

**Third Party Evaluator's Opinion On Transmission and Substation Development Project**  
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**Relevance** – Project's objective of improving quality of power supply by reducing voltage fluctuations is relevant to long felt socio-economic needs and its objective of curbing losses by strengthening transmission and distribution networks is consistent with the government's policy of raising the efficiency of electricity provision. Government's approach to improvement of the power sector has been to restructure it by unbundling the generation, transmission and distribution activities, now centralized with the Ceylon Electricity Board, by creating independent commercially oriented companies to handle these activities separately. Unfortunately, a lack of political support for these reforms has rendered an enabling Act passed in 2002 to be inoperable and has compelled an enabling Bill presented in April 2006 to be withdrawn. Recently, however, the political landscape changed favourably for the intended reforms. This occurred with the signing of the MOU in October 2006 by the governing party with the opposition party which happens to be the one, when it was in power, that initiated these very reforms. With the likely adoption of the reforms, transmission and distribution activities stand to be entrusted to commercially based companies. Under such management the prospects would be better for prioritizing the upgrading and improving of maintenance of transmission equipment and distribution networks and for the implementation of loss reduction measures in a continuous programme. In such a context, the Project's achievements will get sustained and its relevance to felt socio-economic needs stands to get enhanced.

The Public Utilities Commission (PUC) established in 2003 to regulate the power sector has failed to get operationalized because the Constitutional Council which has to appoint the Commission, itself has failed to get constituted due to political obstacles. The resolving of this problem is included in the MOU agenda. In the event of the independent PUC coming into operation, power quality issues would receive adequate attention and customer complaints will be investigated and remedial actions taken more effectively than now. With such improvements the relevance of the Project (and the likes of it) to felt socio-economic needs stands to get enhanced.

Government's development policy accords highest priority to small and medium enterprise (SME) promotion and has established in this year an SME Bank and an SME Authority for this purpose. The sub-region served by the Project is potentially one of the best for SME development, provided that the essential good quality power supply is made available. Hence the Project is highly relevant to the felt needs and admirably consistent with SME development policy.

**Impact** – External Evaluator has shown that the Project has resulted in improving power supply stability and in increasing power supply amount. The sub-region so benefited is already the host to an Industrial Development Zone and is also undergoing a process of SME-based industrialization across the region. The best way of understanding the nature and extent of the impact that the Project would have had is to look at the problems that actually prevail when the power supply conditions are poor. Empirical findings on this have been reported by the Government's White Paper of 2002, on Strategy for SME Development. Regarding electricity the most pressing issue that adversely affect SM industries was found to be irregular power supply. It lowers productivity, particularly in precision and high technology outputs. Constant fluctuations in the voltage cause serious damage to machinery and equipment including computers. Industrial Estates suffer from inadequate supply of electricity. Promotion of regional development through Industrial Parks also constrained by poor electricity conditions as certain types of industries like brassware, silverware, furniture and coir are prevented from using simple power tools that can improve quality of finished products, raise productivity and value added. These benchmark conditions indicate the nature and extent of the impact that the Project would have had.