



ECONOMIC INFRASTRUCTURE INVESTMENT OPPORTUNITIES IN SRI LANKA

PUBLIC / PRIVATE PARTNERSHIPS



**SECRETARIAT FOR
INFRASTRUCTURE
DEVELOPMENT &
INVESTMENT**

Ministry of Policy Planning & Implementation

A new Commitment to Private Enterprise

The Government of Sri Lanka has long recognised the importance of private enterprise in economic development. A free and open economic policy, introduced in 1977 has resulted in significant foreign investment and sustained growth rates - expanding exports, creating new jobs, raising income levels, and alleviating poverty.

Today's rapidly growing economy has increased demand for new economic infrastructure in many parts of the country. Improvement of facilities such as the transport network, telecommunications, power generation, water supply and waste disposal has become a matter of national priority and urgency. However, the government's ability to finance infrastructure development is limited by constraints on local financial resources and increasing competition for foreign donor assistance.

In this context, the government has renewed its commitment to private enterprise by creating opportunities for both foreign and local investment in infrastructure development. Build, Own and Operate (BOO) and Build, Operate and Transfer (BOT) strategies now enable private sector firms to build infrastructure facilities and operate them as commercial ventures under long term agreements.

The Secretariat for Infrastructure Development and Investment (SIDI) has been established within the Ministry of Policy Planning & Implementation to coordinate, oversee and supervise this important new program.

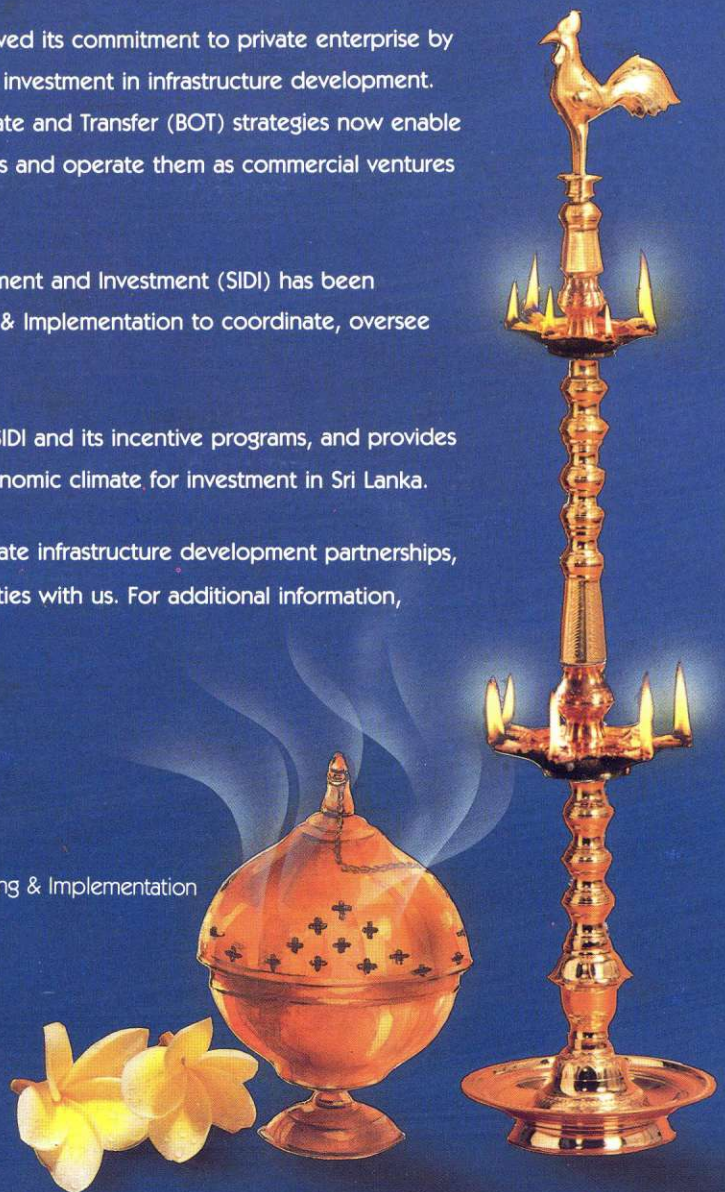
This document offers an introduction to SIDI and its incentive programs, and provides informational background on the favourable economic climate for investment in Sri Lanka.

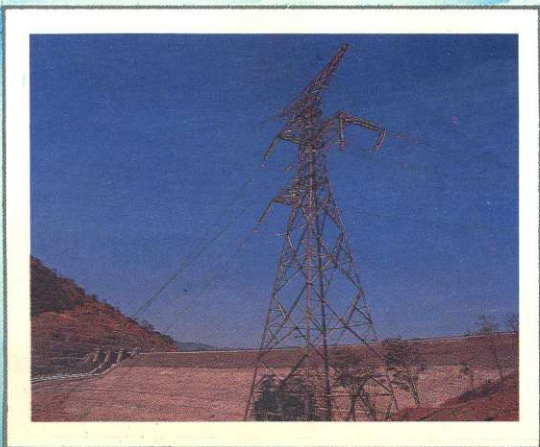
SIDI welcomes your interest in public-private infrastructure development partnerships, and invites you to explore investment opportunities with us. For additional information, please contact SIDI by telephone or fax.

Dr. P. Ramanujam

Director General SIDI

Additional Director General, Ministry of Policy Planning & Implementation





Where Partnerships Begin

Infrastructure development projects are challenging endeavours under any circumstances. Success depends upon careful and skillful structuring of the partnerships which make development possible.

Investors, operators, lenders and the government must work together to ensure that the project meets investment objectives. Early emphasis on technical, financial and legal implications pays dividends as the project progresses through implementation. Equally important, attention to the project's impact on the community and the environment guarantees that it ultimately serves the best interests of the public.

SIDI has been created to help ensure success. Its dedicated objective is to promote, develop, negotiate and facilitate public/private partnership projects in Sri Lanka. SIDI's specific duties include:

- * Creating an inventory of infrastructure projects which may be suitable for implementation under BOO/BOT strategies.
- * Assisting in formulation of projects in cooperation with relevant line agencies and government Ministries.
- * Ensuring that infrastructure projects meet government, socio-economic, technical, legal and environmental policies.
- * Promoting and marketing infrastructure development opportunities to international investors.
- * Negotiating project proposals with investors in collaboration with line agencies and Ministries.
- * Facilitating decision-making by the government.
- * Receiving and reviewing unsolicited infrastructure development proposals from enterprising investors, and presenting such proposals to relevant government agencies and Ministries.
- * Ensuring total transparency of promotion, development and negotiation of each project.



SIDI Office in Colombo.

SIDI Staff

Professional Attention to Every Detail

SIDI's team of professionals, both local and expatriate, bring international expertise across all development sectors. SIDI approaches each infrastructure development project as a long-term partnership. Each project receives individualised attention from qualified SIDI staff, who are able to facilitate discussions and negotiations with government agencies and Ministries.

On a case by case basis, the professional staff is equipped to negotiate and assist in obtaining attractive incentive packages for promoters and investors. Depending upon project requirements, incentives may include:

- * **Guaranteed purchase of output**
- * **Tariff support in formative years**

- * **Concessionary rates of income tax**
- * **Income tax exemption on profits on sale of shares**
- * **Free repatriation of dividends and capital**
- * **Exemption from customs duties, turnover tax, and excise duties**

As the government's primary point of contact for BOO/BOT projects, SIDI is committed to working with private investors on a "fast track" basis to meet regulatory standards and reduce administrative red tape. The result is substantial savings in time and financial resources.



Our inviting reception area.



Project evaluation meeting in progress.

Infrastructure Investment Opportunities

Millions of investment dollars are required in the next decade to sustain the current and projected levels of economic growth and industrialisation in Sri Lanka. In every infrastructure sector, demand is outpacing supply:

- * **Power Generation**
- * **Highways**
- * **Railways**
- * **Ports**
- * **Telecommunications**
- * **Environmental Infrastructure**

Under the SIDI umbrella, the government is committed to long term partnerships with private sector investors, firms and corporations, which are similarly committed to accepting the risks, responsibilities and rewards of projects implemented through BOO/BOT transactions.



Aspects of industrialization.



Private sector investments.

Power Generation

Demand for electrical energy in Sri Lanka in 1992 was 2900 million units with a peak demand of 742 MW. Demand is conservatively expected to grow at a long term average of 8% per year. To meet the increasing demand, 120-150 MW of new thermal generating capacity is required to be installed before 1996. A further 550MW of power is needed by the year 2000.

Private investors have already identified power generating projects including coal fired, diesel and gas turbines. A number of mini and microhydro power projects have also been identified for development by the private sector.

Sri Lanka's electricity generating system is currently in transition from a predominantly hydroelectric system to a mixed hydro-thermal system. Almost 50% of the country's 1409 MW capacity has been

created through the Mahaweli Development Project, one of the region's largest irrigation and hydro power projects.

The Ceylon Electricity Board (CEB) the national power utility owns and operates all the power generating stations and high voltage transmission systems. CEB operates generating plants with a capacity of 215MW in a mix of oil fired steam turbines and diesel engines. More than 80% of the low voltage transmission network is owned by CEB. The remainder is operated by Lanka Electric Company Ltd, a private company for electricity distribution, operating in the Colombo area. The entire national grid at 220 KV and 132 KV is owned and operated by CEB.

CEB has invited proposals for private power generation and SIDI is actively pursuing interested private sector partners.



Power transmission networks.



The burgeoning textile industry

Highways

Liberalised economic policies and the resultant growth in Sri Lanka's GDP have produced a spectacular increase in the island's vehicle population specially in and around Colombo. Thoroughfares overcrowded with vehicles severely restrict efficient transport of goods and services.

Sri Lanka's current road network connects even the most remote areas. Of more than 100,000 KM of roads, about one third have paved bituminous surfaces. Privatisation of the road passenger transport operations in the country is already nearing completion.

Expanding export oriented manufacturing facilities, coupled with widespread agribusiness activities, have resulted in the immediate need for more roads with the ability to handle container traffic. At present, Sri Lanka's Road Development Authority has identified more than 400 kilometres of new highways needed to support the island nation's growing economy. SIDL is working with The RDA in exploring the possibilities of developing the southern highway with private sector investment.

Southern Highway to Galle and Matara

A top priority in the government's development program; this 145KM highway will provide greater access to the South.

The RDA has identified the following roads for development.

Colombo - Katunayake Expressway

This is a 26KM expressway which will allow speedier access to the International Airport at Katunayake. The present Colombo Katunayake route is congested with normal vehicular traffic. The large number of containers being transported, along with the traffic volume, justifies the demand for an expressway to the airport.

Extension of Baseline Road

This 16KM road would extend Baseline Road to meet Galle Road at Ratmalana, sharply reducing congestion on city roads during business hours.

Outer Circular Road - Colombo

This 44 KM route will also reduce congestion on city roads during the business day.

Northern Highway to Puttalam and Anuradhapura

This 150KM highway to the ancient city of Anuradhapura will run through the newly developed Mahaweli areas, where economic activity is growing rapidly.

Outer Circular Road to Ratnapura

This 57KM route would provide an easy link for increased commercial traffic between Colombo and Ratnapura, Sri Lanka's famous gem city.

Highway from Colombo to Ambepussa

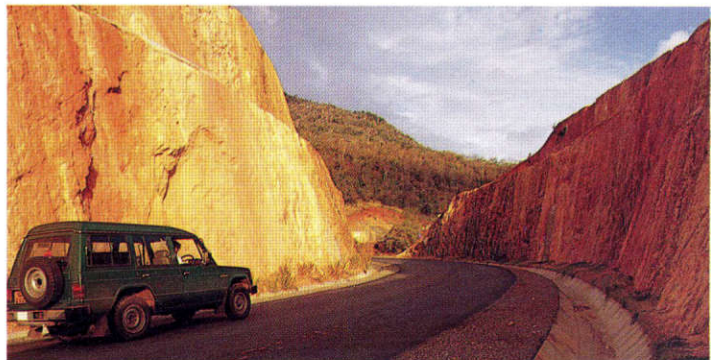
This highway would connect to the proposed Colombo Katunayake Expressway, providing improved access from Colombo to Trincomalee via Kurunegala and also to Kandy.

Expressway to Trincomalee

This highway would provide improved access to the famous east coast of Sri Lanka from Colombo.



Rising vehicle population



2400 miles of new roads improving infrastructure facilities in the Mahaweli area

MAP OF SRI LANKA SHOWING NATIONAL HIGHWAYS

NEW HIGHWAY PROPOSALS

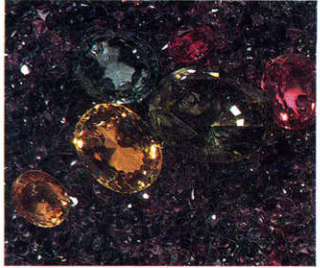
1. Alternate Highway to Puttalam
2. Alternate Highway to Anuradhapura
3. Colombo Katunayake Expressway
4. Inner Circular Road
5. Outer Circular Road
6. Road Link to Ratnapura
7. Southern Highway



RAPIDLY EXPANDING
TOURIST TRADE REQUIRES
IMPROVED INFRASTRUCTURE



SRI LANKA'S
FAMED GEMS, ANOTHER
AVENUE OF REVENUE



INCREASING DEMAND
FOR VEHICULAR TRAFFIC



TRADITIONAL FISHING
METHODS ARE NOW BEING
SUPERSEDED BY USING
UP-TO-DATE EQUIPMENT



SPEARHEADING
THE DEVELOPMENT OF
THE SOUTH -
THE GALLE PORT



HOTELS TO CATER TO
THE GROWING INFLUX
OF TOURISTS



Railways

The Government of Sri Lanka has initiated efforts to restructure its railway system, which interconnects the north, south, east, west and central mountain regions and which carries both passengers and goods. Railway development offers a variety of investment opportunities for private sector participation.

Operation of the railway network covers more than 7.5 million kilometres, servicing more than 2.6 billion passenger kilometres. Freight traffic by rail has demonstrated continuous growth, and facilities for carriage of containers are currently in development.

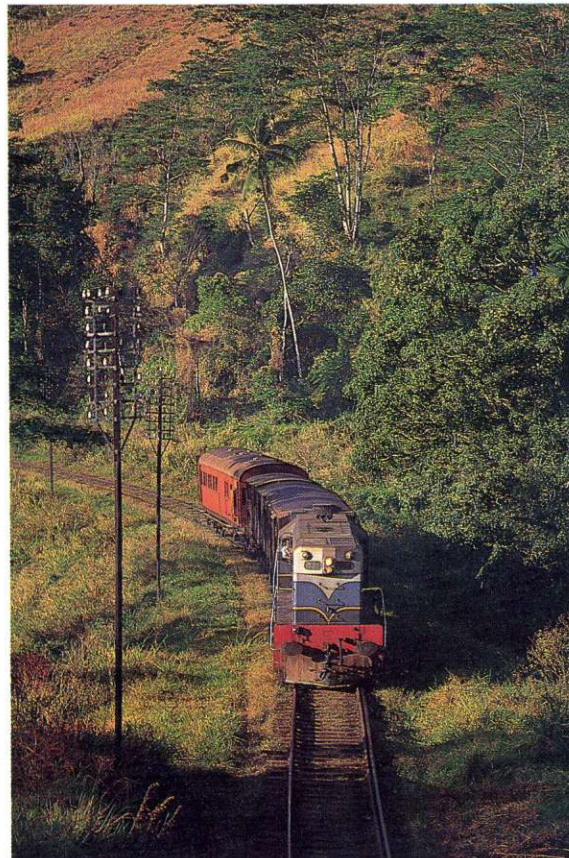
Increased tourism in Sri Lanka has also contributed to growth in passenger miles. Introduction of tourist trains, and upgrading of railway cars for greater passenger comfort, are under way.

Railway Authorities have identified the following areas for development.

- * Addition of 125KM of broad gauge line from Matara to Kataragama
- * Addition of 100 KM of broad gauge line from Batticaloa to Pottuvil
- * Extension of the Matara - Kataragama line in Badulla via Buttala; a distance of 83KM.
- * Extension of the Batticaloa-Pottuvil line to Buttala; a distance of 68KM.
- * Electrification from Colombo to Polgahawela(72KM)on the up country line and electrification of the Southern line between Colombo and Kalutara (44KM.)



Parallel rail tracks to cope with increasing passenger load



Diesel train traversing up-country terrain

Ports

The strategic location of Sri Lanka on the East West sea routes has contributed to the four-century development of the country's ports and shipping sector. Today, the port of Colombo, which has undergone rapid infrastructure transformation, handles more than 13 million tons of freight each year.

Increase in demand at Colombo, the leading port in the region has required development of the Galle Port in the southern coastal belt. Galle's location along the main shipping routes makes it an ideal choice for container transshipment.

The Galle Port is to be developed into a major transshipment and container shipment point with the creation of an export processing zone at Koggala, located just a few kilometres away. The country's southern and mid-country plantations are also located close to the Galle Port.

Sri Lanka is also home to the largest natural harbour in the world. Located on the scenic East Coast at Trincomalee, the port was once a British naval base. With the ability to berth the largest super tankers and the availability of a tank farm complex, this port is potentially attractive to shippers and developers.



The Colombo Port - A leading Port in the Indian Ocean



Cargo handling grew astonishingly during the last decade



Telecommunications

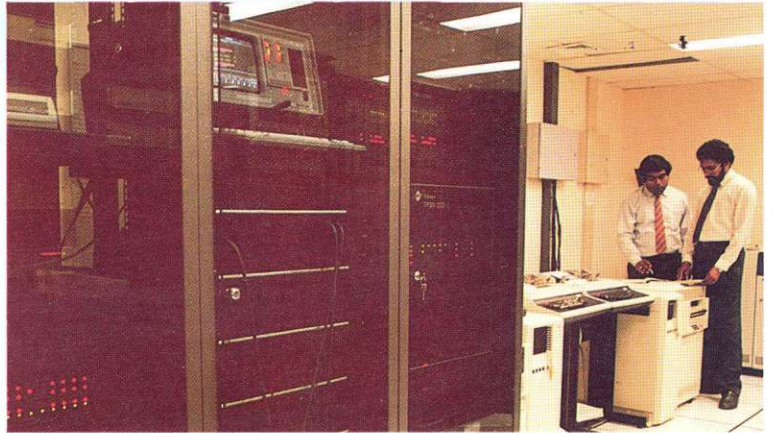
The Government of Sri Lanka has restructured its telecommunications sector by creating a public company, Sri Lanka Telecom. The network operates approximately 160,000 telephone lines.

The government's objective is to provide telephones on demand by the year 1995. This requires that the system be expanded threefold to provide 500,000 lines.

In recent years, several projects have been implemented to improve, upgrade and rehabilitate the existing telecommunications system, including installation of digital technology in the national network.

Sri Lanka's cellular telephone market has been growing in tandem with the country's business community. The cellular network is primarily the domain of the private sector. Three world-class cellular companies have established networks in Sri Lanka.

In addition to the cellular network, five private sector companies operate paging systems and two private sector companies operate data communications systems. In Colombo, a card pay phone system has recently been established by a private sector company,



The first South Asian Country to introduce digital technology



Reaching new heights in Communication

Environmental Infrastructure

There is significant need for private sector investment in the development and expansion in Sri Lanka's environmental infrastructure sectors - water supply and distribution, waste water treatment, and solid waste disposal.

The government is committed to providing potable water to the entire population by the year 2000. Major investments in construction and rehabilitation of water supply facilities, water treatment plants, transmission mains and distribution networks will be needed to meet this goal.

Preliminary studies estimate the need for 60 million imperial gallons of water covering 1,600KM of pipeline to service the 2,000,000 people in the Southern Province. This region includes the popular tourist beach resort areas, the port of Galle, and the Koggala Export Processing Zone. With the projected increase in tourist arrivals expected to double to 800,000 before the end of the decade, demand for potable water will increase significantly in the Southern Province.

Colombo's metropolitan area is home to more than 1 million people, and accommodates a floating population of 1 million per day. As a result, the city produces more than 550 tons of garbage daily.

Waste collection and disposal are currently handled by local authorities. As available land for garbage dumping disappears, and as open dumping causes environmental degradation, authorities are looking for alternative measures.

The high organic content in Colombo's solid waste (86%) makes it an excellent source for producing organic compost. Sri Lanka's strong agricultural base in tea, rubber, coconut and other produce requires soil enhancement.

Opportunities exist for processing and marketing soil enhancing compost. Offers for private proposals to compost the collected garbage will be requested soon.

Other solid waste disposal programs may be pursued at the local level with assistance from SIDI.



Purified water to meet the demands of Sri Lanka's urban and rural population



Disposal of city garbage

Sri Lanka: Open for Business

Located between the major ports of East Asia and those of the Middle East and Europe, Sri Lanka is emerging as one of the fastest growing economies in the region. The Indian Ocean island nation has posted growth rates in excess of 6%, with long term growth projected between 6% and 8%.

The Government of Sri Lanka's open economic policies have encouraged foreign investment. Reductions in trade tariffs, expansion of exports, creation of export processing zones, and divestiture of public enterprises have accelerated the development process. The divested public enterprises include many profitable ventures in textiles, sugar, cement, milk, hotels and distilleries. The management of the country's plantation sector, including the tea estates which produce and export "Ceylon Tea", has been entrusted to the private sector. Virtually all foreign exchange controls have been lifted, enabling repatriation of dividends and capital. Further, the country's low wage level and abundant availability of skilled workers afford investors distinct advantages in the competitive international marketplace.

The government has done away with restrictions on foreign ownership of listed companies - 100% foreign ownership is now permissible. Some of the multinational companies operating in Sri Lanka include ICI, Johnson & Johnson, Unilever, Singer, Bata, Pepsi, Coca Cola, Motorola, Thomas De La Rue Mitsui Itochu and IBM.

Facilitating the development process are 23 commercial banks, including 17 international banking institutions such as Citibank, American Express, Hong Kong & Shanghai, Standard Chartered, Deutsche Bank, Indo-Suez, ANZ Grindlays and ABN AMRO.

Colombo has a fully computerized Stock Exchange which attracts many foreign investors. The Colombo Stock Exchange has 64 regional funds actively participating. Companies such as Jardine-Fleming, Smith New Court Securities, DBS Securities and W.I. Carr are some of the international companies which have entered into joint ventures with local brokering firms.

The IMF, World Bank, Asian Development Bank, and the Aid Group of Countries have rendered support to Sri Lanka's growth and development.



The Colombo Stock Exchange.



Colombo's changing skyline.

A Climate for Growth

Sri Lanka offers businesses a stable work environment and a wealth of cultural and lifestyle benefits in a spectacular island setting.

The country's 17.6 million people have enjoyed a history of uninterrupted democratic governance. Since gaining independence from the British in 1948, Sri Lanka's parliamentary system of government has witnessed regular changes of democratic governments through free franchise.

The country's life expectancy of 71 years, and a literacy rate of 88.5%, are testaments to Sri Lanka's advanced health and education systems. The English language is taught in the island's 10,000 schools.

Tourist traffic to Sri Lanka is also on the increase. The scenic beauty, sun drenched beaches, and numerous cultural and historical centres draw people from around the globe. Hilton International, Intercontinental, Colombo Renaissance, Holiday Inn, Marriott, Oberoi and Taj open their doors to travellers in Colombo, while dozens of resort hotels can be found throughout the island.

Sri Lanka's liberal economic policies, strategic location, growing economy, high literacy rate, competitive wage levels, and attractive lifestyle benefits afford businesses the opportunity to pursue profits in a vibrant and safe investment environment.



Regular changes of democratic governments through free franchise.



Tourist traffic to Sri Lanka is also on the increase.

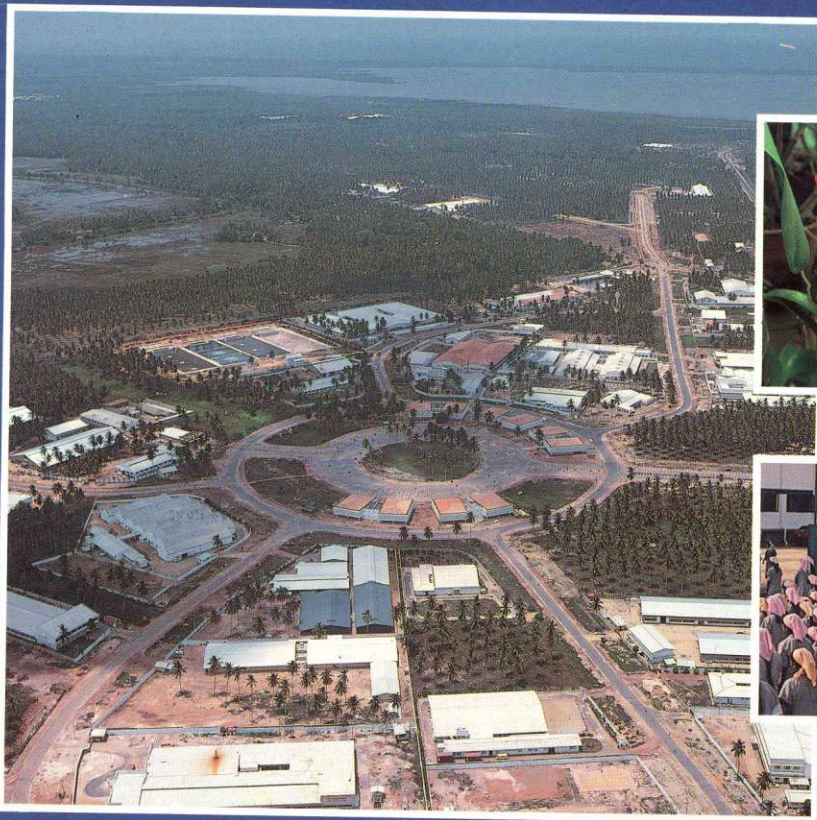
For further information on infrastructure investment opportunities in Sri Lanka

SIDI

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Towards the future

Infrastructure facilitates growth and development in industry, agriculture and commerce creating greater opportunities for employment.



The Katunayake Free Trade Zone administered by BOI.



To achieve NIC status by the year 2001 ...



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