annual Report 2021—Fiscal Policy and Government Finance.*

468 Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. 2021. *Review of Financial Performance of Local Authorities for the Mid-year 2021.*

Table 135: Subnational Government Structural Breakdown

Provincial Councils	Districts	Municipal Councils	Urban Councils	Pradeshiya Sabhas	Total
Central	3	4	6	38	48
Eastern	3	3	5	37	45
North Central	2	2	0	25	27
Northwestern	2	1	3	29	33
Northern	5	1	5	28	34
Sabaragamuwa	2	1	3	25	29
Southern	3	3	4	42	49
Uva	2	2	1	25	28
Western	3	7	14	27	48
Total	25	24	41	276	341

Source: Commonwealth Local Government Forum. 2018. *Country Profile 2017–2018. The Local Government System in Sri Lanka*.

Infrastructure Development Plan of Local Governments

There is no well-defined and comprehensive infrastructure development blueprint in place for local governments. However, local governments carry out infrastructure development projects as per the requirement of their respective areas of authority such as the restoration of rural roads, construction and restoration of irrigation facilities and water supply projects, construction of rural bridges, and development of rural hospitals. These projects are typically funded by central government transfers and foreign grants by institutions such as the World Bank, ADB, JICA, and the United Nations International Children's Emergency Fund.[469]

Sectors in Which Local Governments Can Implement Public–Private Partnerships

Major functions of provincial councils include the implementation of provincial development, health, education, rural development, social welfare, cooperative development, land use and development, and local government oversight. Local authorities are responsible for public health, utility services, and rural roads. Municipal councils, urban councils, and Pradeshiya Sabhas are entrusted with the regulation and control of public health, public utility services, and public thoroughfares, and the protection and promotion of the comfort, convenience, and well-being of the community. While the law does not clearly state the provision for local governments to implement PPPs, facilitation of PPP implementation is promoted among local governments.

Revenues for Local Governments

Revenue for provincial councils come under two categories: (1) transfers by the GOSL under the statute of the Fiscal Policy Circular No.01/2010 and (2) devolved revenue under the statute of the Provincial Council Act, No. 42 of 1987.

[469] Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. 2022. *Website.*

Table 136: Provincial Council Revenue Breakdown

Transfers by the Government	Devolved Revenue
• Government grants	• Liquor license fees
• Block grants	• Motor vehicle license fees
• Criteria-based grants	• Other license fees
• Development grants	• Stamp duty
	• Court fines
	• Rent
	• Interest
	• Other (sales charges)

Sources: Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2022. *Budget Estimates—2023, Volume I*; Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. 2022. *Financial Performance of Provincial Councils for the second quarter 2021*.

Grants given by the central government have different criteria for each category. Government grants are provided based on the recommendation of the Finance Commission to meet the requirements of the provincial councils. Block grants are determined based on the recurrent expenditure and the estimated devolved revenue of that particular provincial council. Criteria-based grants are an apportionment of funds among provinces to ensure balanced development within all provinces and is recommended based on socioeconomic indicators such as population, area, and per capita income. Development grants are provided based on specific priority services identified for each province. There are three broad types of development grants: (1) province specific development, (2) health and education sector development, and (3) other development projects.[470]

While the local governments have their own revenue streams, this income is insufficient for investment in capital and infrastructure development projects. Local governments are therefore required to approach lending institutions to finance these projects. However, as they are unable to afford higher commercial lending rates, the Local Loan and Development Fund (LLDF) was formed to bridge this financing gap. The LLDF is a statutory body whose sole mandate is to provide loans to local governments at below-market rates, with a focus on infrastructure development.

Borrowings by Local Governments

As mentioned above, to bridge the financing gap for capital investments at the local government level, the LLDF was established under the Local Loans and Development Ordinance, No. 22 of 1916 (which went through several amendments and became an Act in 1949, and which subsequently went through several more amendments). Although the LLDF's original goal was to extend loans to any local authority, it was subsequently revised to specify that loans could solely be provided to individuals or entities to whom a local authority has delegated any of its functions. This is for the purpose of public utility work, including technical assistance, which the local authority or body may be legally authorized to undertake.[471] The fund functions under the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government. The loans given by the General Treasury are lent to local governments as per their requests and are charged at an established interest rate. A certain percentage of the interest income earned is retained by the LLDF as income, and this is utilized for granting loans and reinvestments, which further strengthens the fund.

[470] Government of Sri Lanka, State Ministry of Provincial Councils and Local Government Affairs. 2022. *Financial Performance of Provincial Councils for the Second Quarter 2021.*

[471] Government of Sri Lanka, Ministry of Justice. 1993. *Local Loans and Development (Amendment).*

The general criteria for issuing loans under the LLDF include the following:[472]

- Priority to projects outside the more developed Western Province.
- Projects that are based on local production, and which generate employment for the people of the area.
- The project should help in the GDP growth of the area.
- At least 30% of the project costs should be borne by the customer (i.e., local government).
- The maximum loan amount for a project is SLRs20 million.

Budgetary Allocation to Local Governments

As per the latest central government budget estimates for 2024, the recurrent expenditure of provincial councils is to be SLRs491 billion and capital expenditure to be SLRs36.1 billion. The recurrent expenditure component is expected to be entirely financed by central government transfers and provincial council revenue generation, while ~55% of the capital expenditure component (i.e., SLRs19.8 billion) is expected to be financed through foreign sources.[473]

Credit Rating of Local Governments

As local governments do not have independent credit ratings of their own, the credit rating of the central government is taken as a proxy for the credit rating of local governments. Currently, Sri Lanka's Long-Term Local-Currency Issuer Default Rating stands at "CCC–," which implies high levels of credit risk, and that default of some kind appears probable. Further, Sri Lanka's the Long-Term Foreign-Currency Issuer Default Rating stands at "RD" (Restricted Default) and the Country Ceiling at "B–".[474]

[472] Government of Sri Lanka, Ministry of Justice. 1993. *Local Loans and Development (Amendment)*.
[473] Government of Sri Lanka, Ministry of Finance, Economic Stabilization and National Policies. 2023. *Budget Estimates 2024—Volume II*.
[474] Fitch Ratings. 2023. *Fitch Upgrades Sri Lanka's Long-term Local-Currency IDR to CCC-*.

Appendix

Critical Macroeconomic and Infrastructure Indicators

Parameters	Value	Unit
Total population (2023)	22.04	million
Surface area (2023)	65,610	square kilometers
Average annual population growth rate (2023)	−0.6	%
Population density (2023)	351	persons per square kilometer of surface area
Urban population (2022)	19.0	% of total population
Unemployment rate (2023)	4.7	%
Proportion of population below $2.15 purchasing power parity a day	1.0	%
GDP at current market prices (2023)	84.4	$ billion
Annual growth rate of GDP (2020)	−4.6	%
Annual growth rate of GDP (2021)	3.5	%
Annual growth rate of GDP (2022)	−7.8	%
Annual growth rate of GDP (2023)	−2.3	%
GDP at purchasing power parity per capita (2023)	3,830	$
Per capita gross national income, Atlas Method (2023)	81.7	$ billion
CCPI inflation rate (2020)	4.6	% annual average
CCPI inflation rate (2021)	6.0	% annual average
CCPI inflation rate (2022)	46.4	% annual average
CCPI inflation rate (2023)	17.4	% annual average
Current account (2023)	1.8	% of GDP
External trade, goods, value of imports (2023)	11,911	$ million
External trade, goods, value of exports (2023)	16,811	$ million
Real effective exchange rate (2023)	71.39	$/SLRs
Logistics performance index rank (2023)	73	Number
Logistics performance index score (2023)	2.8	Number
Customs rank (2023)	84	Number
Customs score (2023)	2.5	Number
Infrastructure rank (2023)	89	Number
Infrastructure score (2023)	2.4	Number

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Table *continued*

Parameters	Value	Unit
International shipments rank (2023)	75	Number
International shipments score (2023)	2.8	Number
Logistics competence rank (2023)	81	Number
Logistics competence score (2023)	2.7	Number
Tracking and tracing rank (2023)	65	Number
Tracking and tracing score (2023)	3.0	Number
Timeliness rank (2023)	59	Number
Timeliness score (2023)	3.3	Number
Net foreign direct investment inflows (2022)	1.7	% of GDP
Sovereign debt risk rating (end 2023)	RD	Letter rating (Fitch rating)
Central government debt (2023)	103.9	% of GDP
Country Policy and Institutional Assessment (CPIA) quality of budgetary and financial management rating (2015)	4.0	Number (1 = low to 6 = high)
Structure of Output (% of GDP at current producer/basic prices, 2023)		
Agriculture	7.9	% of GDP
Industry	25.3	% of GDP
Services	60.5	% of GDP
National consumer price index	16.5	% annual average
Producer price index	11.5	% annual average
Exchange rates (end of period)	323.9	$/SLRs
Ease of Doing Business (2020)		
Ease of doing business rank	99	Number
Starting a business (rank)	85	Number
Dealing with construction permits (rank)	66	Number
Getting electricity (rank)	89	Number
Registering property (rank)	138	Number
Getting credit (rank)	132	Number
Protecting minority investors (rank)	28	Number
Paying taxes (rank)	142	Number
Trading across borders (rank)	96	Number
Enforcing contracts (rank)	164	Number
Resolving insolvency (rank)	94	Number
Corruption and Sustainable Development Index (2023)		
Corruption perceptions index rank (out of 180)	115	Number
Corruption perceptions index score (out of 100)	34	Number
Sustainable development index rank (out of 179)	83	Number
Sustainable development index score (out of 100)	69.4	Number

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Table *continued*

Parameters	Value	Unit
Cumulative Lending, Grant, and Technical Assistance Commitments		
Total number of projects	3,647	Number
-Trade and supply chain finance program	3,082	Number
-Project and technical assistance	565	Number
Total lending	13,874	$ million
-Trade and supply chain finance program	2,080	$ million
-Project and technical assistance	11,758	$ million
Global competitive index infrastructure score (2019) (out of 100)	69	Number

Sources: CBSL. 2023. *Key Economic Indicators*; CBSL. 2023. *Key Social Indicators*; World Bank. 2022. *Urban Population (% of total population)*; ADB. 2024. *Basic 2024 statistics*; World Bank. 2023. *Logistics Performance Index (LPI)*; CBSL. 2022. Annual Report-2022. CBSL. 2022. Fiscal Policy and Government Finance. 2023. Annual Economic Review-2023; CBSL. 2023. Macroeconomic Developments and Conditions of the Financial System; World Bank. 2019. *CPIA quality of budgetary and financial management rating (1=low to 6=high)—Sri Lanka*; World Bank Group. 2020. *Doing Business 2020*; Transparency International. 2023. *Corruption perceptions index*; Sustainable Development Report. 2023. *Rankings*; ADB Data Library. 2022. *Cumulative Lending, Grant, and Technical Assistance Commitments*; World Economic Forum. 2019. *The Global Competitiveness Report 2019*.

Public–Private Partnership Monitor—Sri Lanka

This publication provides a detailed overview of the public–private partnership (PPP) landscape in Sri Lanka, outlines challenges, and explains how rebuilding a national PPP policy can help meet its substantial infrastructure needs. The publication shows how Sri Lanka has completed 179 PPP projects worth $5.3 billion since 1990 with many in the port and power sectors. It analyzes how tackling funding and regulatory constraints and putting adequate dispute resolution mechanisms in place could help Sri Lanka realize the potential of private sector investment and drive sustainable infrastructure development.

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ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org