Economic, Social and Environmental Impact Caused by the construction of the Port of Oluvil

1. Executive Summary

Sri Lanka, according to geographical location in the centre of the Indian Ocean had been a pivotal point in the international shipping from the ancient times. The close proximity to the main sea routes and the suitability of its coast for the development of deep natural ports had been a leading factor of such importance. In view of these reasons, there is potential for increasing the contribution to the Gross Domestic Product made from the income generated by the Ports of Sri Lanka. As such the achievement of objectives such as the development of the region, the supply of facilities to seagoing vessels, the development of the fisheries industry and minimization of environmental damage had been expected from the construction of the Port of Oluvil on the eastern sea coast of Sri Lanka. As such the objective of this audit was the evaluation, whether the State funds committed for the purpose had been utlised effectively, efficiently and economically as well as the evaluation of the environmental and the social impact caused therefrom.

The NORDIA Bank of Denmark had provided a Grant of EURO 86,100 and an interest free loan of EURO 46,009,269 in the year 2008 to be paid lack in 20 installments in 10 years commencing from 31 March 2011. Tenders were invited from companies in Denmark in accordance with the terms and conditions of the loan and the tender had been awarded in June 2008 to the Company which quoted the lowest price.

In addition to the Loan and the Grant, Sri Lanka Ports Authority had spent a sum of Rs.426,487,682 for this Project during the years 2000 to 2010.

The Feasibility Study and the Environmental Impact Assessment Study under Preliminary Studies of this Project had been done by a private institution and the Central Engineering Consultancy Bureau during the years 1995 to 2000. The Department of Coast Conservation and Coastal Resource Management also had provided the necessary license for the Project. The Financial Feasibility and the Environmental Feasibility had been taken into consideration under the Feasibility Study and the Environmental Impact Assessment Study of the Project. Even though the computation of the Financial Feasibility indicated a negative value in relation to the current value, it had been decided that the Project can be accepted according to the sensitivity analysis. In view of the inability to achieve the income sources considered for such analysis it was observed that the conclusions made by the relevant study are not correct.

The phenomenon of the erosion of the eastern coastline of Sri Lanka during a certain period of the year and the buildup of the coastline during the other period of the year ceaselessly had been identified in the Feasibility Study and the Environmental Impact Assessment Study. Even though it had been stated that it could happen during the construction of the Port and thereafter, when the current problem of sand accumulation and the difficulty in maintaining the depth of the Port resulting therefrom, are taken into consideration, it was observed that the attention paid to those matters in the Preliminary Study had not been adequate. The non-arrival of commercial ships to the Port, despite the completion of construction and opening the Port for operations in the year 2013 had been due to these obstacles.

The Project had been implemented without preparing a Master Plan covering the period of implementation indicating the specified time frames for the Project Management and as such

a long period of 17 years had been taken for designing the Port and the completion of construction.

Further the land area to the north of the Port had been subject sea erosion after the construction of the Port causing adverse impacts on the main cultivations of that area, that is the paddy cultivation and coconut cultivation. Further, due to the delay in the payment of compensation or providing alternate lands to certain land owners for the lands acquired for the construction of the Port, such land owners had been rendered destitute severely.

Even though the Fishery Harbour which is a component of the Port Project is in operation at present, priority had not been given up to date to the handover of that to the Ceylon Fishery Harbours Corporation on which the duties and functions relating to control and maintenance are devolved.

Out of the expenditure incurred on the buildings, official quarters and the cold rooms related to the Port Project, a sum of EURO 2.12 million had been spent on the Cold Room. Even though the construction work of the Project had been completed in the year 2012, all those buildings remained idle for more than three years as at 31 December 2015.

Even though the Lending Institution has offered its assistance free of charge for the conduct of studies on the alternative course of action that can be taken to bring the Port idle at present to effective position such work had not been commenced even up to 31 December 2015.

These problems had arisen due to the approval of the Project in spite of the fact the basic problems of the Project had not been correctly identified in the Preliminary Studies carried out. As such it was observed that the repayment of the loans without an adequate contribution to the national economy would result in spending Government money on a fruitless venture. Therefore, it is imperative that accelerated attention should be paid to the alternative courses of action to make the project successful.

2. Introduction

2.1 Ancient Background of Ports of Sri Lanka

Sri Lanka, according to its geographical location, in the centre of the Indian Ocean had been a pivotal point in the international shipping from the ancient times and the suitability of its coast for the development of deep natural ports had been a leading factor of such importance. The Port of Colombo had functioned as a seaport in the trade between Asia and the West in the fifth century and was known as Kolomthota. The port had been used by merchants from China, India and Persia (Iran at present). In addition the use of the Port of Galle by the Portuguese from the year 1505 and the present Port of Trincomalee as the Port of Gokanna are historical facts. In view of the special position held by Sri Lanka in the international shipping, the Sri Lanka Ports Authority has been established under Sri Lanka Ports Authority Act, No. 51 of 1979 for the development and continuation of maintenance of operations of the Ports with highly technological equipment, the maintenance of the port services in profitable and efficient manner and the further strengthening of the status of the Ports as the foremost supplier maritime services in the Asian Region. Accordingly the Ports of Colombo, Galle, Trincomalee and Kankasanthurei are operated as commercial Ports whilst, the newly constructed Ports of Oluvil and Hambantota also operate for the achievement of the objectives of the Sri Lanka Ports Authority.

2.2 Background on the Construction of the Port of Oluvil

In view of the paucity of the infrastructure facilities, the South Eastern Zone of Sri Lanka as compared with the Western Zone has been identified as a less developed zone and the Sri Lanka Ports Authority had taken action to construct this port in the Oluvil Village in the Ampara District of the Eastern Province under the Negenahira Navodaya (Resurgent East) as a remedial action.

This Port Project comprises two sections, that is, the Commercial Port and the Fishery Harbour. Plans had been made for the supply of services to ships of 5,000 dwt in the first stage and for the supply of services to larger ships of 16,000 dwt in the second stage. The primary objective of the construction of this port was to provide a sea transport system at costs less than overland transport for the transport of essential goods from the west to east and the transport of agricultural and fishery products from the east to west as the land transport system is underdeveloped and the lack of railway connectivity.

In addition, to these objectives, the secondary objectives had been the improvement of internal passenger transport, attracting the investors for the manufacture of cement and fertilizer and the supply of services for external ships. The other objectives of the construction of the port had been the development of the port as a centre for international trawlers, unloading of fish, processing and export to the Asian countries such as Japan, China, etc. and the economic and social development through the generation of a large number direct and indirect employment.

Comments of the Institution

"The idea of construction of a port in the Oluvil area first surfaced in the 1994/1995 period. Even by that time, the Port of Trincomalee in the Eastern Sri Lanka was successfully operating under the control of the Sri Lanka Ports Authority handling nautical merchandise. The need for an additional port in the Eastern Province had not been identified and even a mention of that had not been included in a development plan of the Ports Authority. Under such circumstances the construction of a port at Oluvil was made to the Ports Authority and the Ports Authority being the legitimate institution for the construction of ports, had to fall in with the activity. As such the Ports Authority cannot bear the responsibility for the construction of the Oluvil Port without a clear vision.

Collection of sand at the approach to the port after the construction of the port become a severe problem and that obstructed the entry of ships to the port. Such circumstances made it impossible for the Ports Authority to handle cargo by utilizing the resources of the port. If a cargo ship met with an accident the Ports Authority has to accept the responsibility for that, thus causing further losses. As such the Ports Authority has taken action with responsibility to desist from diverting cargo ships to the Oluvil Port as a safety measure until the settlement of the problems prevailing at present".

2.3 Reasons for Selection of the Subject

A Performance Audit of this subject was conducted from order to evaluate whether the Oluvil Port constructed from a EURO 46,095,369 obtained under the Denmark Loan Programme and domestic funds amounting to Rs.426,487,682 with the target of economic and Social Development of the Eastern Province and opened for operation, the public funds employed for the purpose had been utilized effectively, efficiently and economically.

2.4 Authority for Audit

The audit was carried out under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka.

2.5 Scope of Audit

The observations, recommendations and the conclusion relating to the constructions of the Port of Oluvil, since the commencement to the present are based on the information obtained by us and the explanations furnished by the relevant institutions due to the limitations of staff, other resources and time available to me.

2.6 Audit Approach

The following matters are relevant in this connection.

i. Study of the policy decisions, relevant Acts, Circulars and other documents relating to the construction of the Oluvil Port.

ii. Study and analysis of the data in the reports issued on the preliminary studies which formed the basis for the construction of the Oluvil Port.

iii. Review of other documents and obtaining the required explanations from the connected officers and Institutions.

iv. Observing the physical status through field inspections and obtaining the comments of the general public.

2.7 Audit Objectives

i. Evaluation whether the preparation of designs for the construction of the Port, the supply of funds and the utilisation of funds had been done economically, effectively and efficiently.

ii. Evaluation whether the construction of the Oluvil Port had resulted in the economic and social development in the Eastern Province as expected.

iii. Evaluation whether there is any impact on the environmental conditions due to the construction of the Oluvil Port.

2.8 Limitations

The Sri Lanka Ports Authority informed that certain files could not be produced as the Project was the operation from the year 1995 up to the opening of the Port for operations in the year 2013. As such the files on invitations to tender for the contract had not been produce for audit.

3. Detailed Findings, Recommendations and Comments of the Institutions

3.1 Preliminary Studies on the Project

3.1.1 Feasibility Study

The following matters were observed in this connection.

(a) Selection of an Institution for the Feasibility Study

The study had been commenced in the year 1995 and the report had been submitted in the year 1999. The Ports Authority had paid a sum of Rs.31,614,833 to that Institute and comprised a sum of Rs.24,476,732 in respect of the years 2000 and 2001 and a sum of Rs.7,138,100 for a subsequent study done in the years 2010 and 2011. An examination carried out in this connection revealed the following matters.

i. In the award of the contract for this study, action had not be taken in terms of the Guidelines 3.1.1 (a) of the Procurement Guidelines to select the contractor under the competitive basis by allowing the other prospective tenderers to participate in the process. According to the explanation given by the Chairman of the Ports Authority, the Institution concerned had been selected direct as it was the only Institution in Sri Lanka for this activity. Nevertheless, in such situations, International Competitive Bidding should be resorted to as provided for in the Procurement Guidelines. But the domestic Institutions had been selected without following the procedures.

ii. Even though in the case of the Ambalangoda Fishery Harbour constructed in year 2009, a small project as compared with the Oluvil Port Project, the preparation of the designs of that project had been awarded to an Institution in Denmark. Accordingly, the failure to take action to obtain the services of such specialized Institution for the Oluvil Port Project is a problematic issue.

iii. The Technical Study done by the Institution which carried out the Feasibility Study for the success of the Project indicated that the financial and economic success of the Project depends on the protected access to the Port, maintenance of an adequate depth in port basin, removal of sand from the port approach and the minimization of environmental impact. Nevertheless, the examination in this connection and the physical examination of the Port revealed that it had not been possible to achieve of the major objectives namely the protected approach, removal of sand from the port approach and the minimum environmental damage.

(b) Disclosures that should have been made through the Feasibility Study

Any Harbour either natural or constructed is not available between the Valachchenai and the Kirinda Fishery Harbours in the Eastern Coast. Out of these two Harbours, Kirinda Fishery Harbour was constructed in the year 1985 and the Valachchenai Harbour is situated in a natural lagoon.

Kirinda Fishery Harbour is one of the harbours that are subject to the problem of sand accumulation and it was observed that its operations are maintained by the removal of sand incurring heavy costs annually by the Ceylon Fishery Harbours Corporation.

The Report on the Feasibility Report did not mention whether based on the problem faced by the Kirinda Fishery Harbour, the matters relating to the situation in relation to the construction of the Oluvil Port were examined.

(c) Project Evaluation

The feasibility had been computed under the Feasibility Study of the Commercial Port Project, based on the net current value of the Port Project and the internal productivity ratio and 07 income sources had been identified as the cash flow thereto. Even though the net current value had been a negative value it had been determined according to the sensitivity analysis as economically productive.

The computation made under the financial feasibility by taking the discount ratio as 4.95 per cent had been as follows.

Fisheries Sector		Commercial Port		Combined	
NPV	FIRR	NPV	FIRR	NPV	FIRR
Rs.Millions	Per cent	Rs.Millions	Per cent	Rs.Millions	Per cent
-45	3.4	-7	4.83	-53	4.3

(Source - Oluvil Port, Feasibility Study Report 1999)

The computation made under the economic feasibility by taking the discount ratio as 12 per cent had been a follows.

Fisheries Sector		Commercial Port		Combined	
NPV	EIRR	NPV	EIRR	NPV	EIRR
Rs.Millions	Per cent	Rs.Millions	Per cent	Rs.Millions	Per cent
+124	15.9	+145	16.32	+269	16.1

(Source - Oluvil Port, Feasibility Study Report 1999)

The expected income target from the cargo operations according to the sensitivity analysis done under the different bases considered for the Feasibility Study could not be practically achieved. As constructions for the movement of ships due to the accumulation of sand in the port, the determination made in the Feasibility Study had not been realistic and the study carried out did not provide adequate guidance to the Project.

Nevertheless, among the internal cash flows used for these analyses the computation had been made by giving special consideration to the cash flow from the cargo

operation. As no ships whatsoever had entered the Port since the completion of the Port Project, no income whatsoever had been received from the above cash flows.

(d) Other Studies Conducted

The contract for the preparation of designs for the prevention of sea erosion in the Port associated coastline since the construction of the Port as well had been awarded to the same Institution and a sum of Rs.7,138,100 had been paid in that connection during the years 2010 and 2011. Those designs had also failed due to the inability to prevent sea erosion arising from the failure to carry out the constructions in a manner to prevent sea erosion or to prevent sea erosion through the stone ridges constructed subsequently as a preventive measure for sea erosion.

3.1.2 Environmental Study

In the commencement of Projects, the Project Management is primarily responsible to determine beforehand the environmental impact resulting from the Project, and carryout the construction work in conformity therewith. The Environmental Impact Assessment Report provides an important guidance on the implementation of large scale projects such as this Project. The following matters were revealed in this connection.

(a) Direct Impact of the study in the Project

The Environmental Impact Assessment of this Project had been awarded to the Central Engineering Consultancy Bureau. According to the Action Plan of the study, the study had been done from July to December 2000. The Report had been handed over in December 2000.

A sum of Rs.1,220,594 had been paid to the Bureau and the areas of environmental problems covered by the relevant Report had been as follows.

i. Destruction of vegetation
ii. Transportation of rocks from quarry
iii. Ships movements making the harbor turbid
iv. Pollution of shore areas
v. Disposal of annual dredged material
vi. Accumulation of wastes and pollution of coastal water

The fact that the impact from i and ii will be only during the period of Project implementation and the possibility of minimizing the impact from iv, v and vi had been shown under the conclusion and recommendations in Chapter 09 of the Environmental Study.

Out of these matters, the water turbulence in the Port referred to at No. iii was identified as a situation which would not cause a special impact and in comparison with the benefits accruing from the Project, its impact had been considered as not important. Similarly, this study had conducted that along with the commencement of operating activities of the Port, that it would make a considerable contribution to the national economy through the regional development achieved and that it is a productive course of action for the upliftment of the living conditions of the general public of the area. Notwithstanding that, in carrying out a study of the social, economic and environmental impacts caused from the completion of the Port Project in the year 2013 up to the present indicated that none of the objectives of the

Environmental Study Report had been achieved. Thus it was observed that in view of two major problems on which the Environmental Report had not paid due attention, that is, the erosion of the coast and sand accumulation of the Port basin had been the major reason for the failure to achieve the objectives of the Project.

The severe erosion of the northern coastline of the Port and the sand accumulation in the Coastline to the south of the Port during several months of the year due to the force of the sea waves were identified as the environmental changes caused after the completion of the Project. The Environmental Study Report had not made any mention of the side effects resulting from the construction of the Port such as the damage caused to the agriculture sector of the area including coconut and paddy cultivation and the buildings situated close to the coastline. In view of the construction of the Port based on this report, the non-achievement of the objective of the Project, the environmental changes created and the failure of the Project, it was observed that the expenditure incurred on the Project had become fruitless.

(b) Impact on the Community Life

According to this Environmental Impact Assessment Report it had been determined that in addition to the improvement of the community life of fisheries folk and providing the public utilities at a high level, that the overall community life could reach a higher level through the creation of new livelihood.

(c) Selections of an Institution suitable for the Environmental Audit

The proper executive of the Environmental study relevant to the Project and taking action in accordance with it recommendations constitutions an important factor having an effect on the success of the Project. Accordingly, getting the study carried out by an institutions with experience and the selection an experienced specialized institution in the complex field of Port Project had been imperative.

This study had been done by the Central Engineering Consultancy Bureau and the Department of Coast Conservation and Coastal Resource Management had issued the license required for the purpose. Nevertheless, it was not confirmed that the capacity and experience possessed by the Central Engineering Consultancy Bureau for the conduct of such study had been evaluated.

(d) Inviting for Comments of the General Public

Decision had been taken to invite comments and proposals from the general public in the preliminary studies carried out before the construction of this Project. A period of less than one month from 18 June 2003 to 07 July 2003 had been allowed for the purpose. In consideration of the different problems faced at present by the people living nearby the Project premises, the inadequacy of the attention paid for obtaining public comments is also a major problem relating to such situation.

Indication

The manner of carrying out the preliminary studies relating to the implementation of the Project and the inability to be satisfied with the achievement of the expected objectives thereby had created an adverse impact on the success of the Project.

Recommendations

i. As the construction work of the Project has already been completed the rectification of the deficiencies observed during this audit is a difficult task. Therefore, in the preparation of designs for the construction of such port projects, and in carrying out such studies is the future action as appearing in this report should be considered in depth for the selection of institutions having the specific qualifications and experience.

ii. The adequacy or the impracticability of the observations and the recommendations of the institutions which participated in the studies should be discussed with those institutions and take any course of action whatever in accordance with the Agreement.

Comments of the Institution

Before the implementation of this project, a private Institution had carried out the necessary Feasibility Study. As the wave data and current data had been obtained for the Port of Colombo and the Port of Galle, the basic factors needed for studies are available with the Ports Authority. As such data of the eastern coast not available with the Ports Authority, the wave data and the current data had been obtained over a short period after taking decision for the construction of the Oluvil Port. The Feasibility Studies had been done by utilizing such data and as such the possibility of the results of the Feasibility Study not being most accurate is greater.

The study carried out by the private institution has identified the sand movement in the North West and the north east monsoon periods in the east coast of Sri Lanka. But it was later observed that a quantity larger than the identified quantity of sand was moving.

3.2 Planning the Project

3.2.1 Deviation from the Functions of the Sri Lanka Ports Authority

Designing, construction and maintenance of Fishery Harbours in Sri Lanka is a function of the Ceylon Fishery Harbours Corporation established under the State Industrial Corporations Act, No. 49 of 1957. The construction of the Fishery Harbour had been commenced under this Project concurrently with the Commercial Port. That had been constructed under the same Project as a part of the major Commercial Port. The major Commercial Port is not in operation whilst the Fishery Harbour Section is in operation.

The following matters were observed in this connection.

i. Staff required for operating as a Fishery Harbour had not been appointed. At present, mainly the officers of the Security Division of the Ports Authority assist in its different activities.

ii. Even though the other Fishery Harbours recover the anchorage charges according to the category and the length of the fishing boats, herein a common methodology is followed without resorting to such classification.

iii. As the Fishery Harbour section is under the control of the Ports Authority, the officers of the Ministry of Fisheries and Aquatic Resources Development and the Department of Fisheries attached to the Port are not being subjected to supervision. As such it was observed that the accurate information such as the registration of vessels, the seaworthiness of the vessels and the quantity of fish production contributed to the national economy through this Harbour is not reported.

Out of the total land area of 16 Hectares of Stage I of the Oluvil Port 6 Hectares cover the Fishery Harbour. The Fishery Harbour remained under the control of the Sri Lanka Ports Authority up to 10 December 2015, the date of audit. As the supervision of the activities is not a function of the Ports Authority, it had not been possible to provide solution to the fishery problems.

3.2.2 Need for working within a Master Plan

(a) Objectives expected from a Master Plan

A Master Plan should be in place for the large scale construction Projects such as Ports and Airports. Normally the achievements of the following objectives relating to the Project are expected from a Master Plan.

i. For the use as a guidance in the acquisition and use of lands for the proposed Port.
ii. For the use as a written guidance for the planning and implementation of the development of regional infrastructure facilities.
iii. For the use as a tool in the decision making process of the stakeholders, the companies supplying nautical services and the foreign and local investors supplying financial aid associated with the proposed Port.
iv. To assist in the development associated with the proposed Port and formation of ideas with regard to future expansion.
v. To assist in the efficient and effective operation of the Port
vi. To provide guidance for safeguarding the environment in the future improvements
vii. To enable completion of work within the specified time frame.

(b) Impact caused due to lack of a Master Plan

The planning and construction of this Port Project were spread over a period of 17 years approximately. Even though a Master Plan covering the period of implementation indicating the specified time frames should be available for the Project Management purposes and it was possible to ascertain that the following needless delays had arisen due to lack of a Master Plan. The details were as follows.

i. The Feasibility Study had been awarded to the institution concerned in the year 1995 and the report had been furnished in the year 1999. Similarly the Environmental Impact Assessment Report had been prepared and submitted in the year 2000. As such the preliminary studies had taken 05 years.

ii. The Tender Invitation Notice for the construction of the Port had been published on 23 June 2003, that is, after the elapse of 3 years from the completion of the preliminary studies. The agreement with the construction Company had been entered into on 20 June 2008, that is, after the elapse of 05 years since the publication of the Tender Invitation Notice.

iii. In view of the delay in entering into the agreement with the contractor the Government of Sri Lanka had to pay EURO 14,577,129 more than the quotation received in response to the first notice for tender invitation.

iv. According to letter of takeover of work of the contractor, the work site had been taken over on 25 April 2008, the construction had been completed in the year 2012 and the Port opened for operation on 25 September 2013. As such the construction had taken 04 years. The major problem in this connection is that the provisions for the completion of the work had not been included in the agreement.

v. Under such circumstances the construction of the Port had taken a long period of 17 years approximately.

vi. The Report on the Decisions of the Board of Directors of the Sri Lanka Ports Authority dated 08 June 2005 contains an entry that if the contract for the construction of the Oluvil Port is awarded before 31 October 2005, a grant of EURO 1,500,000 will be made and in the event of the failure to do so, that amount should be paid by the Sri Lanka Ports Authority to the Government of Denmark. Nevertheless, the contract had been awarded in April 2008. But the Government of Sri Lanka had received only EURO 86,100 from the Government of Denmark. As such the Government of Sri Lanka had been deprived of a financial grant of EURO 1,413,900 due to the delay in the award of the contract.

3.2.3 Impact of Lack of a Master Plan for the Award of Tenders

The following matters were observed in this connection.

(a) Basic Conditions of Loan

The financial aid for this construction was provided by the Ministry of Foreign Affairs of the Government of Denmark through the Nordia Bank of Denmark. Therein it had been stated that the Tenders can be offered only by the Companies and the Joint Ventures of Denmark. As such it was not possible to invite for quotations from other internationally recognoised Companies possessing experience and knowledge on the construction of Ports.

(b) Selection of the Most Suitable Contractor and Subsequent change of the agreed Quotation

The quotations had been invited from the companies of Denmark in accordance with the above condition and the contract for the construction of this Port had been awarded on 17 March 2004 to the Company which offered the lowest quotation for EURO 31,518,240 on an approval of the Cabinet of Ministers.

In view of the delay in the preliminary work including the acquisition of lands which should have been executed primarily, the contractor had not commenced the work as specified and action had been taken to award the construction Project to the same institution on 25 April 2008 instead of inviting tenders again. As such the initially agreed contract amount had to be increased to EURO 46,095,369 and the additional payment involved amounted to EURO 14,577,129.

Indication

In view of the failure to prepare a Master Plan resulting in the non-achievement of the objectives and the Project being prolonged over a long period of 17 years had resulted in a loss of EURO 15,991,029 to the Government of Sri Lanka.

Recommendations

In large scale constructions such as this Project, preparation of a Master Plan and performing in accordance therewith is imperative.

Comments of the Institution

Comments were not furnished.

3.3 Loan Agreement and Project Expenditure

3.3.1 Basic Matters in the Loan Agreement

The Nordia Bank of Denmark had been selected for obtaining the loan with the approval of the Cabinet of Ministers in view of the reasons such as the supply of financial aid for this Project under the Denmark Mixed Credit Programme, bearing the Export Credit Guarantee Installment and the Bank Margin under this Programme by the Government of Denmark and the grant of the loan free of interest to the Government of Sri Lanka.

Accordingly the Nordia Bank had made available EURO 86,100 as a Pre-grant payment and EURO 46,009,269 as an interest free loan. The loan had been granted on the condition of repayment and settlement in full in 10 years commencing from 31 March 2011. The balance payable as at 30 September 2015, the date of audit, amounted to EURO 23,004,634. In addition to that, loan administration charges amounting to EURO 69,016 and liability charges amounting to EURO 77,164 as well had been paid.

3.3.2 Receipt of Loan Installments and Loan Repayment

According to the Loan Agreement, the entire loan was due to be received in installments during the period from 30 June 2008 to 30 September 2010. Nevertheless, in view of the delay in the completion of the Project work, the last installment for payment to the contractor had been received only on 21 December 2012. Notwithstanding that, the loan repayment had commenced on 31 March 2011 in accordance with the Loan Agreement and had been repaid as specified.

Nevertheless, a specific date on which the construction work should be completed had not been included in the Contract Agreement. The reason for not including a specific date for the completion of the Project was not explained. Even though it had been agreed according to the Loan Agreement to release the full amount of the loan by 30 September 2010, the Project work had been completed only in the year 2012 as plans had not been made for the

completion of the Project work by that date. As such it was observed that repayment installments had to be made before the completion of the Project work.

The Department of External Resources confirmed to Audit that, the balance out of the total loan amounting to EURO 3,880,990 that remained in the Escrow Account after incurring expenditure on the Port construction had been used for the repayment of the loan.

Accordingly, the General Treasury had made the loan repayment installments and such payments made without receiving any return from the operations of the Port is a noticeable feature.

3.3.3 Total Expenditure of the Project

The following matters were revealed in this connection.

(a) Payments made for Sundry Activities

In addition to the loan referred to above, the Sri Lanka Ports Authority had paid a sum of Rs.426,487,682 for sundry activities of the Project during the years 2000 to 2010. Out of this amount, a sum of Rs.121,355,248 had been paid to the Geological Survey and Mines Bureau and the Department of Forests for the supply of rocks. A sum of Rs.24,476,732 had been paid initially to a private institution for the Feasibility study. The observations on the problems relating to the payment of compensation to the landowners and the effectiveness of the other payments made on the Project including the payments made for the Feasibility Study out of the expenditure of Rs.269,362,645 made on the acquisition of lands and properties, purchase of lands, payment of compensation and the payments of compensation to madel fishermen are included under the respective Topics.

(b) Disclosures in Financial Statements

Action had not been taken by the Sri Lanka Ports Authority even by 31 December 2015 on this asset constructed by the project at a cost of EURO 46,095,369 under the Denmark Mixed Credit and local funds amounting to Rs.426,487,682 for the transfer of the Fishery Harbour section to Ceylon Fishery Harbours Corporation and account for the Commercial Port in the books of the Ports Authority .

Indication

The creation of an unfavourable situation to the local economy due to obtaining loans without a proper assessment to impact on the domestic economy and the failure to incorporate the actual cost of the Port Project in the accounts of the Ports Authority.

Recommendations

i. The need for the accurate assessment whether the work done by utilizing the loan is economically productive to the Country and the utilization of the money within the specified periods in accordance with the agreements.

ii. Take action for the correct assessment of the expenditure on the Port Project and incorporate in the accounts of the Ports Authority after the transfer legally of the value relating to the Ceylon Fishery Harbours Corporation.

iii. Planning to facilitate the achievement of the financial and physical progress within the project period.

Comments of the Institution

The Contract Agreement between the contractor Company which executed the Project construction and the Sri Lanka Ports Authority for EURO 46,095,369 was signed on 2008.06.20 and the total expenditure for the Port Project construction amounted to EURO 42,206,379.

3.4 Construction of the Basic Components and their Impact

The construction work of the Port had been commenced in the year 2008 and the work had been completed in the year 2012 and opened for operations in the year 2013. The following matters were revealed during the examinations of the construction and its impact.

3.4.1 Commercial Port

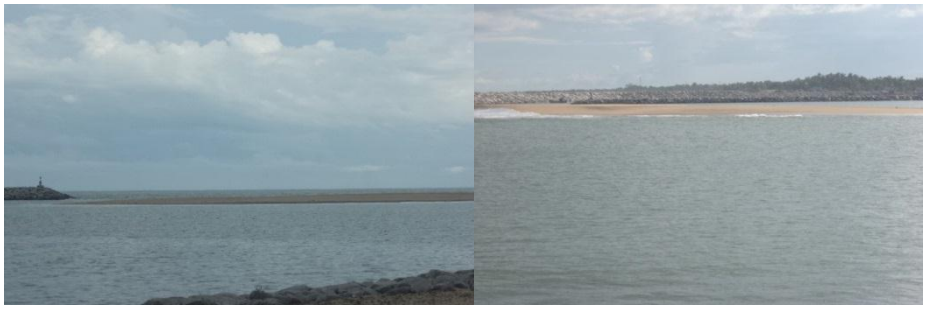
(a) Harbour Breakwater

The following matters were observed in this connection.

i. Expenditure on Breakwaters and their present condition

According to the seabord situated around Sri Lanka the natural harbours had been used as the ports from the ancient times. The special condition attached to those had been that the breakwaters were not necessary for such ports. The construction of artificial harbours, a breakwater is an essential item of construction which entails a major portion of the cost of construction. The total cost of construction of breakwater of this port represented 35 per cent of the total cost. As such the design and construction of the breakwaters of ports should be handled by persons / institutions having expertise knowledge on the subject. The length of the breakwater designed for this port was 1,475 metres and the length of the breakwater constructed had been 1,320 metres and the cost of construction amounted to EURO 14,861,297.

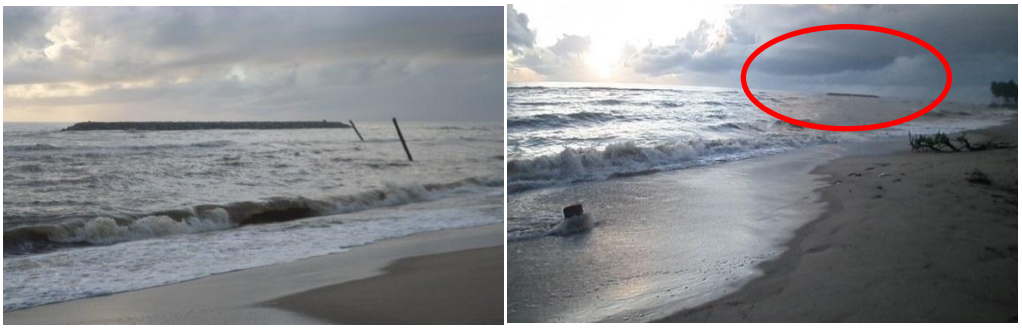
The breakwater constructed determined the port limits and controls the waves reaching the port. In addition, according to the situation of the sea coast of the east, the impact from sand is considerable. Even though the breakwater was constructed as a shield against that impact, in view of the nature of the situation of the Oluvil Port, the Consultants of the Project had reported in November 2013, that is, after the construction, on the impact of sand carried by the sea waves. That report included, among other matters, the erosion of the northern coast of the port, the accumulation of sand from the sea around the Southern Breakwater and the accumulation of sand and silt at the entrance to the Port and the basin. Heavy sand accumulation of sand was observed during the field inspection. At present, this obstruction has rendered the Port totally unusable for operations.



(Sand accumulation from the sea around Southern Breakwater -2015.12.09)

ii. Construction of Additional Breakwaters and the Cost

Since the construction of the Port, the land north of the Port had been subjected to severe erosion and on the instructions and the designs of the institution referred to above, 3 breakwaters of 100 metres each had been constructed in the sea to the north of the Port to prevent erosion. The cost of construction amounted to EURO 1,394,293. Even those constructions had failed to prevent sea erosion and as such the payment of Rs.7,138,100 was made to a local institution for the study and the cost of construction amounting to EURO 1,394,293 had become a fruitless expenditure.



(Three Breakwaters of 100 metres each constructed north of the Port- 2015.12.09)

iii. Alternative Courses of Action for the Problem

The entrance to the Port is subjected to severe sand accumulation preventing the passage of ships into the Port and as such the objectives expected from the Port Project had not been achieved.

As this project is based largely on foreign loans and as the Port is not making any contribution whatsoever to the national economy and for the regional development, attention should be paid to the alternative courses of action that can be taken in this connection. Even though the Government of Denmark which provided the loans for the Project had agreed to carry out the study of the problem, free of charge, the Sri Lanka Ports Authority had failed even by December 2015 to commence the future action in this connection. In the meantime, according to a letter of the Department of External Resources addressed to the Ministry of Foreign Affairs of the Government of Denmark with copy to the Sri Lanka Ports Authority, the lending institution is prepared at present to take action in this connection.

(b) Harbour Basin and Depth

According to the Feasibility Report, the Basin of the Commercial Port had been designed for the passage and anchoring of ships of 5,000 tons deadweight and the construction had been done accordingly. The harbor had been designed and constructed with a depth of 08 metres. The Feasibility Study Report had made further designs for the subsequent increase of the depth to 11 metres to enable the passage of commercial ships of 16000 tons deadweight. The second stage of increasing the depth of the harbour to 11 metres had not been implemented due to the problem of sand accumulation in the Harbor Basin.

(c) Other Buildings Constructed in the Port Premises

Concurrently with the construction of the Oluvil Port several buildings and other facilities had been constructed in the Port premises. Accordingly, buildings of 3,880 square metres, water and underground tanks of 355 cubic metres capacity in the Commercial Port premises and buildings of 2,500 square metres and water and underground tanks of 355 cubic metre capacity in the Fisheries Harbour premises had been constructed. Among these buildings were the major constructions such as the administration buildings, buildings for the Engineering staff, official quarters for the staff, water tanks and the cold storage buildings. All such buildings and facilities had been constructed with the intention of providing the services required in the event of making the maximum use of the Commercial Port and the Fisheries Harbour. The expenditure incurred on the buildings including the facilities amounted to Euro 4,334,845 and the buildings remained idle over a period of 2 years approximately.

The door of the main godown near the jetty, made out of metal sheets was subject to decay due to rust and the area around the godown had been damaged in certain places due to rain water. The cost of this building amounted to Euro 452,667.

Out of the buildings constructed for the Commercial Port referred to above, all facilities other than that used by the officers of the Department of Immigration and Emigration, had not been used up to 08 December 2015, the date of field inspection. Those remained as idle assets.

As such the facilities remain idle due to the non-commencement of the operations of the Port at present and due to the absence of a clear-cut plan for the future as well. Such situation prevailing throughout, is a hindrance to maintaining their standards.

(d) Staff

The total number of staff attached to the Oluvil Port and the Fishery Section consisted of 51 officers comprising 02 Executive Officers,28 officers of the Security Division, 06 officers of the Management Assistant Service and 15 members of the Works Assistant Multi and Duty Assistants. All these officers 28 had been attached to the Nautical Training Institute of the Sri Lanka Ports Authority. The specific duties for which they were deployed were not clear. Further, salaries and different allowances amounting to Rs.184,743,508 had been paid to those 51 members of the staff from the year 2013 to December 2015. It appears that these officers are mostly deployed in the activities of the Fishery Harbour as the operation of the Commercial Port is at a complete standstill. Even though the commercial Port did not generate any benefits, the Ports Authority has to bear the cost of maintaining that staff. Further, it was observed that the future action for making use of the Commercial Port is being further delayed.

3.4.2 Fishery Harbour Section

The work relating to the construction and operation of Fishery Harbours is done by the Ceylon Fishery Harbours Corporation which is established for those purposes. Nevertheless, the Fishery Harbour in this instance had been done by the Ports Authority.

According to the Feasibility Study Report the depth of the Anchorage area for fisheries vessels in the Harbour should be 03 metres and the operations of the Fishery Harbour Section had been commenced by the date of audit. The sand accumulation problem of the Commercial Port had caused certain obstructions to the fishing boats to enter the Fishery Harbour and if the operations of the Fishery Harbour are to be maintained regularly, a process for regular removal of sand has to be implemented.
The fisheries folk we met during the field inspection explained that the absence of a methodology for sand removal is an obstruction to their industry. The following matters were observed in this connection.

(a) Cost of the Fishery Harbour Section

In designing and construction of the Oluvil Port Project, the Fishery Harbour Section had been included as a component of the overall Port Project. The total cost of construction of the Project amounted to EURO 42,206,379 and action had not been taken to identify the cost of construction of the Fishery Harbour separately.

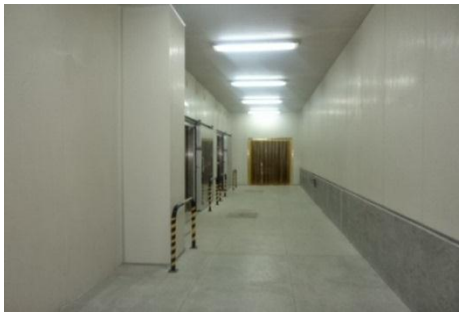
(b) Objectives of the Fishery Harbour Section

The objective of the Fishery Harbour had been the provision of capacity for the operation of 100 to 200 fisheries boats and the basic facilities for those boats. The construction work had been done by taking into account the need for the construction of a port with safe anchorage facilities for the people of the Oluvil area engaged in the fisheries industry. Even though the operation of the Harbour area maintained adequately for the requirements of the fisheries folk of the area at present, the target of fish production for the European market included among the objectives of the Fishery Harbour Project had not been achieved. Any plans for the future in that connection was also not revealed.

(c) Cold Storage of the Fishery Harbour

Action had been taken under the overall project for the construction of a cold storage facility with modern facilities valued at EURO 2,120,570. The following matters were revealed in that connection.

i. A cold storage facility with the cold stores, a flaked ice Production Unit and fish processing facilities had been constructed. It was observed that the full capacity of 20 metric tons is not made use of.

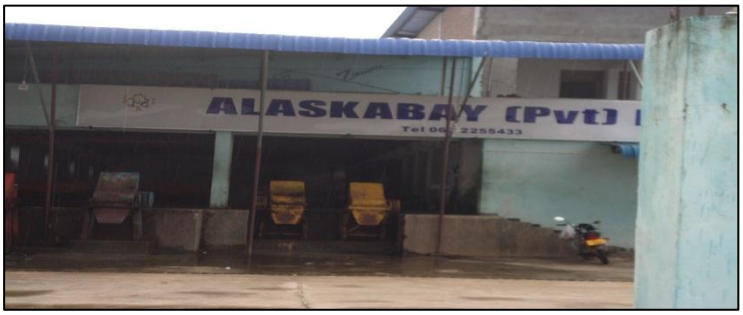



(Unuses Cold Storage Premises – 2015.12.09)

ii. The highly valuable items of machinery available among the Cold Storage Facility are subject to the threat of destruction due to the non-utilisation. Even though the electricity generators and other machinery installed outside had been covered against rain as a temporary measure, it was observed that the covering did not provide protection from the wind blowing from the sea.


(Cover provided against rain for the electricity generators and other machinery -2015.12.09)

iii. Other businessmen had established several production machines close to the Port. The price of ice produced by those machines was comparatively low. According to the opinion of the fisheries folk, despite such ice being of a standard below the required level, they are inclined to buy that ice due to the lower price. That reason itself had an impact on the idling of the Cold Storage Facility.



(Photograph of a Private Ice Production Facility -2015.12.09)

iv. The fisheries folk confirmed that if the Cold Storage Facility is in operation, they expected to buy ice produced by the Facility.

(d) Comments of the Fishery Folk

It was observed that this Fishery Harbour is operated as a separate Division inside a Commercial Port and special security services thereof among its administrative matters are being handled by the Security Division of the Ports Authority. In view of the following deficiencies revealed at a discussion held with the fisheries folk, they had not been able to carry out their fisheries activities at the maximum level.

i. According to the explanations given to the fishermen, they had been informed that the fuel and water supplied to them will not be supplied throughout 24 hours. According to the Feasibility Study Report of the Project, the Port should provide these facilities to the fishermen. The Port should obtain fuel

and water from the Ceylon Petroleum Corporation and the National Water Supply and Drainage Board respectively and provided to the fishermen. Nevertheless, the supply of fuel had been entrusted to a private company and the Filling Station remains open only from 06.00 a.m. to 06.00 p.m. and that is reported as inadequate.

ii. The other nearest Harbour for obtaining such supplies is the Fisheries Harbour at Valachchenai and the facilities available at that Harbour are also inadequate.

iii. Lack of facilities for repair of boats on the ground and if such facilities are provided it can be maintained as a source of income.

iv. Lack of facilities to tow boats from the Harbour to the land.

v. Problems in the use of approch to the Harbour due to the accumulation of sand near the breakwater.

vi. Scarcity of drinking water and the need for running a canteen in the Harbour premises.

vii. Losses caused collision of boats.

viii. Difficulty in sailing far out into the sea due to the unavailability of communication equipment in the Harbour and with the fishermen.

ix. Lack of a place for cutting fish.

x. Problems relating to the fuel subsidy.

(e) Deviation from the Control of the Ceylon Fishery Harbours Corporation

It was observed that the laws, rules, etc. enacted by the Ministry of Fisheries and Aquatic Resources Development relating to the fishermen, fishing craft and fishing are not being properly implemented due to reasons such as the control of the Fishery Harbour by the Ports Authority, the non-transfer of the Fishery Harbour Section to the Ministry of Fisheries and Aquatic Resources Development and the non-attachment of the officers of the Department of Fisheries and Aquatic Resources permanently to the Harbour. It was not observed that the Fisheries Inspectors were inspecting these crafts even as at 08 December 2015, the date of audit.

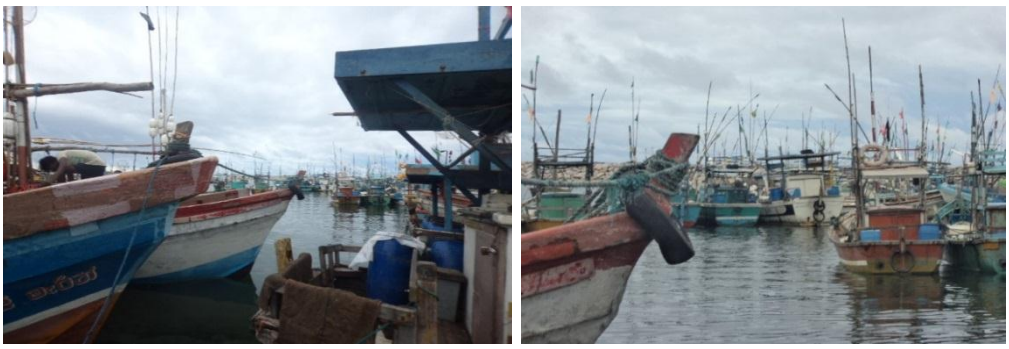
i. Even though the registration of fishing craft sailing into the sea for fishing, with the Department of Fisheries and Aquatic Resources is compulsory, information on such registration had not been maintained.

ii. The information of the daily fish harvest obtained through the Harbour was not made available.

iii. The non-implementation of the Fishermen's Pension Scheme and the absence of a Radio Communication Exchange in the premises of the Fisheries Harbour premises were observed.

iv. In obtaining Harbour facilities for fishing craft, the registration in the Ceylon Fishery Harbours Corporation provides entry facilities to any of the Fishery Harbours in the Island. As this Fishery Harbour is under the control of the Ports Authority, it was observed that the owners of craft using this Harbour have to obtain permission by payment of fees.

v. It had been stated that the Port of Oluvil should be constructed as a remedy for the problems such as the sand accumulation of the Kirinda Fisheries Harbour, limitation of space available there for the fishermen of that area for safe anchorage of their boats, the lack of depth of the Harbour and the lack of repair facilities. But, it was observed that the Fishery Harbour constructed was of 03 metres depth and that it did not have the facilities for repair of fishing craft.



(Anchorage of Boats in the Fishery Harbour -2015.12.09)

Indication

Lack of maximum usage of the facilities constructed in the Harbour in accordance with the objectives of the construction of the Harbour, non-achievement of the objectives due to the other shortcomings and the idling of the relevant facilities.

Recommendations

i. Carrying out a primary study of the large scale sand removal projects to enable the use of the entire Harbour and until then, identify and implement a special course of action for safeguarding the facilities including the buildings.

ii. Carry out a restudy of the further action that can be taken on the breakwaters constructed as a remedial measure.

iii. Taking action for the transfer of the maintenance of the Fishery Harbour as recommended under paragraph 3.3.3(b) above and taking action thereby to allow for the supply of facilities to the fisheries folk and settle the problems of fishermen referred to.

iv. Taking action to bring the Cold Storage Facility constructed in the Fishery Harbour premises to operating level and the formulation of a course of action to ensure the protection of the valuable assets therein.

Comments of the Institution

Inviting proposals from the external parties was delayed due to the existence of a problem for providing the depth required for commercial ships as a result of sand accumulation at the Port access and it is expected to find a permanent solution to the problem of sand accumulation through the study conducted at present. The Ports Authority has taken the following steps for the minimization of environmental impacts caused.

i. A further study was conducted by the institution which prepared the designs of the Port of Oluvil and three Breakwaters of 100 metres in length each have been constructed parallel to the coastline covering a distance of 02 kilometres. Through that it was possible to prevent sea erosion completely for a distance of 750 metres to the north from the Port of Oluvil.

ii. Stone ridges have been constructed to cover 150 metres of the coastline north of the Port to prevent sea erosion and tenders had been invited for the construction of a further stone ridge on 150 metres of the coastline.

iii. Action is being taken by the Department of Coast Conservation and Coastal Resource Management for the construction of stone ridges on 220 metres of the coastline.

iv. The Ministry of Foreign Affairs (DANIDA) of the Government of Denmark has expressed its willingness to provide financial aid for the studies required for finding a permanent solution for the sea erosion, sand accumulation in the area south of the Port of Oluvil and the sand accumulation in the approach to the Port of Oluvil. A consultancy institution of Denmark with experience has been selected for the purpose by following the approved Procurement Procedure and the study has already been commenced at present.

v. Due to the heavy sand accumulation in the area below the south breakwater a large land area and coastline has been formed and that provides great relief for the fisheries folk in the area south of Oluvil for their fishing activities.

vi. **Transfer of the Oluvil Fishery Harbour to the Ceylon Fishery Harbours Corporation**

Discussions are being held by the Ministry of Ports and Shipping, the Ministry of Fisheries and Aquatic Resources Development, Sri Lanka Ports Authority and the Ceylon Fishery Harbours Corporation for the transfer of the Fishery Harbour section of Oluvil port to the Ceylon Fishery Harbours Corporation. In this connection, the Ministry of Fisheries and Aquatic Resources Development had submitted a Cabinet Memorandum in March 2016.

3.5 Primary Objectives of Construction of the Port and Consequences arising therefrom

3.5.1 Primary Objectives of the Construction of the Port

The primary objective of this Port constructed with the target of economic and social development of the Eastern Province had been the transport of the essential goods, building construction materials, equipment and other goods to the Eastern Province and the transport of agricultural and fishery products of the Eastern Province to Colombo at lower costs over the sea routes. In addition there were other objectives such as the creation of Port centred new investment opportunities (bagging of cement / packaging of fertilizer), contribution to the national economy through the supply of services to commercial ships and the subsequent development as a centre for international trawlers resulting in unloading of fish resources, and processing of fish for export to the other Asiatic countries such as Japan and China. The ultimate objective of the construction of the Port had been the creation of vast job opportunities in the Port surroundings for the enhancement of the community life to a higher level, culminating in the economic and social development of the Eastern Province.

3.5.2 Social and Economic Impact caused by the Port

The following matters were observed in this connection.

i. The objective of the contribution to the national economy through the supply of services to commercial ships had not been achieved as no commercial ships whatsoever had arrived in the Port since the Port was opened for operations. Even though a very small income is received from the Fisheries Harbour Section, an adequate income as compared with the enrolments of the employees and other expenditure of the Port had not been received. As such the maintenance expenditure and the loan repayments had become another charge to the national economy.

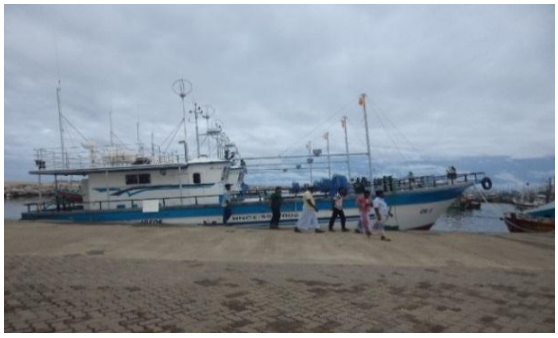
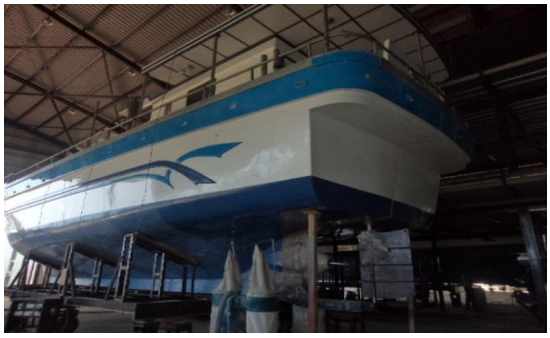
ii. The objectives such as the transport of essential goods, building construction material, etc. from Colombo through the sea routes to provide those goods at a fair price to the people of the area and transporting the produce of the Eastern Province at lower costs to Colombo and providing a fair price for those products as well had not been achieved.

iii. Even though the feasibility study had identified objects such as the creation of investment opportunities for large scale industries such as bagging of cement and fertilizer packaging, exploration of mineral resources, improvement of railway tracks, there were no specific courses of action taken for those objectives.

3.5.3 Generation of Employment Opportunities

Even though the creation of employment opportunities for the people of the area was foremost as a general objective of all objectives of the Port Construction and providing opportunities for investments, it had not been achieved as intended. In response to the request for information in this connection, the Ports Authority informed that employees were not recruited for the new Port constructed, that the staff of the Nautical Training Institute of the Ports Authority situated nearby had been deployed for the purpose. Further, one private investor had commenced a medium scale fisheries craft manufacturing institution and provided employment to 80 employees. This industry commenced in the year 2014 had constructed and exported about 10 fisheries craft by the year 2015.

Accordingly, the objective of generating about 10,000 employment opportunities had not been achieved.

(A photograph of the Private Boat Factory – 2015.12.10)

3.5.4 Impact on the Conventional Livelihood

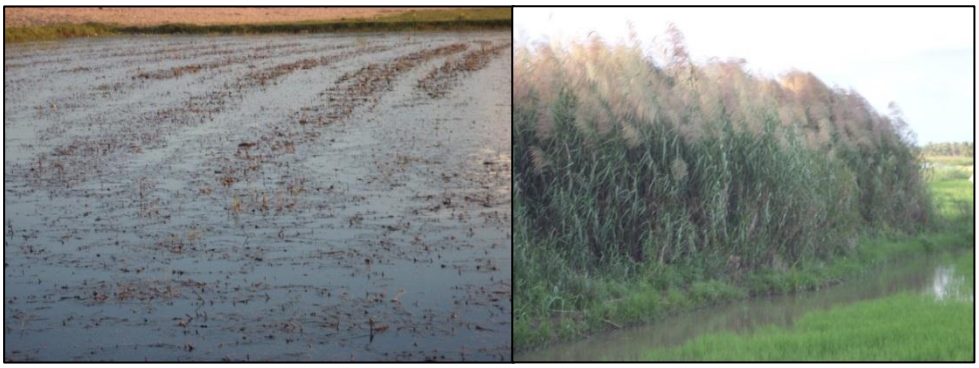
(a) Impact on the Paddy and Coconut Cultivation

The following matters were observed in this connection.

i. The physical inspection revealed that subsequent to the construction of the Port, 5 kilometres approximately of the coastline north of the Port was subject to severe sea erosion. In view of this reason, the houses and properties, specially the coconut cultivations and the paddy lands of the people living in the littoral areas had been subjected to severe damage. Information on 33.74 acres of lands of coconut cultivation subjected to sea erosion was furnished to Audit by the Divisional Secretary Addalachchenai and the Agrarian Development Officer, Nindavur furnished information on 101 acres 53 roods and 70.5 perches of lands cultivated with coconuts and paddy covered by the sea coast.


(Impact of coastal erosion on Coconut Cultivation -2015.12.08)

ii. In addition, a large extent of paddy lands exist on the land north of the Port and in the past those paddy lands had been productively cultivated as stated to us by the land owners. Paddy for seed purposes had been commercially cultivated in that area. Since the construction of the Port, the irrigation channel of the paddy lands had been blocked and the sea water had flown into the paddy lands through the river, thus resulting in the paddy lands eroded into the sea while sea water had flown direct into the other paddy lands making them fallowed. It was observed during the physical inspection that if an urgent solution is not found for this problem, the entire track of paddy lands would become lands unfit for paddy cultivation in the future.



(Impact of the coastal erosion on the Paddy Cultivation -2015.12.08)

iii. Even though the persons affected by this situation had brought this matter to the notice of the Ports Authority, the Presidential Secretariat, the Ministry of Agriculture and several other institutions at least an assessment of the damaged lands had not been done even up to 31 December 2015, the date of audit. It was also observed that the affected people were experiencing difficulties. Most of the damaged lands comprised highly productive coconut cultivations and paddy lands producing seed paddy and as such those people had been deprived of their livelihood due to the damage caused to the lands.

(b) Impact on the Madel (Large Nets) Fishing Industry

The Sri Lanka Ports Authority had identified the madel fishermen who had lost their livelihood due to the inability to continue their fisheries activities due to the construction of the Port, prepared a report thereon, classified 835 fishermen engaged in the madel fishing industry into four groups and paid compensation amounting to Rs.127,227,500 and also paid a sum of Rs.363,610 to the Divisional Secretariat, Addalachchenai for the services rendered in the payment of compensation to the fishermen. Construction of stone ridges on the coast had been commenced due to the aggravation of the sea erosion after the construction of the Port, thus resulting in the loss of the use of natural coastline to the fishermen. In view of the construction of these stone ridges, the fishermen engaged in the conventional fishing industry and the fishermen using the conventional fishing craft had lost the use of the natural coast for keeping their craft, thus making it impossible to engage in their occupation. Even the fishermen who received compensation could not find other employment as new industries had not been set up around the Port premises. They had faced many problems after exhausting the compensation received.

3.5.5 Impact of the Construction of Oluvil Port on the Coastline

The coastline around the Island is normally subject to both regular erosion and land filling due to sea wave action. The Department of Coast Conservation and Coastal Resource Management has been established for the protection of the coastline of Sri Lanka. Even though the Web Site of the Central Environmental Authority contains 10 Environmental Policies approved by the Government, it did not contain a policy on the Protection of the Coastline. Therein 23 environmental changes had been identified and the coastal erosion is also included therein. Accordingly the following matters were revealed during the course of the examination of the environmental impact caused by the construction of the Port of Oluvil.

i. The Department of Coast Conservation and Coastal Resource Management had issued the Permit for the construction of the Port of Oluvil by embodying terms and conditions such as, desisting from causing obstructions for the use of the existing public places and the coast, desisting from causing obstructions to the existing fisheries activities, the identification of the instances of coastal erosion before he construction of the Port and examine the coastal erosion up to a distance of one kilometer, prepare the designs and allocating the basic provisions required. It was observed that the sea coast north of the Port is subject to severe and regular erosion causing damage to the properties of the Ports Authority as well as the private properties. Similarly, a situation in which the fisherman engaged in the conventional fishing are unable to engage in their occupations had emerged. Even though three additional breakwaters had been constructed north of the Port they were rendered meaningless.

ii. The Department of Coast Conservation and Coastal Resource Management had not taken action to identify the geographical location of the area subjected to sea erosion since the construction of the Port and carried out an assessment by quantifying the extent of the impact of sea erosion until 23 October 2015, the date on which the Audit made enquiries from the Department of Coast Conservation and Coastal Resource Management with regard to the existing situation and the action taken for the prevention of sea erosion. Even though the Audit was informed that if such information is required it should be obtained from the Ports Authority, but it is evidently a function of the Department of Coast Conservation and Coastal Resource Management.

iii. Even though the people of the Oluvil area had, over several years (since the commencement of the Port construction) made complaints about the sea erosion to the Department of Coast Conservation and Coastal Resource Management over a period of 07 years from June 2008 to the year 2015, the Department of Coast Conservation and Coastal Resource Management had failed taken any remedial action in connection with the problem. According to the information made available by the Department the bids invited after making plans for the protection of the Oluvil Lighthouse, for the purchase of construction materials and the required machinery on hire had been opened only on 10 September 2015. Subsequent physical audit inspection of the area around the Lighthouse revealed that the conservation action was in progress, whilst no attention had been paid to the conservation of the other areas subjected to erosion. The Zonal Engineers' office in charge of this coastal area is situated in Batticaloa. That office was established in the year 2010 and a Engineer had not been attached to the office even by 31 December 2015, the date of audit.

(Stone bunds erected for protection of the Lighthouse -2015.12.09)

iv. During the period from the year 2013 to July 2015, the Fishery Harbour constructed in the Oluvil Port had been used by 4,301 fishing craft. It was observed that the smoke emission from the craft, burnt oil and the noise made by the craft are causing damage to the sea around the Port. An environmental protection permit had not been obtained for the Port since its opening in the year 2013 to the date of audit. Even though an environmental damage prevention plan should have been prepared under the guidance of the Marine Pollution Prevention Authority in order to minimize the damage caused by the Port to the sea around the Port, action had not been taken for the preparation of such plan and obtain the approval of the Marine Pollution Prevention Authority.

3.5.6 Acquisition and Purchase of Lands required for the Construction of the Port

The Ports Authority had spent a sum of Rs.141,751,535 by 31 December 2015 for the acquisition, purchase and survey a lands for the construction of the Port.

In view of action taken without a Master Plan referred to in paragraph 3.2 of this report, a large number of problems had emerged in relation to the payment of compensation for the acquisition of lands. The matters revealed from the information obtained from the relevant institutions and from the discussions held with the owners of lands are as follows.

i. Thirty three blocks of land (11.1851 hectares) had been acquired in the years 2007/2008 from 48 persons who did not express their consent to sell the lands but acquired due to the importance of the lands for the Port development. As the valuation of these lands made by the Department of Valuation was abnormally very high, a problematic situation had emerged. As the problem could not be settled the Presidential Special Investigation Unit had conducted an inquiry. Therein it was revealed that certain fictitious owners had come forward and in order to establish the land ownership again the Government Agent / District Secretary Ampara had appointed a Committee. Out of 20 land owners recommended by that Committee 19 persons had consented to the price of Rs.30,000 per perch of land determined by the Ports Authority and the lands had been acquired after 07 years in the year 2014 on the payment of Rs.42,666,480 as compensation. Out of those one person had not consented to obtain the compensation.

ii. According to the information obtained from the Divisional Secretary Addalachchenai, compensation for 15 persons could not be paid up to 28 January 2016, the date of audit, due to the non-receipt of the Valuation Report. Even though these lands had been legally acquired in the year 2007, the compensation had not been paid even by 31 December 2015 despite the elapse of 08 years since the acquisition.

iii. According to the information obtained from the Divisional Secretary Addalachchenai, the compensation could not be paid to 3 persons due to the non-receipt of provision despite the receipt of the Valuation Report. According to the reply of the Ports Authority, the ownership of the lands of 02 persons had not been confirmed whilst in the case of the other person no confirmation whatsoever is available.

iv. Compensation could not be paid to 10 persons up to date due to the problems in the deeds of transfer and the extent of the lands and due to the rejection of Rs.30,000 per perch agreed to be paid by the Ports Authority and claiming for the previous valuation. Out of those 4 persons have already filed cases against the Ports Authority.

v. Lands 52 acres and 32 perches in extent had been purchased for Rs.42,319,977 for distribution among the recipients of compensation. Out of that lands 39 acres 3.78 perches in extent had been distributed among the recipients of compensation and the balance lands 13 acres 28.22 perches in extent remain with the Ports Authority.

vi. In addition, lands 96 acres 03 roods, 56 perches in extent had been purchased for Rs.54,096,426 from the land owners who had consented to sell lands for the construction of the Oluvil Port.

Indication

A long period of time had been taken for the completion of the Project due to the lack of a Master Plan for the whole project as well the increase of the debt burden of the country due to the cost overruns and the lack of any benefits commensurate therewith.

Recommendations

i. Several defects in the management of this Project were revealed. The reasons for the failure to prepare and implementation of a Master Plan and the failure of the officers and the institutions to perform their duties and functions as required should be examined and punishment should be meted out where appropriate.

ii. Taking steps expeditiously for the repair of the environmental damage caused by the coastal erosion and the destruction of the cultivated lands.

iii. Expediting the payments of compensation further payable for the destroyed buildings or cultivated lands and the lands acquired.

Comments of the Institution

Ports Authority has made the following contributions to the fisheries community and the land owners during the implementation of the Project.

i. **Payment of compensation to the fisheries community -** Ports Authority has paid a sum of Rs.142 million to 837 persons who were madel fisheries community engaged in fishing along the coastline about 01 kilometre in the area where the Port was constructed.

ii. **Construction of 58 Houses -** Ports Authority has constructed 58 houses on a land purchased by the Ports Authority from the nearby area and granted to the families who were residents of the land on which the Port was constructed and owned lands and houses.

iii. **Providing alternate lands and compensation -** Ports Authority purchased alternate lands for the owners of the lands acquired and purchased and granted a block of 20 perches each together with the payment of compensation according to the value assessed by the Chief Valuer of the Government.

iv. Payment of Compensation for Lands acquired

Out of 48 owners of blocks of land acquired, valuations made in respect of 32 persons have been furnished to us. Accordingly, in co-ordination with the District Secretary, Ampara compensation totalling Rs.42,666,480.00 was paid to 19 parties during the year 2012. As the school which owns the balance block of land has not made an application to obtain compensation, payment has not been made.

The Divisional Secretary, Addalachchenai has not so far sent the Valuation Reports or the confirmation of the unencumbered title for the lands in order to pay the compensation.

Even though the valuation reports of 2 persons who claimed compensation have been received, it is not possible to pay the compensation as those names are not included in the Report of the Committee of the District Secretary, Ampara. In respect of the others, there is no possibility of payment of the compensation as any confirmation whatsoever or the valuation of compensation has not been made available to the Ports Authority.

The unencumbered status of the blocks of land owned by 10 persons has not been confirmed. As such action has not been taken to pay compensations. Further, the information on the cases filed against the Ports Authority is not available with the Premises Division.

4. Conclusion

Even though this Port Project was commenced under the concessionary credit terms and conditions with the multi-objectives of obtaining considerable contribution to the regional development and the national economy, the idling of the Port since construction, the repayment of the loan and the domestic investment has become a charge on the Government.

If the feasibility studies of large scale projects implemented by obtaining foreign loans, aid or funds obtained under concessionary terms project realistic results, the benefits should be achieved. Therefore those studies should be done by specialists with the appropriate know-how and experience. Otherwise all costs incurred in the Project will be a further charge on the national economy. An examination of the preliminary studies carried out in connection with the project revealed that the studies had been either incomplete or important observations had not been made or the important area that needed special attention had not been covered.

The project could not deliver the expected objectives due to the weaknesses in the project management already identified and the continually changing environment.

The basic problems emerging from the consideration of all these matters is the accumulation of sand in the Port approach and the basin of the Port obstructing operations and that there is no solutions to the problems other than solving that problem.

In the circumstances, it is essential that the attention should be paid for finding a sustainable solution by utilizing the lessons learnt from the other Ports in Sri Lanka which had faced similar problems and the services of internationally renowned specialists with such experience and for taking action on the adverse environmental impact according to an appropriate plan.