

## PART II

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## ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

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# ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

## ACCOUNTS AND BANKING OPERATIONS

The Balance Sheet of the Central Bank as at 31st December, 1985 and the Profit and Loss Account for the year ended 31st December, 1985 are shown in Table 2.1.

At the end of 1985, total assets/liabilities of the Central Bank stood at Rs. 41,158.6 million, registering an increase of 23.7 per cent over their level last year. The increase in assets resulted from a rise in Domestic Assets (41.7 per cent) mainly on account of an increase in Government and Government Guaranteed Securities and a substantial increase in Other Assets and Accounts. The International Reserve, however, fell by 9 per cent to Rs. 11,429.6 million. During the same period, the liabilities of the Bank rose mainly on account of an increase in the categories Other Liabilities and Accounts (33.1 per cent), increase in Deposits (16.9 per cent), Currency in Circulation (17.9 per cent) and Central Bank Securities (109.6 per cent).

The income of the Bank for the year 1985 at Rs. 3,825.0 million showed an increase of 21.0 per cent over the previous year. After making allowances for expenditure and allocations to Reserve Accounts and provision for Depreciation, the net profit of the Central Bank amounted to Rs. 1,789.0 million. A sum of Rs. 10 million was transferred to the Surplus of the Bank in terms of Section 39(b) of the Monetary Law Act. The balance amount of Rs. 1,779.0 million was paid to the Government in terms of Section 39(c) of the Monetary Law Act to be applied in part liquidation of outstanding Government obligations to the Central Bank.

### Foreign Exchange Operations

The Central Bank continued to determine the daily spot buying and selling rates of the U.S. Dollar against the Sri Lanka Rupee for its transactions with the commercial banks; it purchases and sells U.S. Dollars on a spot basis at the buying and selling rates so established. As at the end of December 1985, the spot buying and selling rates per one U.S. Dollar were Rs. 27.4000 and Rs. 27.4150 respectively.

The Central Bank continued to provide forward cover to commercial banks for their sales and purchases in U.S. Dollars against Sri Lanka Rupees. The period of such cover is upto three months. As at the end of 1985, the Central Bank purchased one month forward Dollars at the spot middle rate and sold them at a premium of SL Rs. 4.00 per US \$ 100 against the spot middle rate. Three month forward U.S. Dollars were purchased and sold at a discount of SL Rs. 0.50 and a premium of SL Rs. 20.00 respectively per US \$ 100 against the spot middle rate.

### Asian Clearing Union

The total value of transactions routed through the Asian Clearing Union facility during the year under review amounted to Rs. 5,960.1 million as against Rs. 7,370.5 million in the previous year.

Settlements during the year resulted in a net payment of Rs. 914.5 million for the year as against a net receipt of Rs. 150.1 million for the year 1984.

**Accounts of the Central  
Balance Sheet as**

| 31st December, 1984<br>Rs. |                | LIABILITIES                     | 31st December, 1985<br>Rs. |                |
|----------------------------|----------------|---------------------------------|----------------------------|----------------|
| Rs.                        | Rs.            |                                 | Rs.                        | Rs.            |
| 15,000,000                 |                | <b>Capital Accounts</b>         | 15,000,000                 |                |
| 69,000,000                 | 84,000,000     | Capital ..                      | 70,000,000                 | 85,000,000     |
|                            |                | Surplus ..                      |                            |                |
|                            |                | <b>Currency in Circulation</b>  |                            |                |
| 9,218,548,130              |                | Notes ..                        | 10,763,800,798             |                |
| 381,489,551                | 9,600,037,681  | Coins ..                        | 555,634,845                | 11,319,435,643 |
|                            |                | <b>Deposits</b>                 |                            |                |
| 1,344,326,827              |                | Government ..                   | 2,119,925,142              |                |
| 84,298,409                 |                | Government Agencies ..          | 85,447,855                 |                |
| 4,025,540,681              |                | and Institutions ..             | 5,490,156,739              |                |
|                            |                | Commercial Banks ..             |                            |                |
|                            |                | International Organisations, .. |                            |                |
|                            |                | Foreign Government and ..       |                            |                |
| 3,075,581,166              |                | Foreign Banking ..              | 4,108,963,586              |                |
|                            |                | Institutions ..                 |                            |                |
|                            |                | Compulsory Savings ..           |                            |                |
|                            |                | Fund excluding ..               |                            |                |
|                            |                | Rs. 115,119,625 ..              |                            |                |
|                            |                | invested in ..                  |                            |                |
| 57,181                     |                | Treasury Bills ..               | 54,476                     |                |
| 590,214,937                | 11,120,019,201 | Others ..                       | 1,190,716,724              | 12,995,264,522 |
|                            |                | <b>Borrowings Abroad</b> ..     |                            | 5,992,891      |
|                            | 12,723,480     | Medium and Long Term ..         |                            |                |
|                            | 775,000,000    | Credit ..                       |                            | 775,000,000    |
|                            |                | Capital Contribution ..         |                            |                |
|                            | 110,000,000    | Accounts ..                     |                            | 150,000,000    |
|                            | 557,315,000    | Central Bank Securities ..      |                            | 1,168,125,000  |
|                            | 11,012,747,243 | Other Liabilities ..            |                            |                |
|                            |                | and Accounts ..                 |                            | 14,659,800,056 |
|                            | 33,271,842,605 |                                 |                            | 41,158,618,112 |

**Profit and Loss Account**

| 31st December, 1984<br>Rs. |               |   | 31st December, 1985<br>Rs. |               |
|----------------------------|---------------|---|----------------------------|---------------|
| Rs.                        | Rs.           |   | Rs.                        | Rs.           |
|                            | 1,660,250,639 | To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings & Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act. |                            | 1,882,274,433 |
|                            |               | Net Profit for the year ended 31st December, 1985   |                            |               |
|                            |               | To Monetary Adjustment Account in Liquidation of Balance in terms of Section 39 (a) of the Monetary Law Act.  | 153,735,000                |               |
| 1,000,000                  |               | Carried to Surplus in terms of Section 39(b) of the Monetary Law Act.   | 10,000,000                 |               |
|                            |               | To part liquidate Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.   | 1,779,000,000              | 1,942,735,000 |
| 1,500,461,262              | 1,501,461,262 |   |                            | 3,825,009,433 |
|                            | 3,161,711,901 |   |                            |               |

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1985 were audited under my direction in pursuance of Section 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 42 (1) of the Monetary Law Act (Chapter 422).

My report to the Minister of Finance required in terms of Section 42(2) of the Monetary Law Act (Chapter 422) will be submitted in due course.

Auditor - General's Department,  
Colombo-7.  
11th April, 1986.

**D. H. F. Hewagamage**  
Acting Auditor-General

**Bank of Sri Lanka - 1985**  
**at 31st December, 1985**

**TABLE 2.1**

| 31st December, 1984<br>Rs. |                | A S S E T S   |  | 31st December, 1985<br>Rs. |                |
|----------------------------|----------------|---|--|----------------------------|----------------|
| 9,842,850,625              |                | International Reserve<br>Cash and Balances<br>Abroad ..   |  | 8,328,092,837              |                |
| 2,715,646,847              |                | *Foreign Securities and<br>Treasury Bills ..  |  | 3,099,913,490              |                |
| 5,417,574                  | 12,563,915,046 | Holdings of Special<br>Drawing Rights ..  |  | 1,564,189                  | 11,429,570,516 |
|                            |                | <b>Domestic Assets</b>  |  |                            |                |
| 4,043,461,262              |                | Loans and Advances<br>to Government ..  |  | 4,218,176,362              |                |
| 649,853,108                |                | to Others—Medium and<br>Long Term ..  |  | 692,501,865                |                |
| 1,662,301,280              |                | —Short Term ..  |  | 1,444,475,344              |                |
|                            |                | Government and<br>Government<br>Guaranteed Securities ..  |  | 18,542,423,324             |                |
| 11,205,674,601             |                | Contributions to<br>Financial and Other<br>Institutions ..  |  | 150,000,000                | 25,047,576,895 |
| 110,000,000                | 17,671,290,251 |   |  |                            |                |
|                            | 3,036,637,308  | Other Assets and Accounts   |  |                            | 4,681,470,701  |
|                            |                | *Includes securities acquired<br>from Government Institu-<br>tions on 1st February, 1964<br>at a face value of<br>Rs. 5,527,675 and on 24th<br>May, 1965 at a face value of<br>Rs. 57,450 (the estimated<br>market values of these<br>securities were<br>Rs. 2,933,697 and<br>Rs. 34,340 respectively as<br>on these dates) |  |                            |                |
|                            | 33,271,842,605 |   |  |                            | 41,158,618,112 |

**For the year ended 31st December, 1985**

[illegible]

**Warnasena Rasaputram**  
*Governor*

**N. A. Dharmabandu**  
*Chief Accountant*

Prior to August 1, 1985, exchange rates for the currencies of ACU member countries were announced once in 10 days, i.e. on the 1st, 11th and 21st of each month. This system was changed with effect from August 1, 1985 when the rates for all ACU currencies began to be announced daily.

Sales and purchases of currencies both spot and forward upto six months continued. The currencies involved are Bangladesh Takas, Burmese Kyats, Indian Rupees, Iranian Riyals, Nepalese Rupees and Pakistani Rupees.

#### **Short Term Credit**

The Central Bank's rate of interest (Bank Rate) on short term advances to commercial banks secured by the pledge of Government and Government Guaranteed Securities and against the pledge of usance promissory notes relating to commercial and production loans was reduced from 13 per cent per annum to 11 per cent per annum as from December 30, 1985.

The Central Bank's accommodation to commercial banks under the refinance scheme for exports continued to be in operation throughout the year. However, several amendments were made to the scheme of refinance under Category II with effect from February 1, 1985. Refinance under Category II was granted on the same basis as refinance granted under Category I and the facility of discounting promissory notes tendered to commercial banks by their customers for refinance under Category II was withdrawn. The rate of interest in respect of refinance for exports under Category II was reduced by 2 percentage points from 10 per cent to 8 per cent per annum. Furthermore, the period of refinance for exports that fell under this category was extended to 90 days.

With effect from December 30, 1985, the rate of interest on the Central Bank's refinance loans in respect of exports was reduced by 2 percentage points to 11 per cent per annum and 6 per cent per annum for Category I and Category II respectively. The Central Bank continued to refund 4 percentage points per annum on the interest charged on refinance loans to be passed on to customers when the sale proceeds of the related exports are received in Sri Lanka within stipulated time limits.

The rate of interest on Central Bank advances to commercial banks against the pledge of usance promissory notes of co-operative societies or of individuals relating to the production of paddy, vegetables and other specified food crops continued to be at 1.5 per cent per annum. The rate of interest on the Bank's advances to commercial banks against the pledge of usance promissory notes in respect of advances granted to co-operative societies, agrarian service centres and to authorised persons to finance the purchase of paddy and for the purchase and storage of certain other specified crops grown locally remained unchanged at 3 per cent per annum.

#### **Medium and Long Term Credit**

During the year 1985, the Central Bank continued to operate the scheme of refinance under the Medium and Long Term Credit Fund. The rates of interest applicable to refinance loans granted under Categories II, III & IV of the Medium and

Long Term Credit Scheme of the Central Bank were reduced by 2 percentage points. As the tourist industry of the country faced problems during the year, the Central Bank commenced a refinance scheme under the Medium and Long Term Credit Fund for refinancing the capitalisation of overdue interest and loan instalments. The balance in the Medium and Long Term Credit Fund stood at Rs. 775 million of which Rs. 692.5 million was disbursed and outstanding from credit institutions.

#### Commercial Bank Credit

The credit ceilings enforced in 1984 continued to be in operation during 1985. In terms of these ceilings, the Central Bank requires all commercial banks to ensure that—

- (a) the total amount of advances granted for the importation of non-essential items does not exceed advances granted and outstanding as on March 23, 1984;
- (b) credit is not extended to single importers beyond the level outstanding as on March 23, 1984 in respect of non-essential imports ;  
and
- (c) the total advances granted and outstanding to the private sector other than for exports and agriculture do not exceed more than 5 per cent of the total amount of such advances granted and outstanding as on May 11, 1984.

#### Reserve Requirements

With effect from August 9, 1985, reserve requirements relating to commercial banks were altered in the following manner:

- (1) the reserve ratio on demand deposits was raised by 2 percentage points to 18 per cent ;
  - (2) the reserve ratio on time deposits accepted for periods less than 90 days was raised by 4 percentage points to 12 per cent ;
  - (3) the reserve ratios on time deposits other than (2) above and savings deposits were raised by 2 percentage points to 10 per cent ;  
and
  - (4) commercial banks were permitted to hold bonds issued by the Development Finance Corporation of Ceylon Limited upto a maximum of one-eighth of their required reserves against their total time and savings deposit liabilities.
- With effect from September 13, 1985, the reserve ratio on time deposits accepted for periods less than 90 days was raised by 2 percentage points to 14 per cent.

### **Secondary Market Operations in Treasury Bills**

The Central Bank continued its transactions in Treasury Bills in the secondary market. Sales increased sharply from Rs. 39,835.6 million in 1984 to Rs. 75,844.1 million in 1985. Purchases increased from Rs. 25,677.4 million in 1984 to Rs. 37,131.5 million in 1985. As in the previous year, the significant increase in the operations under this scheme was mainly due to the continuation of the narrowing yield differential between Call Money Market rates and the Secondary Treasury Bill Market rates.

The interest rates in the Call Money Market during the year varied between 10.5 and 16.75 per cent per annum whereas the discount rates applicable for Secondary Treasury Bill Market operations varied between 11.3 and 14.2 per cent per annum.

### **Subsidy and Ex-gratia Payment to Indian Repatriates**

The Bank continued to operate, on behalf of the Government, two schemes to expedite the repatriation of estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964. These were—

- (a) the subsidy scheme in terms of which a sum equivalent to 65 per cent of the authorised remittance or part thereof is paid to such repatriates ;

and

- (b) the scheme under which an ex-gratia payment of Rs. 500 plus 65 per cent thereof per repatriate is paid as an incentive for these workers to leave Sri Lanka.

The Bank operated these two schemes through the commercial banks. Under the subsidy scheme, a sum of Rs. 0.3 million was paid to repatriates during 1985. The total amount of ex-gratia payments made in respect of 1,710 repatriates who left the Island during the year amounted to Rs. 1.4 million.

### **Compulsory Savings Fund**

The Central Bank continued to be the custodian of the money collected in terms of the Compulsory Savings Act No. 6 of 1971 and the Ceiling on Income and Compulsory Savings Law No. 15 of 1972 and administered the Compulsory Savings Fund on behalf of the Government. During the year, the Bank paid out to contributors Rs. 2.6 million (inclusive of interest) on 392 refund applications received.

### **Government Accounts**

As banker to the Government, the Government Accounts Branch of the Banking Department continued to maintain accounts of Government Departments, Government Agencies and Institutions, and certain statutory bodies. The number of operative accounts in the Government Accounts Branch as at end of December, 1985 was 160 (Government Departments 145 and Others 15).



## CURRENCY ISSUE

The total currency in circulation as at 31st December, 1985 stood at Rs. 11,319.4 million. This is an increase of Rs. 1,719.4 million over the figure at the end of the preceding year. Notes and coins in circulation during the year increased by Rs. 1,545.3 million and Rs. 174.1 million respectively.

An unsettled pattern of demand for notes of the higher denominations-Rs. 50, Rs. 100, Rs. 500 and Rs. 1,000, - emerged during 1985. While the Rs. 1,000 note which registered a drop of Rs. 241 million in 1984 picked up significantly resulting in a 40 per cent increase in circulation, the demand for the Rs. 500 and Rs. 50 denominations remained more or less static. On the other hand, circulation of the Rs. 100 note increased appreciably in 1985.

The demand for coins of all denominations (other than the 1 ct. and 2 cts.) continued to grow in 1985 and the Bank has taken steps to maintain adequate reserve stocks to meet rising demand.

The new coins of the Rs. 5 and Rs. 2 denominations were issued into circulation in replacement of the notes of these denominations in January 1985. The Rs. 5 and Rs. 2 notes will however, circulate side by side with the coins and will be gradually withdrawn from circulation after they serve their useful note life.

## BANKING DEVELOPMENT

There were 25 commercial banks operating in Sri Lanka as at end 1985, comprising 4 domestic banks and 21 foreign banks, with a network of 600 main branches. In addition, there were 907 Rural Banks and 53 Agricultural Service Centres. Two representative offices of foreign banks, and two merchant banking companies were also carrying on business in the country.

During the year 1985, 14 new commercial bank branches were opened and these belonged almost entirely to the two state sector banks. The People's Bank opened 4 branches (including the Kebithigollewa branch which was reopened in January 1985) and closed its foreign branch at Slave Island, bringing the total number of its main branches to 293. The Bank of Ceylon opened 9 branches (including the Hakmana Agricultural Service Centre which was upgraded to a main branch) while its Uyilankulam and Kantale Sugar Factory branches were merged with nearby branches in the vicinity for security reasons. Thus, as at end 1985, the total number of branches of the Bank of Ceylon stood at 236. In addition, the Commercial Bank of Ceylon opened a new branch office in Colombo in January 1985, bringing the total number of its branches to 14. With these developments, the total number of branches of all commercial banks stood at 600 as at end 1985. During the year, the National Savings Bank also opened 4 branches at Maharagama, Deniyaya, Akuressa and Nuwara-Eliya bringing the total number of its branches to 56 as at end 1985. As in the previous years, branch offices were moved to more spacious or convenient locations. In 1985, 19 domestic branch offices and 3 foreign branch offices were so relocated.

The year 1985 witnessed a land-mark in banking development in Sri Lanka with the establishment of Regional Rural Development Banks (RRDBs). The primary objective of RRDBs is the promotion of rural banking and rural development in Sri Lanka. These banks will have specific areas of operation, which at present are confined to districts. During the year, four RRDBs were opened at Bulathsinhala, Kuliyaipitiya, Yatiyana-Meda Uyangoda and Mihintale, as principal places of business, with the areas of operation spreading over the districts of Kalutara, Kurunegala, Matara and Anuradhapura, respectively. In addition, 17 branch offices of RRDBs were opened during the latter part of 1985. These consist of 4 branches each in the Kalutara and Matara districts, 6 branches in the Kurunegala district and 3 branches in the Anuradhapura district.

In pursuance of the policy of establishing Regional Offices with the objective of providing outposts from which the Central Bank's functions in certain spheres could be better implemented and co-ordinated, the Central Bank opened its third Regional Office at Matale in December, 1985, to serve the needs of the districts of Kandy, Matale and Kegalle. The first and second branches were opened at Matara and Anuradhapura in 1981 and 1982, respectively.

The Central Bank, in pursuit of a policy to encourage modernisation of the banking sector and with a view to improving customer services, granted the Hongkong and Shanghai Banking Corporation, permission to install Automatic Teller Machines (ATMs) at its Head Office and within the Municipal limits of Colombo on an around the clock basis.

As a step towards computerising of the banking services, the Central Bank, with the co-operation of commercial banks, has taken initial steps to set up an Automated Cheque Clearing System in order to speed up cheque clearing operations. The new system will reduce the time involved in the present cheque clearing process and increase the volume of cheques that could be handled.

## **BANK SUPERVISION**

In 1985, the Central Bank concluded the examination of twenty commercial banks under Section 29(1) of the Monetary Law Act, thereby completing the examination of every commercial bank operating in Sri Lanka during the 1984—1985 examination period. Furthermore, the financial condition of all commercial banks was monitored on the basis of Statements of Assets and Liabilities furnished by the banks at the end of each month. The profitability of the banks for 1984 was evaluated on the basis of returns furnished by them. The Bank also monitored the training facilities provided by foreign banks operating in Sri Lanka to their local officers with a view to reducing the number of expatriates employed in these banks.

The Bank was also engaged in the supervision and examination of Finance Companies registered with the Monetary Board under the provisions of the Control of Finance Companies Act No. 27 of 1979. The examination of three finance companies under Section 15(1) of the Act commenced during the year 1985. Applications for registration under the Act received from finance companies were evaluated and

six companies were registered with the Monetary Board during the year. The monthly statements of total deposit liabilities, total liquid assets, and annual profit and loss accounts and balance sheets furnished by finance companies were analysed, with particular attention to compliance with directions made by the Monetary Board in respect of liquidity, capital fund ratios and transfers to reserve funds.

The programme of monitoring the transactions of Foreign Currency Banking Units established by commercial banks under the Foreign Currency Banking Scheme continued during the year under review.

## DEVELOPMENT FINANCE

Demand for medium and long term refinance loans under the Medium and Long Term Credit Fund (MLCF) of the Central Bank continued to remain moderate in 1985, and total approvals of refinance under Categories II, III and IV, amounted to Rs. 143.6 million. Category I of the MLCF is administered by the Rural Credit Department. The major share amounting to Rs. 102 million was approved for the rehabilitation of sick industries including capitalisation of interest in arrears on loans granted by commercial banks to tourist hotels. A breakdown of refinance approvals is shown in Table 2.2. Demand for funds by other sectors remained low largely perhaps owing to the comfortable liquidity position in the banking sector.

In view of the serious liquidity problems confronted by the tourist industry, on the basis of a Government initiative the Central Bank announced a package of relief measures in mid 1984. Under this scheme hotels were eligible to receive a moratorium on the repayment of principal and interest on loans upto March 1987, to be followed by a rescheduling of outstanding debt over an extended period and refinancing of 60 per cent of the interest in arrears by the Central Bank. Considering the continued slump in tourism the moratorium was extended to March 1989, with a further concession of 100 per cent rescheduling of loans as against 80 per cent allowed earlier. Also, an interest free loan was granted by the Government to meet the working capital needs of worst affected hotels as indicated by their rate of occupancy. Financial relief in the form of rescheduling of loans aggregating to Rs. 332.8 million was completed with respect to 57 hotel projects. Similarly, rescheduling is under consideration for another 40 hotels with an outstanding loan balance of Rs. 150.2 million. Interest in arrears in 41 hotels aggregating to Rs. 75.6 million was capitalised by banks and refinance was claimed and approved by the Central Bank. The progress made under the scheme for relief to tourist industry is shown in Table 2.3. Another significant development with respect to the MLCF was the decision taken by the Central Bank to provide refinance facilities for the domestic finance component of investments under the Medium Term Investment Programme (MTIP) for the plantation sector to the extent of Rs. 260 million.

The utilisation of funds available for the refinance of loans granted by commercial banks under the Small and Medium Scale Industry Credit Guarantee Scheme (SMI-II), improved in the course of 1985, with monthly approvals increasing to Rs. 30 million in the latter half as compared with Rs. 10 million in the earlier period. The improvement was largely due to the wider eligibility criteria adopted for loans and

additional incentives granted to banks. Also, commencing June 1985, the maximum loan size under SMI-II was raised to Rs. 4 million from the earlier Rs. 2 million. This increase was supported by an increase in the guarantee cover given by the Central Bank from Rs. 800,000 to Rs. 1,200,000.

**TABLE 2.2**  
**Medium and Long-Term Credit Fund**  
**(Approvals of Refinance under Categories II-IV)**

| Category                          | 1983         |                   | 1984         |                   | 1985         |                   |
|-----------------------------------|--------------|-------------------|--------------|-------------------|--------------|-------------------|
|                                   | Loan Amount  | Amount Refinanced | Loan Amount  | Amount Refinanced | Loan Amount  | Amount Refinanced |
| II Export Sector                  | 43.7         | 36.5              | 113.0        | 79.1              | 13.7         | 9.0               |
| III and IV                        |              |                   |              |                   |              |                   |
| (a) Agriculture                   | 27.8         | 19.2              | 0.1          | 0.1               | 2.6          | 1.6               |
| (b) Industry                      | 9.7          | 7.0               | 98.2         | 49.1              | 38.9         | 27.2              |
| (c) Hotels                        | 13.2         | 8.6               | —            | —                 | —            | —                 |
| (d) Others                        | 5.8          | 3.5               | 2.2          | 1.3               | 6.5          | 3.9               |
| Rehabilitation of sick industries | —            | —                 | —            | —                 | 145.5        | 101.9             |
| <b>Total</b>                      | <b>100.2</b> | <b>74.8</b>       | <b>213.5</b> | <b>129.6</b>      | <b>207.2</b> | <b>143.6</b>      |

Rs. Million

Source: Central Bank of Sri Lanka.

The follow-up activities associated with the three guarantee schemes implemented by the Central Bank were intensified in 1985. A total of 81 projects were subjected to direct inspections. More active follow-up by the Central Bank has contributed to an improvement in recovery and the rehabilitation of sick units. The number of loans with more than 3 instalments in arrears under the two SMI schemes demonstrated a progressive decline in 1985 with the number of such loans falling from 850 in 1984 to 701 in 1985.

**TABLE 2.3**  
**Relief to Tourist Industry - Rescheduling of Loans in 1985**

| Name of credit institution                  | Rescheduling completed |                    | Rescheduling under consideration |                    | Interest in arrears refinanced by Central Bank |
|---|------------------------|--------------------|----------------------------------|--------------------|--|
|   | No. of Hotels          | Amount (Rs)        | No. of Hotels                    | Amount (Rs)        | Amount (Rs.)                                   |
| Development Finance Corporation of Ceylon.. | 25                     | 132,686,710        | —                                | —                  | 36,861,290                                     |
| National Development Bank ..                | 10                     | 105,678,568        | —                                | —                  | 33,296,389                                     |
| People's Bank ..                            | —                      | —                  | 22                               | 87,634,783         | Not claimed                                    |
| Bank of Ceylon ..                           | 09                     | 51,350,835         | 10                               | 38,186,975         | Not claimed                                    |
| Hatton National Bank ..                     | 05                     | 24,489,469         | —                                | —                  | 3,693,665                                      |
| Commercial Bank ..                          | 04                     | 4,941,450          | 08                               | 24,383,776         | Not claimed                                    |
| Grindlays Bank ..                           | 01                     | 6,964,285          | —                                | —                  | Not claimed                                    |
| Habib Bank ..                               | 01                     | 1,633,968          | —                                | —                  | Not claimed                                    |
| State Bank of India ..                      | 01                     | 2,077,702          | —                                | —                  | Not claimed                                    |
| European Asian Bank ..                      | 01                     | 3,059,256          | —                                | —                  | 1,833,943                                      |
| <b>Total</b>                                | <b>57</b>              | <b>332,882,243</b> | <b>40</b>                        | <b>150,205,534</b> | <b>75,685,287</b>                              |

Source: Central Bank of Sri Lanka.

**TABLE 2.4**  
**Central Bank Credit Guarantee Schemes (1984—1985)**

(As at 31st December 1985)

(Amount in Rs. Mn.)

| Item                        | Small Scale Industries<br>(S. S. I.) |         |      |         | Small and Medium Scale Industries |          |      |          |        |          |      |          |
|-----------------------------|--------------------------------------|---------|------|---------|-----------------------------------|----------|------|----------|--------|----------|------|----------|
|                             |                                      |         |      |         | SMI—I                             |          |      |          | SMI—II |          |      |          |
|                             | 1984                                 |         | 1985 |         | 1984                              |          | 1985 |          | 1984   |          | 1985 |          |
|                             | No.                                  | Value   | No.  | Value   | No.                               | Value    | No.  | Value    | No.    | Value    | No.  | Value    |
| Loans granted               | 767                                  | 31.2    | 767  | 31.2    | 1657                              | 282.3    | 1664 | 284.1    | 372(e) | 141.0    | 831  | 382.3    |
| Loans guaranteed            | 767                                  | 23.4(a) | 767  | 23.4(a) | 1657                              | 155.5(c) | 1664 | 156.4(c) | 372    | 77.4(d)  | 831  | 204.7(d) |
| Loans fully repaid          | 441                                  | 11.4    | 508  | 17.2    | 476                               | 28.6     | 691  | 51.2     | 11     | 1.3      | 23   | 4.1      |
| Guarantees withdrawn/lapsed | 61                                   | 3.6     | 62   | 3.6     | 45                                | 11.4     | 45   | 11.4     | 15     | 2.4      | 23   | 6.9      |
| Claims admitted/settled     |                                      |         |      |         |                                   |          |      |          |        |          |      |          |
| (i) Loans outstanding       | 35                                   | 1.25    | 47   | 2.0     | 50                                | 3.04     | 95   | 10.835   | Nil    | Nil      | Nil  | Nil      |
| (ii) Liability admitted     | 35                                   | 0.75    | 47   | 1.5     | 50                                | 1.82     | 95   | 6.502    | Nil    | Nil      | Nil  | Nil      |
| Claims rejected             |                                      |         |      |         |                                   |          |      |          |        |          |      |          |
| (i) Loans outstanding       | 1                                    | 0.2     | 2    | 0.22    | 5                                 | 1.58     | 10   | 6.83     | Nil    | Nil      | 2    | 0.23     |
| (ii) Amount claimed         | 1                                    | 0.15    | 2    | 0.16    | 5                                 | 0.88     | 10   | 1.66     | Nil    | Nil      | 2    | 0.1      |
| Loans outstanding           | 229                                  | 6.09(b) | 148  | 3.6(b)  | 1081                              | 151.5(b) | 823  | 105.8(b) | 346    | 116.5(b) | 783  | 371.4(c) |
| (Of which in arrears)       | 173                                  | 5.0     | 118  | 0.9     | 619                               | 91.9     | 504  | 51.9     | 58     | 11.5     | 79   | 18.5     |
| Guarantees outstanding      | 229                                  | 4.57(a) | 148  | 2.7(a)  | 1081                              | 86.6(c)  | 823  | 60.9(c)  | 346    | 65.2(d)  | 783  | 231.9(c) |
| Claims pending              |                                      |         |      |         |                                   |          |      |          |        |          |      |          |
| (i) Loans outstanding       | 23                                   | 1.41    | 13   | 0.4     | 88                                | 16.3     | 69   | 14.1     | 3      | 0.22     | 5    | 0.52     |
| (ii) Amount claimed         | 23                                   | 1.06    | 13   | 0.3     | 88                                | 9.8      | 69   | 8.5      | 3      | 0.13     | 5    | 0.31     |

(a) 75% of loans outstanding.

(b) Excluding instalments recovered.

(c) 60% of loans outstanding subject to maximum of Rs. 400,000.

(d) 60% of loans outstanding subject to maximum of Rs. 800,000 with respect to loans upto Rs. 2,000,000 and, Rs. 1,200,000 in respect of loans between Rs. 2.0 million to Rs. 4.0 million.

(e) Including 5 guarantees transferred to SMI—I Scheme during 1985.

Source: Central Bank of Sri Lanka.

## **Credit Guarantee Operations**

A summary of credit guarantee operations is shown in Table 2.4.

### **Small Scale Industries (SSI) Scheme**

Under the SSI Scheme which commenced in 1978, Central Bank provided guarantees on behalf of the Government for loans disbursed by the credit institutions on the recommendation of the Industrial Development Board (IDB). By the end of 1981 the issue of guarantees was wound up with the commencement of the SMI Scheme. A total of 767 guarantees were issued under this scheme, but 508 loans are reported to be fully recovered and 62 guarantees were considered lapsed or withdrawn at the end of 1985. Operative loans at the end of 1985 numbered 148 with an outstanding loan balance of Rs. 3.6 million. Of these, 118 loans were reported to be in arrears. By the end of December 1985, the Central Bank had settled or admitted 47 claims submitted by credit institutions amounting to Rs. 1.5 million, while two claim applications were rejected. These payments were met from an allocation of funds in the Government Budget. The premium collections amounting to Rs. 852,000 under this scheme were periodically credited to the DST's account.

### **Small and Medium Industry (SMI-I) Scheme**

The issue of credit guarantees under the SMI-I scheme was completed in late 1984 with the full utilization of the IDA line of credit 942CE. Under this scheme the Central Bank issued 1664 credit guarantees covering Rs. 284.1 million. By the end of December 1985, 691 loans amounting to Rs. 51.2 million were reported to be fully recovered. Outstanding loans at the end of 1985 numbered 823 and loan balances amounted to Rs. 105.8 million. Of these, 504 loans or 30 per cent of the total number of loans were reported to be in arrears. By the end of 1985, the Central Bank had settled 95 claims amounting to Rs. 6.5 million submitted by the credit institutions. The Central Bank has rejected 10 claims amounting to Rs. 1.66 million. The guarantee premium received under SMI-I at the end of 1985 amounted to Rs. 7.8 million.

An industry-wise classification of SMI-I loans is shown in Table 2.5.

### **Small and Medium Scale Industry (SMI-II) Scheme**

The second SMI line of credit amounting to US \$ 30 million granted by the International Development Association (IDA) in 1982 achieved slow utilization in the initial years. However, with the increase of the maximum loan size from Rs. 2 million to Rs. 4 million and the wider spread offered to participating credit institutions, approvals of loans indicated a rapid increase. Correspondingly, the credit guarantees issued by the Central Bank increased to 831 loans covering Rs. 382.3 million. By the end of 1985, 23 loans had been repaid in full while 79 loans had fallen into arrears. Participating credit institutions had submitted 5 claims amounting to Rs. 0.31 million and they are under consideration. An industry-wise classification of loans granted under SMI-II is shown in Table 2.6.

**TABLE 2.5**  
**SMI - I Scheme - Industry-wise Classification of Loans**

Amount in Rs. Thousand

| Industry   | 1979-1985    |                |                   |
|--|--------------|----------------|-------------------|
|  | No. of loans | Amount granted | Amount guaranteed |
| 1. Rice milling ..   | 352          | 53,510         | 31,500            |
| 2. Light engineering ..                                    | 192          | 24,775         | 13,869            |
| 3. Bricks and other building materials ..                  | 242          | 48,949         | 27,260            |
| 4. Ready-made garments, batiks, handloom, carpets, etc. .. | 141          | 21,342         | 11,125            |
| 5. Rubber and rubber-based products ..                     | 30           | 8,794          | 4,397             |
| 6. Footwear and other leather products ..                  | 22           | 3,452          | 1,821             |
| 7. Jaggery and sugarcane products ..                       | 6            | 198            | 119               |
| 8. Furniture and other wooden articles ..                  | 80           | 9,806          | 5,579             |
| 9. Fibre and fibre-based products ..                       | 96           | 8,901          | 5,321             |
| 10. Stationery and other paper products ..                 | 27           | 4,636          | 2,582             |
| 11. Food and beverages ..                                  | 80           | 13,202         | 6,953             |
| 12. Paints, polish, varnish, etc. ..                       | 16           | 5,503          | 2,967             |
| 13. Spare parts for radios and bicycles ..                 | 11           | 725            | 435               |
| 14. Soap and other cosmetics ..                            | 30           | 2,004          | 1,177             |
| 15. Handicrafts and toys ..                                | 29           | 951            | 571               |
| 16. Cigars, beedi ..                                       | 6            | 48             | 29                |
| 17. Fishing boats and inland fisheries ..                  | 14           | 11,100         | 4,700             |
| 18. Jewellery and gems ..                                  | 15           | 944            | 566               |
| 19. Sports goods ..  | 2            | 80             | 48                |
| 20. Agricultural implements ..                             | 13           | 2,213          | 1,128             |
| 21. Glass and other products ..                            | 6            | 1,051          | 631               |
| 22. Brass and aluminium ware ..                            | 44           | 6,850          | 3,370             |
| 23. Timber sawing ..                                       | 51           | 10,613         | 6,345             |
| 24. Printing ..  | 43           | 12,706         | 6,831             |
| 25. Miscellaneous ..                                       | 116          | 31,763         | 17,089            |
| <b>Total ..</b>  | <b>1,664</b> | <b>284,116</b> | <b>156,413</b>    |

Source: Central Bank of Sri Lanka.

**TABLE 2.6**  
**SMI - II Scheme - Industry-wise Classification of Loans**

Amount in Rs. Thousand

| Industry                       | 1982 - 1985  |                |                   | 1985         |                |                   |
|--------------------------------|--------------|----------------|-------------------|--------------|----------------|-------------------|
|                                | No. of loans | Amount granted | Amount guaranteed | No. of loans | Amount granted | Amount guaranteed |
| 1. Food processing ..          | 248          | 118,320        | 62,674            | 148          | 81,630         | 42,800            |
| 2. Other agro Industries ..    | 24           | 8,673          | 4,484             | 12           | 2,059          | 1,235             |
| 3. Rubber products ..          | 32           | 21,432         | 10,639            | 17           | 13,535         | 6,671             |
| 4. Metal products ..           | 97           | 34,493         | 18,196            | 43           | 22,557         | 10,989            |
| 5. Construction materials ..   | 56           | 29,284         | 16,855            | 30           | 17,564         | 10,203            |
| 6. Construction contracting .. | 4            | 5,575          | 2,785             | 4            | 5,575          | 2,785             |
| 7. Wood products ..            | 71           | 21,814         | 12,633            | 33           | 12,072         | 6,788             |
| 8. Garments ..                 | 56           | 23,253         | 13,175            | 27           | 9,728          | 6,077             |
| 9. Textiles ..                 | 20           | 8,053          | 4,832             | 8            | 3,083          | 1,850             |
| 10. Repair workshop ..         | 25           | 7,795          | 4,677             | 19           | 6,270          | 3,762             |
| 11. Other ..                   | 198          | 103,594        | 53,715            | 118          | 67,229         | 34,052            |
| <b>Total ..</b>                | <b>831*</b>  | <b>382,286</b> | <b>204,665</b>    | <b>459</b>   | <b>241,302</b> | <b>127,212</b>    |

Source: Central Bank of Sri Lanka.

\* Excluding 5 loans amounting to Rs. 1.49 million which were guaranteed in 1984 and subsequently transferred to SMI-I in 1985.

## RURAL CREDIT

In recent years, the Central Bank has been actively involved in directing and supervising the rural credit operations of the banking system. The Bank played an important role in the sphere of formulation of policies pertaining to rural credit. The main objective was the establishment of a sound institutional framework for efficient rural credit operations. In 1985, four Regional Rural Development Banks were set up to supplement the provision of credit in rural areas.

The most important areas in which the Bank was involved in respect of rural credit were the formulation of the New Comprehensive Rural Credit Scheme (NCRCS) and the formulation of credit guarantee schemes for short term cultivation loans and medium and long term credit extended by the banks under various credit schemes supported with Central Bank refinance. The implementation of the two schemes will commence in 1986.

Under the NCRCS, several new features have been introduced to the earlier scheme, (CRCS) with a view to enhancing credit availability, improving the level of supervision over the end-use of credit and raising the level of recoveries. Under the new scheme a bank can approve a credit limit for each borrower for a period of three years so as to avoid the submission of loan applications at the beginning of each and every season. The new scheme also expects the banks to adopt an area approach in the provision of production credit to the farming community. The inclusion of Thrift and Credit Co-operative Societies (TCCSs) and Multi-Purpose Co-operative Societies (MPCSs) as junior partners in the operation of the scheme is another new feature. The scheme also provides for rescheduling of loans that go into default on account of natural calamities. The Central Bank provides refinance in respect of rescheduled loans at an interest rate of 1.5 per cent per annum. Further, the banks are empowered to grant cultivation loans to borrowers whose repayment performance has been good in the past, without guarantee upto Rs. 7,500. Further to achieve effective monitoring of the scheme, a reporting system has been incorporated in the scheme which also lays the ground work for computerising the data relating to lending under the scheme.

The new Credit Guarantee Scheme will guarantee upto 50 percent of the losses incurred by the bank in lending under the scheduled credit schemes. However, the maximum coverage will be restricted to Rs. 25,000 per loan. The Central Bank has established a Credit Guarantee Fund with an initial allocation of Rs. 300 million for this purpose.

The Rural Credit Advisory Board (RCAB) met on six occasions during the year under review. At these meetings several important issues relating to rural credit and rural development were taken up for discussion. Some of the important issues discussed were : Matara Small Farmer Development Project, Rescheduling Scheme for overdue cultivation loans, Rescheduling Scheme for loans granted under the Fisheries Sector Bank Financing Scheme, Mobilization of Savings in the Rural Sector, Organizing of rotating saving groups (Cheetu System) and farm credit in Sri Lanka. The RCAB also examined the evaluation reports on Loans for Purchase of Two-wheel Tractors under the Matale District Integrated Rural Development Project and the Rescheduling Scheme for cultivation loans implemented by Bank of Ceylon.



During the year, several new credit schemes to provide medium and long term credit for the rural sector were introduced and modifications were made to some of the earlier schemes. The Central Bank also introduced a marketing loan scheme to facilitate the purchase of soya bean and maize by the Ceylon Oils and Fats Corporation.

The progress in the implementation of existing medium and long term credit schemes under the Category I of the Medium and Long term Credit Fund is shown in Table 2.7.

As at the end of the year, the total financial allocation made by the Central Bank for provision of refinance under the above schemes stood at Rs. 1039.76 million, out of which only Rs. 347.23 million or 33.4 per cent had been utilized. The slow progress in disbursement of credit may be attributed to several factors such as the lack of demand for credit, unsettled condition in some areas of the country, inadequate publicity about the schemes, operational difficulties and deficiencies in the credit delivery system. A further reason could be the lack of effective co-ordination between agencies involved in District Integrated Rural Development Projects.

The financing under certain new schemes such as the Anuradhapura Dry-Zone Agricultural Project and the Credit Scheme for Cultivation of Chinese Ginger, Pineapple and Passion Fruit in Kurunegala District did not record much progress during the year because they were introduced in the latter part of the year. However, the progress of the schemes which provided credit facilities for items with ready demand, such as two-wheel tractors, has been satisfactory.

During the year under review, the Sri Lanka Rural Credit Project assisted by the Asian Development Bank (ADB) in which the Central Bank is the co-ordinating agency, made satisfactory progress. A repeat order for the supply of 1000 two-wheel tractors at the original contract price was placed with the Sri Lanka State Trading (Tractor) Corporation and the Corporation had imported them by February, 1985. A new arrangement was made for supply of trailers under which five trailer manufacturers were registered as accredited suppliers under the Scheme. The borrowers were given the option to select trailers of their choice from the accredited suppliers. The new arrangements helped in solving the problem of short-supply of trailers which was observed when there was only one accredited supplier.

During the year, the approval of the ADB was obtained to transfer a part of allocation from the rice mills component to the procurement of 200 paddy threshers which are demanded by the farmers. The procedure used for the registration of accredited suppliers for trailers was adopted for this item as well. Financing of the additional 1000 two-wheel tractors procured during the year was nearly completed as at the close of the year. The lending for purchase of paddy threshers progressed during the year and it is expected that this component may show satisfactory progress during early 1986 when the harvesting season commences. The financing of construction of tube-wells has not been satisfactory due to high capital cost and the disturbed condition in some districts. The approval of the ADB was obtained to extend the date of termination of the project until 30th June, 1986.

## Loan Schemes approved for refinancing under Category 1

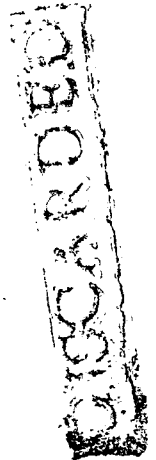
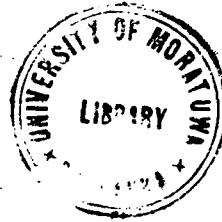
| Name of Credit Scheme   | Refinance allocation<br>(Rs. Mn.) |
|---|-----------------------------------|
| <b>A. Credit Schemes at the beginning of the year 1985</b>  |                                   |
| 1. Credit Scheme for cultivation of Orchid Plants-Bank of Ceylon/Ceylon Tobacco Co. Ltd. .. ..  | 4.50                              |
| 2. Coconut Fertilizer Credit Scheme .. ..   | 55.00                             |
| 3. Fisheries Sector Bank Financing Scheme .. ..   | 140.00                            |
| 4. Tank Irrigation Modernisation Project .. ..  | 7.69                              |
| 5. Loan Scheme for Dairy Development in Nuwara Eliya District ..  | 10.00                             |
| 6. Farm Machinery Loan Scheme for Kurunegala District Integrated Rural Development Project ..   | 76.5                              |
| 7. Loan Scheme for Dairy Development (Pilot) Project in Samanthurai Electorate .. ..  | 0.12                              |
| 8. Credit Scheme to assist settlers in Mahaweli .. ..   |                                   |
| Project area for the purchase of tractors .. ..   | 55.00                             |
| 9. Credit Scheme for construction of fertilizer stores by M.P.C.S. ..   | 14.00                             |
| 10. Abu-Dhabi Funded North West Coast Fisheries Development Project .. ..   | 60.00                             |
| 11. Credit Scheme for cultivation of Orchid Plants—People's Bank/Sarvodaya/Lakmalsala .. ..   | 3.00                              |
| 12. Credit Scheme for Fisheries Co-operatives .. ..   | 42.00                             |
| 13. Matale-Puttalam District Integrated Rural Development Project ..  | 54.79                             |
| 14. Credit Scheme for financing of windmills .. ..  | 2.56                              |
| 15. Youth Self-Employment and Village Adoption Schemes in Matara District .. ..   | 8.20                              |
| 16. Sri Lanka Rural Credit Project Loan Scheme .. ..  | 137.00                            |
| 17. Fertilizer Credit Scheme for Tea Small Holders .. ..  | 7.50                              |
| 18. Credit Scheme for financing the purchase of draught animals in districts not covered under Sri Lanka Rural Credit Project ..  | 5.60                              |
| 19. Credit Scheme for financing the projects identified under Village Adoption and Self-employment Programme in Anuradhapura District .. ..                             | 6.00                              |
| 20. Credit Scheme for the construction of small on-farm potato seed stores .. ..  | 1.00                              |
| 21. Badulla District Integrated Rural Development Project .. ..   | 7.00                              |
| 22. Credit Scheme for Madel fishing (Beach Seining) .. ..   | 5.00                              |
| 23. Credit Scheme for settlers for cultivation of Sugarcane under Pelwatte Sugar Project .. ..  | 66.00                             |
| 24. Vavuniya - Mannar District Integrated Rural Development Project .. ..   | 32.00                             |
| 25. Credit Scheme to assist small farmers for cultivation of sugarcane in Sevenagala, Hingurana and Kantale Sugar Project .. ..   | 120.60                            |
| 26. Sri Lanka - ADB - Coconut Development Project Credit Scheme to assist coconut growers to carry out a replanting programme with inter-cropping in Rambukkana area .. | 8.00                              |
| <b>B. Credit Schemes Approved during the year 1985</b>  |                                   |
| 1. Credit Scheme for Traders displaced under the Victoriya Project for purchase of commercial buildings .. ..   | 22.00                             |
| 2. Credit Scheme for the purchase of two wheel tractors in Wet Zone Districts and Moneragala District .. ..   | 33.00                             |
| 3. Special Credit Scheme to Assist Estate Sector Women in Income Generating Activities under the FAO/Women Bureau Project .. ..   | 1.00                              |
| 4. Credit Scheme for the cultivation of Chinese Ginger, Pineapple and Passion Fruits in the Kurunegala District .. ..   | 32.00                             |
| 5. Anuradhapura Dry Zone Agricultural Project Loan Scheme .. ..   | 22.30                             |
| 6. Credit Scheme to assist settlers in Minipe Scheme for the installation of Bio-gas plants .. ..   | 0.40                              |
| <b>Total</b>  | <b>1,039.76</b>                   |

TABLE 2.7

## of the Medium and Long Term Credit Fund

| Amount utilised<br>as at 31.12.85<br>(Rs. Mn.) | Amount unutilised<br>as at 31.12.85<br>(Rs. Mn.) | Date of<br>commencement<br>of project | Period for<br>disbursement of the<br>allocation (years) |
|--|--|---------------------------------------|---|
| 3.49   | 1.01   | 03.02.79                              | 3   |
| 42.63  | 12.37  | 26.03.79                              | 3   |
| 109.76   | 30.24  | 02.07.79                              | 3   |
| 7.69   | —  | 02.06.79                              | 1   |
| 9.32   | 0.68   | 22.08.79                              | 3   |
| 54.25  | 22.25  | 28.10.79                              | 5   |
| —  | 0.12   | 27.11.79                              | 3   |
| 6.01   | 48.99  | 19.11.79                              | 3   |
| 9.14   | 4.86   | 13.10.80                              | 1   |
| —  | 60.00  | 13.10.80                              | 3   |
| 0.23   | 2.77   | 10.12.80                              | 5   |
| 0.33   | 41.67  | 28.04.81                              | 2   |
| 35.51  | 10.28  | 08.05.81                              | 6   |
| 1.05   | 1.51   | 11.12.81                              | 1   |
| 4.53   | 3.67   | 10.04.81                              | —   |
| 53.33  | 83.67  | 01.07.82                              | 1   |
| 0.85   | 6.65   | 11.08.82                              | 1   |
| 0.01   | 5.59   | 10.09.82                              | 2   |
| 1.75   | 4.25   | 14.10.82                              | 2   |
| —  | 1.00   | 01.03.83                              | 1   |
| 1.91   | 5.09   | 27.09.83                              | 5   |
| 0.52   | 4.48   | 26.04.84                              | 1   |
| —  | 66.00  | 10.05.84                              | 6   |
| 0.27   | 31.73  | 14.06.84                              | 4   |
| 2.91   | 117.69   | 20.09.84                              | 5   |
| 0.04   | 7.96   | 26.12.84                              | 3   |
| —  | 22.00  | 11.03.85                              | 2   |
| 1.49   | 31.51  | 26.03.85                              | 2   |
| 0.21   | 0.79   | 31.12.85                              | 1   |
| —  | 32.00  | 27.06.85                              | 3   |
| —  | 22.30  | 02.07.85                              | 3   |
| —  | 0.40   | 16.09.85                              | 1   |
| 347.23   | 692.53   | —                                     | —   |

Source : Central Bank of Sri Lanka.



A team of ADB Consultants studied on-farm and off-farm investment requirements and upgrading measures for the existing delivery mechanism for rural and agro-industrial credit in Sri Lanka and submitted their Report to the ADB during the latter part of the year.

During the year 1985, the Central Bank completed the inspection of the agricultural loan portfolio of 12 bank branches consisting of 7 branches of People's Bank, 4 branches of Bank of Ceylon and a Co-operative Rural Bank in the districts of Ratnapura, Kegalle, Hambantota and Moneragala. The inspection reports were sent to the respective banks and bank branches along with suitable recommendations for rectifying the deficiencies and with a request for a compliance report to the Central Bank.

### **REGIONAL RURAL DEVELOPMENT BANKS**

The Monetary Board under the powers vested in it by the Regional Rural Development Bank (RRDB) Act, No. 15 of 1985 made four Incorporation Orders which were published in the gazette in June, 1985 establishing a RRDB for each of the four districts of Kalutara, Kurunegala, Matara and Anuradhapura with Bulathsinhala, Kuliapitiya, Yatiyana and Mihintale respectively, as their principal place of business.

These banks are both commercial banks and development banks. They are at the same time unit banks at district level, each with full autonomy in regard to its operations and management so that each such bank will have a distinctive local character and be in a position to give due priority to the local needs of the area.

The authorized share capital of each RRDB is Rs. 50 million consisting of 500,000 shares of Rs. 100 each. The issued share capital is Rs. 10 million and has been fully subscribed by the Central Bank. The Central Bank may after a period of two years from the date of incorporation, offer shares up to 49 per cent of the issued share capital to the four indigenous commercial banks and co-operative societies.

The management of each RRDB is through a five member Board of Directors headed by a Chairman. Three Directors of the Board are appointed by the Monetary Board with the concurrence of the Minister of Finance. The other two Directors who are appointed by the Monetary Board with the Minister's concurrence will at a later stage be elected by the general body of the Bank. The Chairman is appointed from among the Directors also with the Minister's concurrence.

The objectives of the RRDBs are the development of the rural economy by providing for the development of agriculture, cottage and small scale industry, fishing industry, commerce and other development activities in rural areas.

Each RRDB is empowered to carry on and transact banking business other than foreign exchange business and may in addition, inter alia, grant short term, medium term, and long term loans and other accommodation particularly to farmers, agricultural labourers and artisans and such other persons individually or in groups who are

engaged in cottage industries, trade, commerce, industry or, other type of productive activities which are in the opinion of the bank's Board of Directors, of a small scale, in nature.

At the end 1985 the RRDBs have expanded the branch net-work. At the beginning, each RRDB is proposed to have one branch in each electorate. Expansion of branch net-work is dependent on the availability of trained staff, office space and other considerations.

In 1985 the number of branches, opened was as follows :—

| <i>Name of Bank</i> | <i>No. of Branches</i> |
|---------------------|------------------------|
| Kalutara RRDB       | 5                      |
| Matara RRDB         | 6                      |
| Kurunegala RRDB     | 7                      |
| Anuradhapura RRDB   | 3                      |

The mobilization of deposits by the RRDBs as at 31st December, 1985 is given in Table 2.8

**TABLE 2.8**  
**Mobilization of deposits by the RRDBs as at 31st December, 1985**

| Name of RRDB         | Savings deposits |            | Fixed deposits |            | Total  |            |
|----------------------|------------------|------------|----------------|------------|--------|------------|
|                      | No.              | Amount Rs. | No.            | Amount Rs. | No.    | Amount Rs. |
| 1. Matara RRDB       | 3,472            | 1,133,883  | 05             | 51,000     | 3,477  | 1,184,883  |
| 2. Kalutara RRDB     | 2,845            | 727,650    | 15             | 180,500    | 2,860  | 908,150    |
| 3. Kurunegala RRDB   | 4,786            | 905,882    | 10             | 50,000     | 4,796  | 955,882    |
| 4. Anuradhapura RRDB | 1,382            | 336,154    | 3              | 28,750     | 1,385  | 364,904    |
| Total                | 12,485           | 3,103,569  | 33             | 310,250    | 12,518 | 3,413,819  |

Source: Central Bank of Sri Lanka.

The four RRDBs have as at 31st December, 1985 mobilized 12,518 accounts totalling deposits of Rs. 3,413,819. Of this number 12,485 or 99.7 per cent consists of Savings Deposits, accounting for Rs. 3,103,569. The average size of a Savings and Fixed Deposits are given in the following table.

| <i>Name of the Bank</i> | <i>Average size of Savings deposit (Rs.)</i> | <i>Average size of Fixed deposit (Rs.)</i> |
|-------------------------|--|--|
| Matara RRDB             | 326  | 10,200                                     |
| Kalutara RRDB           | 255  | 12,033                                     |
| Kurunegala RRDB         | 189  | 5,000                                      |
| Anuradhapura RRDB       | 243  | 9,583                                      |
| Average for all banks   | 248  | 9,401                                      |

The table indicates that savings deposits by and large have been mobilized in the form of small savings of the people in the area. The RRDBs do not yet accept demand deposits from the public although they are empowered to do so. This may also partly explain the small size of the savings deposits.

The loans portfolio of the RRDBs as at 31st December, 1985 is given in Table 2.9

**TABLE 2.9**  
**Loans granted/approved as at 31st December, 1985**

| Purpose                | Matara RRDB |              | Kurunegala RRDB |              | Kalutara RRDB |              | Anuradhapura RRDB |              |
|------------------------|-------------|--------------|-----------------|--------------|---------------|--------------|-------------------|--------------|
|                        | No.         | Amount (Rs.) | No.             | Amount (Rs.) | No.           | Amount (Rs.) | No.               | Amount (Rs.) |
| 1. Agriculture         |             |              |                 |              |               |              |                   |              |
| 1.1 Cultivation ..     | 113         | 207,325      | 32              | 357,010      | 84            | 75,058       | 111               | 788,034      |
| 1.2 Farm Equipment ..  | 07          | 19,500       | 4               | 25,475       | —             | —            | 17                | 486,500      |
| 1.3 Other ..           | 09          | 9,189        | —               | —            | 18            | 59,397       | —                 | —            |
| 2. Livestock ..        | 05          | 28,500       | 31              | 321,150      | 31            | 123,200      | 10                | 80,900       |
| 3. Small Industries .. | 112         | 93,990       | 41              | 406,100      | 100           | 404,165      | 4                 | 95,000       |
| 4. Trade & Business .. | 171         | 222,530      | 15              | 116,000      | 89            | 334,932      | 12                | 116,500      |
| 5. Other ..            | 65          | 206,134      | —               | —            | 13            | 157,400      | 10                | 114,275      |
| Total ..               | 482         | 787,168      | 123             | 1,225,735    | 335           | 1,154,152    | 164               | 1,681,209    |

Source: Central Bank of Sri Lanka.

As at 31st December, 1985 RRDBs had granted 1,104 loans aggregating Rs. 4,848,264. The average size of loan per bank is as follows.

| <i>Name of Bank</i>   | <i>Average size of loan (Rs.)</i> |
|-----------------------|-----------------------------------|
| Matara RRDB           | 1,633                             |
| Kurunegala RRDB       | 9,965                             |
| Kalutara RRDB         | 3,445                             |
| Anuradhapura RRDB     | 10,251                            |
| Average for all banks | <u>4,391</u>                      |

The small size of loan, granted by RRDB reveals that credit assistance is provided by them to weaker sections of the society to set them up in productive ventures which require small amounts of capital. A purposewise classification of 1,104 loans granted by RRDBs is given below.

| <i>Purpose</i>   | <i>No. of loans</i> | <i>Amount</i>    | <i>Percentage of the total amount granted</i> |
|------------------|---------------------|------------------|---|
| Agriculture      | 395                 | 2,027,488        | 41.8  |
| Livestock        | 77                  | 553,750          | 11.4  |
| Small Industries | 257                 | 999,255          | 20.6  |
| Trade & Business | 287                 | 789,962          | 16.3  |
| Other            | 88                  | 477,809          | 9.9   |
| Total            | <u>1,104</u>        | <u>4,848,264</u> | <u>100.0</u>                                  |

In keeping with their objectives the RRDBs have adopted some innovative banking methods in their operations. As part of the campaign for deposit mobilization, each branch of the RRDB organises meetings in the villages (Janahamuwa) under its jurisdiction where the branch Manager and a Field supervisor explain the objectives of the RRDB and its role in the development of the rural economy. The deposits are collected at the meetings itself and the bank arranges to deliver the pass books to the depositors at their residence subsequently. In the sanction and disbursement of loans, simplified procedures are followed. Besides, RRDBs grant loans without insisting on securities in the case of small loans.

### **RURAL BANKING AND STAFF TRAINING COLLEGE**

In 1985, The Rural Banking and Staff Training College of the Central Bank of Sri Lanka conducted 30 training programmes. These training programmes were followed by 580 participants drawn from the management personnel of the Central Bank, Commercial Banks, Regional Rural Development Banks, other Financial Institutions and a few Government Agencies involved in rural development such as the Department of Co-operative Development and the Ministry of Youth Affairs and Employment. The areas of training provided by the College were rural banking and rural development, investment appraisal, management development, statistics, commercial banking and international banking.

The training programmes conducted by the College aimed to improve the efficiency of the banking sector. These programmes also aimed to motivate the participants to understand the economic problems associated with the rural sector and to assist them in their efforts in solving such problems.

The College completed its fourth year of operation in September, 1985. The fourth anniversary lecture of the College was delivered by Mr. M. Narasimham, a former Governor, Reserve Bank of India and a former Executive Director of the IBRD and IMF on the topic 'Banks and Agricultural Credit—The Indian Experience'.

### **EMPLOYEES' PROVIDENT FUND**

The Monetary Board of the Central Bank of Sri Lanka is charged with the responsibility of receiving contributions, surcharges and income from the investment of monies of the Fund, maintaining proper accounts of registered employers and the individual members of the Fund and effecting refund of benefits to the members in terms of provisions of the E. P. F. Act. These activities are carried out by the Employees' Provident Fund Department of the Bank in close co-operation with the Employees' Provident Fund Division of the Labour Department which attends to the administration and the enforcement of the provisions of the Act. A brief note on its operations during the year 1985 is given below.

#### **Contributions**

The contributions received by the Fund during the year 1985, amounted to Rs. 1,920.6 million as against Rs. 1,583.4 million in 1984. This represents an increase of Rs. 337.2 million or 21.3 per cent over the contributions received during the previous year.

**Members' balances**

Members' balances as at 31st December, 1985, before allocation of interest for the year under review, stood at Rs. 13,086.7 million which is an increase of Rs. 2,693.9 million or 25.9 percent over the balance as at end of 1984.

**Investments**

During the year under review, the Fund invested a sum of Rs. 5,401.9 million in Government Securities, Treasury Bills and Debentures issued by the Urban Development Authority and State Mortgage and Investment Bank, as against a sum of Rs. 5,895.6 million in 1984. This is a decrease of Rs. 493.7 million over the level of 1984. The total investments made during the year under review included a sum of Rs. 2,484.5 million representing maturity proceeds of earlier investments and Treasury Bills. The total amount invested in Government Securities alone amounted to Rs. 4,417.8 million which represents 41.9 percent of the total securities issued by the Government of Sri Lanka during 1985. The total amount invested in short term Treasury Bills at various intervals during the year amounted to Rs. 816.0 million. At the end of the year under review, the Fund did not hold any Treasury Bills, as they were discounted during the year. The total investments held by the Fund as at 31st December, 1985, amounted to Rs. 14,052.0 million, which is an increase of Rs. 2,917.3 million over the level of 1984.

**Income received from investments**

In 1985, the income from investments of the Fund amounted to Rs. 1,552.4 million as against Rs. 1,193.9 million in 1984, recording an increase of Rs. 358.5 million or 30.0 percent. This increase was mainly due to the investment of the increased volume of contributions received by the Fund and the re-investment of income derived from the past investments during the year under review.

**Refunds**

The total sum paid out by way of refund of EPF benefits to members during the year 1985, amounted to Rs. 523.6 million as against a sum of Rs. 551.7 million in 1984. This records a decrease of Rs. 28.1 million or 5.1 percent. During the year under review, 51,978 claims for refund of benefits were received in the Department, which included 3,857 from repatriates of Indian origin and 20,981 on medical grounds. The number of claims paid out during the year totalled to 46,123. There was a substantial reduction in the number of claims as well as payments on medical grounds.

**Interest on members' balances**

The Employees' Provident Fund is required to pay interest on members' balances as at end of each year out of the income from investment of monies of the Fund. The rate of interest payable on members' balances as at end of 1984 was raised to 12.5 percent per annum. Interest is paid on the balances standing to the credit of members at the end of the year and thereafter interest accumulates on the aggregate sum. Besides interest is paid for the entire year on the balance standing to the member's credit at the end of the year, irrespective of the date when any portion of that balance (which represents the current year's contributions) was received by the



Fund to the member's credit, e.g. contributions received in December attracts interest for the full year in the same way as contributions received in January of that year. Therefore, the effective rate of interest is somewhat higher.

A comparative statement of the operation of the Fund on data presently available is given in Table 2.10.

**TABLE 2.10**  
**EPF Statistics 1984-1985**

| Item  | 1984        | 1985        |
|---|-------------|-------------|
| 1. Contributions received (Rs. Mn)                  | 1,583.4 (a) | 1,920.7 (a) |
| 2. Investments (Rs. Mn)                             | 5,895.6 (b) | 5,401.9 (b) |
| 3. Income received from investments (Rs. Mn)        | 1,193.9     | 1,552.4     |
| 4. Refund payments (Rs. Mn)                         | 551.7       | 523.6       |
| 5. No. of Refunds                                   | 65,198      | 46,123      |
| 6. Rate of interest (percent)                       | 12.5        | 12.5        |
| 7. Interest provision on members' balances (Rs. Mn) | 1,299.1     | 1,635.8     |

Source : Central Bank of Sri Lanka.

(a) Excludes contributions credited to Suspense Accounts.

(b) Includes maturity proceeds re-invested in Govt. Securities and monies invested in short-term Treasury Bills.

### EXCHANGE CONTROL

The Bank continued to function as the agent of the Government with regard to implementation of Exchange Control. The major changes in Exchange Control procedure that came into effect during the year under review are as follows :

#### 1. Imports

- (i) Authorised Dealers were required to obtain the approval of the Director of Commerce before establishing Letters of Credit for the import of pepper, cardamoms and cashewnuts from any source. (Operating Instructions No. EC/06/85(B) of 85.01.29 and EC/20/85(B) of 85.04.16).
- (ii) The ban imposed on the import of coffee in 1984 was removed in April 1985. However, its import was subject to certain conditions imposed by the Director of Commerce. (Operating Instructions No. EC/21/85(H) of 85.04.17).
- (iii) A licence from the Controller of Imports and Exports was declared necessary for the import of newsprint and old newspapers (Operating Instructions No. EC/31/85(B) of 85.07.10 and EC/51/85(B) of 85.10.11).

## **2. Exports**

- (i) Authorised Dealers were permitted, without reference to the Exchange Control Department, to change the terms of payment from D/P to D/A terms not exceeding 180 days arising from requests made by exporters, provided that such requests originated from foreign buyers/agents from whom valid reasons were furnished. (Operating Instructions No. EC/35/85(H) of 85.07.16).
- (ii) Authorised Dealers were permitted, without reference to the Exchange Control Department, to extend the period of D/A terms, but only upto a maximum of 180 days, provided valid reasons were furnished by the exporter.
- (iii) Authorised Dealers were permitted to negotiate documents without reference to the Exchange Control Department where the Letters of Credit stipulated a condition that the Bill of Lading should be drawn in favour of or to the order of the credit opening bank abroad, or any other bank stated in the Letters of Credit. (Operating Instructions No. EC/40/85(H) of 85.08.06).

## **3. Remittance of Profits and Dividends**

- (i) In order to prevent a possible over-remittance of profits and dividends earned by branches of foreign companies inclusive of branches of foreign banks, non-resident partners of partnerships operating in Sri Lanka and non-resident shareholders of Rupee Companies, Authorised Dealers were required to insist upon the production of an Income Tax Clearance Certificate before allowing applications for such remittances. (Operating Instructions No. EC/25/85 (C & F) of 85.05.16).

## **4. Suppliers' Credits and other borrowings abroad by the Public and Private Sectors**

- (i) Authorised Dealers were required to refer all applications for foreign exchange for repayment of capital and payment of interest arising from foreign borrowings (including borrowings from Foreign Currency Banking Units) except those of G.C.E.C. enterprises to the Exchange Control Department for prior approval. Applicants were required to provide comprehensive data on a set of forms issued by the Department which were aimed at keeping a stricter control on such borrowings. (Operating Instructions No. EC/15/85 (C & F) of 85.03.22).

## **5. Blocked Funds**

- (i) The ceiling on remittances from Non-Resident Blocked Accounts is Rs. 200,000 per account holder. Notwithstanding this restriction, Authorised Dealers were informed that they could apply to the Exchange Control Department for the remittance of all funds held in non-resident blocked accounts in commercial banks and funds realised from the sale of shareholdings of non-resident foreign nationals other than those who had emigrated from Sri Lanka and had subsequently obtained foreign citizenship. (Operating Instructions No. EC/18/85 (C & F) of 85.04.02).

**6. Disposal abroad of freight and passage collections in foreign ports by local agents**

- (i) Local ship owners and charterers were informed that freight and passage collections held by them abroad after making payment for services rendered to their vessels by their agents in foreign ports should be repatriated to Sri Lanka for credit to their Shipping External Accounts with commercial banks. Instructions were also issued against transfer of such funds from one agent to another abroad or for any other purpose without Exchange Control approval. (Operating Instructions No. EC/SAA/01/85 of 85.06.05).

**PUBLIC DEBT**

The Central Bank of Sri Lanka continued to manage public debt on behalf of the Government in terms of Section 113 of the Monetary Law Act. Floating of Government Securities/loans, issue of Treasury Bills and Tax Reserve Certificates, recording of foreign loan disbursements, servicing of domestic and foreign loans were the main functions handled by the Public Debt Department during 1985.

The outstanding gross and net public debt as at end of 1985 stood at Rs. 130,869.9 million and Rs. 123,719.6 million, respectively. During 1985, rupee loans amounting to Rs. 10,550.3 million were floated and the outstanding amount as at end of the year stood at Rs. 36,570.2 million. The authorised limit of Treasury Bills was increased by Rs. 2,000 million from Rs. 23,000 million to Rs. 25,000 million during 1985. The amount of Treasury Bills outstanding as at end of the year was Rs. 22,280 million. Total interest payments on Public Debt in 1985 amounted to Rs. 8,334.7 million. This includes loan flotation expenses and management charges of Rs. 17.2 million. Total medium and long term withdrawals of External Borrowings during the year amounted to Rs. 9,032.4 million. Total repayments under project, commodity and other category of External Borrowings amounted to Rs. 1,788.9 million. The total external public debt outstanding as at end of 1985 amounted to Rs. 67,673.3 million.

The Department also continued to float and service debentures on behalf of the Urban Development Authority (UDA), State Mortgage and Investment Bank (SMIB) and the National Housing Development Authority (NHDA). During 1985, the Department continued to issue Central Bank Securities under Section 91 (1)(b) of the Monetary Law Act in order to reduce the excess liquidity in the economy.

Following a proposal made by the Technical Assistance Group of the Commonwealth Secretariat to computerize the Sri Lanka's external debt data, the Department was involved in the preparation of an inventory of external debt. During the year data relating to external public debt was transmitted to the External Debt Monitoring Unit (EDMU) of the Ministry of Finance and Planning to facilitate the computerization of external debt data. The new scheme is expected to come into operation by the middle of 1986.

**REGIONAL OFFICE — MATARA**

During the year 1985, the Matara Regional Office further expanded its activities. As a result, a large number of persons were able to be accommodated under various rural credit schemes designed for the development of rural economic sectors. There was increasing demand for credit from farmers, cottage industrialists and artisans to improve their income by expanding investments while at the same time an increasing number of school leavers wanted to join the bank credit schemes in order to establish themselves in self-employment activities. As in the previous years, the operation of Refinance Credit Schemes, one of the measures introduced by the Central Bank to promote growth in output, income and employment in the rural sectors, assumed a most significant position in the affairs of the Regional Office. As at end of 1985, the total number of individuals who were able to obtain assistance from the banking system through direct negotiations arranged by this office was 2,728 and the total amount of loans obtained for various income generating projects was Rs. 14.1 million.

As the Regional Office completed its fifth year of operations, one of the important aspects of its activities was the increase in its area coverage. Since 1983, requests for rural credit facilities emanating from various quarters in the neighbouring districts steadily increased due to the improvements in infrastructure facilities resulting from the implementation of large scale development projects and programmes in the region. Consequently, the Regional Office was able to spread its influence into the districts of Galle, Hambantota and Moneragala during the year 1985. Efforts were made to arrange bank loans for several selected projects in these areas and to foster favourable banker-customer dialogue. A training and orientation programme was conducted as in the previous years. Nearly 900 individuals took part in 40 sessions during 1985. These sessions revealed that projects sometimes put forward by certain individuals, were not feasible or were ill conceived. It also helped as an occasion for sharing experience among the beneficiaries and agencies as well. The sessions also act as a meeting place for all the important agencies involved in the process. The Regional Office received the support of the Industrial Development Board, the Department of Agriculture, the Agriculture Development Authority, the Crop Insurance Board, the Department of Animal Production and Health, the Tea Small Holdings Development Authority and similar institutions. In turn, the Regional Office lent its assistance to various development projects implemented by these agencies. The Regional Manager and his staff participated in about 50 such seminars and workshops conducted in 1985. Members of the staff also served on most of the development committees that exist at regional level and at the centre.

The establishment of a Regional Rural Development Bank and launching of a rural credit project by the National Savings Bank at Matara, were two important developments. The Regional Office lent assistance to those institutions in matters such as staff training, economic surveys and liaison work. The credit schemes operated at the moment with the branches of the two State Banks and the Indian Overseas Bank will be extended to include the Regional Rural Development Bank branches in the Matara district. The National Savings Bank Credit Project will be confined to several selected villages and will work outside the Central Bank Refinance Schemes.

**Refinance Credit Operations**

The Table 2.11 gives a statistical summary of the refinance credit operations as at end of 1985.

**TABLE 2.11**  
**Refinance Credit Operations—Regional Office, Matara**  
**Statistical Summary (Cumulative Position as at end of 1985)**

| Scheme   | No. of Beneficiaries | Loan Amount (Rs)  |
|--|----------------------|-------------------|
| 1. Self-Employment Refinance, Credit Scheme ..                                   | 596                  | 5,433,500         |
| 2. Village Adoption Refinance Credit Scheme ..                                   | 112                  | 566,685           |
| 3. Model Yaya Paddy Cultivation Loans under Comprehensive Rural Credit Scheme .. | 1,243                | 3,500,783         |
| 4. Dry-Zone Farming Loans ..   | 242                  | 968,000           |
| 5. Tea Fertilizer Refinance Credit Scheme ..                                     | 196                  | 1,232,277         |
| 6. Coconut Fertilizer Refinance Credit Scheme ..                                 | 339                  | 2,426,617         |
| <b>Total</b>   | <b>2,728</b>         | <b>14,127,862</b> |

*Source:* Central Bank of Sri Lanka.

It could be seen that a sum of Rs. 14,127,862 has been disbursed by banks under various refinance credit schemes directly benefitting 2,728 persons through the effective participation of the Regional Office. There are many more persons who obtained direct assistance from the banks' own lending programmes as a result of guidance given by the Regional Office.

**Self-Employment and Village Adoption Schemes**

Matara is burdened with a problem of high rate of unemployment of educated youth while the land distribution pattern also does not favour activities like commercial agriculture. As a result, income creation through self-employment in cottage industries, livestock farming and service sectors assume high priority. The Self-Employment Credit Scheme attempted to promote income generating activities mainly among youth by providing 'Supervised Credit' from the banking system. The Regional Office identified and supervised the implementation of individual projects for which banks approve loans under concessionary terms. As at end of 1985, there were 690 self-employment projects (708 borrowers) for which the banks approved Rs. 6.0 million of loan facilities.

The Village Adoption Scheme aims to promote 'clusters' of credit projects which will have a greater impact on the village economy. The Indian Overseas Bank—Matara Branch participated in this scheme (quite enthusiastically) and provided banking assistance to 83 individual projects in several village clusters. Table 2.12 gives a statistical summary of credit projects approved by the banks classified according to sectors.

**TABLE 2.12**  
**Classification of Credit Projects Financed under**  
**Self—Employment and Village Adoption Schemes—Matara**  
**(As at end of 1985)**

| Sector                    |    | No. of Credit Projects | Loan Amount (Rs) |
|---------------------------|----|------------------------|------------------|
| Agriculture               | .. | 203                    | 1,241,135        |
| Industry                  | .. | 315                    | 1,595,395        |
| Services, Farm Power etc. | .. | 172                    | 2,831,025        |
| Total                     | .. | 690                    | 5,667,555        |

*Source:* Central Bank of Sri Lanka.

The overall position as indicated in Table 2.12 shows a shift towards service sector financing which is dominated by two-wheel tractor loans and farm-equipment loans. The Industrial Sector which accounted for the largest number of projects was dominated by the food, textiles, bricks and tiles industries. The agriculture sector was overwhelmed with livestock farming projects, mostly poultry farming units. A detailed break-down of Self-Employment and Village Adoption project financing is shown in Tables 2.13 and 2.14. It may be noted that the figures in Table 2.13 show the total number of projects identified and recommended by the Regional Office as at end of 1985. This is a cumulative position as adjusted from time to time to account for the drop-out projects. It is observed that owing to various obstacles, a large number of project proposals tend to get lagged and dropped before making bank finance available. Sometimes, the applicants found it almost impossible to satisfy the conditions laid down by the bankers who are not obliged to approve loans for the projects identified by the Central Bank Regional Office. There is much scope for bank authorities to effect improvements to the lending procedures and develop a credible small sector lending programme for the growth of the rural economy.

### **Paddy Loans**

Matara district has 45,000 acres under paddy of which major portion is rain-fed. Thus, there is a considerable degree of uncertainty in the cultivation of paddy and therefore the risks in lending to paddy sector are great. Against this natural background and amidst the legacy of high rate of defaults in the past, a fresh attempt was made by the Regional Office to renew the Comprehensive Rural Credit Scheme in the Paddy Sector by introducing a closely supervised credit package called "Model Yaya Paddy Cultivation Loan Scheme". Under this arrangement farmers obtained crop loans in a more organized and guided manner and there were more back-up services made available during the season for the benefit of the farmer. Started with a handful of farmers in Tangalle in 1981/82 Maha Season, the movement spread fast into Matara, Hambantota and Moneragala districts. There are at present about 1200 acres of paddy lands for which loans totalling Rs. 1.9 million are disbursed every season. The loans are likely to increase rapidly due to the establishment of the Regional Rural Development Bank.

TABLE 2.13

Progress on Projects under Village Adoption (VAS) and Self Employment Schemes (SES) of the Regional Office, Matara  
As at end of December, 1985

| Sector                     | SES   |  | V A S                                       |  | Both Schemes                                |  | Estima-<br>ted<br>Employ-<br>ment |
|----------------------------|---|--|---|--|---|--|-----------------------------------|
|                            | Total<br>Recommended<br>No. Amount<br>(Rs.) | Total<br>Approved<br>No. Amount<br>(Rs.) | Total<br>Recommended<br>No. Amount<br>(Rs.) | Total<br>Approved<br>No. Amount<br>(Rs.) | Total<br>Recommended<br>No. Amount<br>(Rs.) | Total<br>Approved<br>No. Amount<br>(Rs.) |                                   |
| <b>Agriculture</b>         |   |  |   |  |   |  |                                   |
| 1. Agriculture             | 40 111,335                                  | 26 85,885                                | 4 11,000                                    | 1 2,000                                  | 44 122,335                                  | 27 87,885                                | 33                                |
| 2. Dairy farming           | 23 127,700                                  | 15 85,000                                | 7 35,200                                    | 6 29,800                                 | 30 162,900                                  | 21 114,800                               | 24                                |
| 3. Poultry farming         | 140 1,060,350                               | 83 641,050                               | 49 334,200                                  | 48 323,400                               | 189 1,394,550                               | 131 964,450                              | 133                               |
| 4. Goat farming            | 2 12,500                                    | 1 5,000                                  | 18 41,000                                   | 18 41,000                                | 20 53,500                                   | 19 46,000                                | 26                                |
| 5. Fisheries               | 12 181,000                                  | 5 28,000                                 | — —   | — —                                      | 12 181,000                                  | 5 28,000                                 | 05                                |
| <b>Industries</b>          |   |  |   |  |   |  |                                   |
| 6. Bakery & confectionery  | 59 343,190                                  | 43 224,890                               | 3 11,000                                    | 3 11,000                                 | 62 354,190                                  | 46 235,890                               | 85                                |
| 7. Other food products     | 2 25,000                                    | — —                                      | — —   | — —                                      | 2 25,000                                    | — —                                      | —                                 |
| 8. Tobacco/beedi           | 5 38,200                                    | 4 30,200                                 | — —   | — —                                      | 5 38,200                                    | 4 30,200                                 | 11                                |
| 9. Handlooms               | 29 156,300                                  | 20 105,800                               | 8 37,500                                    | 7 32,500                                 | 37 193,800                                  | 27 138,300                               | 56                                |
| 10. Sewing                 | 83 558,015                                  | 62 387,315                               | 5 30,000                                    | 5 30,000                                 | 88 588,015                                  | 67 417,315                               | 107                               |
| 11. Other textile products | 19 118,470                                  | 12 60,370                                | 1 10,000                                    | 1 10,000                                 | 20 128,470                                  | 13 70,370                                | 31                                |
| 12. Carpentry              | 26 157,720                                  | 22 132,720                               | 2 10,500                                    | 2 10,500                                 | 28 168,220                                  | 24 143,220                               | 34                                |
| 13. Paper products         | 2 9,090                                     | 2 9,090                                  | — —   | — —                                      | 2 9,090                                     | 2 9,090                                  | 3                                 |
| 14. Non-metallic minerals  | 84 395,675                                  | 70 306,825                               | 2 8,150                                     | — —                                      | 86 403,825                                  | 70 306,825                               | 174                               |
| 15. Metal crushing         | 7 31,500                                    | 7 31,000                                 | 2 5,471                                     | 2 5,250                                  | 9 36,971                                    | 9 36,250                                 | 21                                |
| 16. Metal products         | 13 96,200                                   | 9 41,200                                 | — —   | — —                                      | 13 96,200                                   | 9 41,200                                 | 28                                |
| 17. Coir products          | 43 133,940                                  | 28 79,520                                | 12 34,210                                   | 9 21,415                                 | 55 168,150                                  | 37 100,935                               | 47                                |
| 18. Repairs & maintenance  | 48 276,945                                  | 34 192,695                               | 1 5,000                                     | 1 5,000                                  | 49 281,945                                  | 35 197,695                               | 51                                |
| 19. Farm equipment         | 77 2,386,355                                | 71 2,274,480                             | 4 14,300                                    | 4 14,300                                 | 81 2,400,655                                | 75 2,288,780                             | 76                                |
| 20. Chemicals              | 6 55,800                                    | 6 55,800                                 | 1 10,000                                    | 1 10,000                                 | 7 65,800                                    | 7 65,800                                 | 7                                 |
| 21. Trade & commerce       | 24 131,700                                  | 19 94,900                                | — —   | — —                                      | 24 131,700                                  | 19 94,900                                | 21                                |
| 22. Other                  | 71 487,505                                  | 39 229,130                               | 8 40,670                                    | 4 20,520                                 | 79 528,175                                  | 43 249,650                               | 63                                |
| <b>Total</b>               | <b>815 6,894,490</b>                        | <b>578 5,100,870</b>                     | <b>127 638,201</b>                          | <b>112 566,685</b>                       | <b>942 7,532,691</b>                        | <b>690 5,667,555</b>                     | <b>1,036</b>                      |

Source : Central Bank of Sri Lanka.

TABLE 2.14

**Recovery of Loans Under the Self - Employment and Village  
Adoption Schemes of the Regional Office, Matara as at end of December, 1985**

| Sector                           | Loan<br>amount<br>released<br><br>(Rs) | Capital Repayments    |                          |                           |
|----------------------------------|--|-----------------------|--------------------------|---------------------------|
|                                  |  | Scheduled<br><br>(Rs) | Amount<br>repaid<br>(Rs) | Amount<br>overdue<br>(Rs) |
| <b>Agriculture</b>               |  |                       |                          |                           |
| 1. Agriculture ..                | 52,050                                 | 21,140                | 16,671                   | 4,469                     |
| 2. Dairy farming ..              | 37,800                                 | 26,000                | 18,600                   | 7,400                     |
| 3. Poultry farming ..            | 523,514                                | 243,339               | 153,347                  | 89,992                    |
| 4. Goat farming ..               | 35,305                                 | 12,000                | 9,525                    | 2,475                     |
| 5. Fisheries ..                  | 28,000                                 | 10,098                | 4,459                    | 5,639                     |
| <b>Industries &amp; Services</b> |  |                       |                          |                           |
| 6. Bakery & confectionery ..     | 147,085                                | 60,358                | 39,654                   | 20,704                    |
| 7. Other food products ..        | —                                      | —                     | —                        | —                         |
| 8. Tobacco/beedi ..              | 20,800                                 | 11,360                | 1,536                    | 9,824                     |
| 9. Handlooms ..                  | 105,000                                | 35,988                | 25,385                   | 10,603                    |
| 10. Sewing ..                    | 245,840                                | 89,209                | 71,549                   | 17,660                    |
| 11. Other textile products ..    | 48,300                                 | 28,200                | 20,227                   | 7,973                     |
| 12. Carpentry ..                 | 63,470                                 | 30,056                | 18,364                   | 11,692                    |
| 13. Paper products ..            | —                                      | —                     | —                        | —                         |
| 14. Non-metallic minerals ..     | 115,335                                | 63,194                | 38,642                   | 24,552                    |
| 15. Metal crushing ..            | 22,000                                 | 16,020                | 13,468                   | 2,552                     |
| 16. Metal products ..            | 19,000                                 | 15,055                | 13,990                   | 1,065                     |
| 17. Coir products ..             | 67,500                                 | 47,220                | 38,035                   | 9,185                     |
| 18. Repair & maintenance ..      | 113,882                                | 58,497                | 31,508                   | 26,989                    |
| 19. Farm equipment ..            | 2,190,700                              | 1,286,770             | 1,220,189                | 66,581                    |
| 20. Chemicals ..                 | 56,000                                 | 13,433                | 6,532                    | 6,901                     |
| 21. Trade & commerce ..          | 64,000                                 | 33,363                | 25,659                   | 7,704                     |
| 22. Others ..                    | 156,837                                | 72,521                | 47,736                   | 24,785                    |
| <b>Total</b> ..                  | <b>4,112,418</b>                       | <b>2,173,821</b>      | <b>1,815,076</b>         | <b>358,745</b>            |

Source : Central Bank of Sri Lanka.

### Dry Zone Area

In Hambantota and Moneragala districts, there was greater enthusiasm among farmers to obtain loans for purposes such as lift irrigation, farm power and subsidiary food crops. For the first time, a group of farmers in Wellawaya and Buttala areas were able to settle down for permanent cultivation pattern with adequate supply of water coming from open-dug wells and water pumps provided for with bank credit. As at end of 1985, there were 50 such units in that area. It is reported that several farmers were able to earn during one season more than their total investment from bank loans. Loans for the cultivation of vegetables, onions, chillies and other crops were also arranged for these farmers.



### Tea and Coconut Fertilizer Loans

Tea and coconut are the most important plantation crops in the area. The loan schemes to provide inputs received added impetus when the Regional Office organized credit camps and farmer groups to facilitate channelling of loans. Tea Fertilizer Credit Scheme came as a boon to small holders during a period of adverse price changes through most of the refinance allocation remained unutilized. Apparently, the complex and cumbersome procedures seem to block speedy processing and disbursement of loans in this sector. The Regional Office regularly attended the Tea Fertilizer Committee meetings at the Ministry of Plantation Industries. A scheme of Bridging Finance for tea sector was also proposed for consideration at this meeting.

### Repayment of Loans

One of the most debated issues in rural credit activities is that of high rate of defaults in small scale credit. Fortunately, the credit projects implemented with assistance from the Regional Office displayed relatively higher rate of recoveries as shown in Table 2.15.

**TABLE 2.15**

**Repayment of Loans - Credit Projects Implemented by  
Regional Office, Matara (As at end of 1985.)**

| Scheme                                     | Recovery Rate (Percentage) |
|--|----------------------------|
| Self-Employment and Village Adoption Loans | 83                         |
| Paddy Loans                                | 90                         |
| Dry-Zone farming Loans                     | 90                         |
| Tea Fertilizer Loans                       | (grace period)             |
| Coconut Fertilizer Loans                   | (grace period)             |

Source: Central Bank of Sri Lanka.

Against this record there are however, some disconcerting features with respect to the speedy recovery of loans. There are, inordinate delays in taking legal action against errant borrowers, misconceptions prevailing among certain borrowers and inability of the banks to help borrowers who are in genuine difficulties. The Self - Employment loans disbursed through two state banks suffered most in this respect as shown by relatively high default rates in the case of Bank of Ceylon (32 per cent) and People's Bank (26 per cent).

### Economic Impact

It is possible to measure the economic benefits arising out of credit projects in respect of income generated, employment created, value added and resulting growth in production. Table 2.16 indicates some salient economic features of several selected credit projects as at end of 1985.

TABLE 2.16

**Economic Aspects of Credit Projects — Regional Office — Matara**  
**As at end of 1985**

| Category                    | No. of Projects/<br>Units/Farmers | Total cost of<br>Projects<br>(Rs. Million) | Bank Loans<br>(Rs. Million) | Estimated<br>gross annual<br>value of output<br>(Rs. Million) |
|-----------------------------|-----------------------------------|--|-----------------------------|---|
| 1. Self-Employment Loans .. | 690 (Units)                       | 7.2  | 5.6                         | 40.0  |
| 2. Paddy Loans ..           | 1215 (Acres)                      | 8.5†                                       | 3.5††                       | 8.7†††  |
| 3. Dry-Farming ..           | 200 (Farmers)                     | 0.8  | 0.4                         | 2.0*  |
| 4. Open-Dug wells ..        | 43 (Units)                        | 0.8  | 0.5                         | 0.8   |

*Source:* Central Bank of Sri Lanka.

† At the rate of Rs. 3500 per acre.

†† For two seasons.

††† At 55 bushels per acre valued at Rs. 65 per bushel.

\* 400 Acres yielding Rs. 5000 per acre p.a.

It may be mentioned that the 690 self-employment projects alone are estimated to provide employment opportunities for about 1,036 persons taking, part-time placements also into account.

### Organizational

In order to promote active public participation and economic efficiency in credit projects the Regional Office was engaged in organising producer and farmer groups during the year under review. In the dry-zone, the farmers showed interest in farmer clubs. Among paddy farmers the interest was in credit clubs, while in producer groups such as handlooms, coir and poultry farming the emphasis was on procurement and marketing clubs. Various non-governmental organizations lent their support to these groups to increase output, expand sales and achieve better prices. As at end of 1985, there were 21 such groupings involving more than 400 members. There were many discussions and technical sessions, clinics, camps and demonstrations organized by the Regional Office for the benefit of these groups.

### Other Activities

The Regional Office assisted the Department of Statistics and the Economic Research Department of the Central Bank in conducting seminars and data collection work. The Rural Credit Department conducted seminars to introduce new operating instructions on Comprehensive Rural Credit Scheme among the local bank officials in Matara. Several agencies such as the National Youth Services Council, National Institute of Business Management and Non-governmental Organizations made use of the resources available at the Regional Office in conducting various projects and programmes in Matara.

The Regional Clearing House that meets twice daily at the Regional Office cleared 138, 554 cheques valued at Rs. 891 million in 1985.

**REGIONAL OFFICE — ANURADHAPURA**

During 1985, the Regional office moved into its newly constructed three storey building at No. 340 & 340A, Stage 1, Anuradhapura.

The banks in the area were compelled to restrict banking hours and curtail their services in the northern part of the district due to security reasons. Some banks limited the acceptance of deposits and withdrawals to a small quantum of money. The People's Bank not undertaking pawning resulted in reduced access of credit to farmers in the district.

Despite a very unfavourable environment, the Regional Office continued to expand rural credit and development work under its special medium and long term credit programme which was its major activity during the year. Extension of facilities under this programme too was somewhat affected due to curtailment of field visits to some parts of the district. However, the quantum of loans granted increased and the projects identified and approved by the banks were of a more diversified nature.

Of the 1,254 cumulative medium and long term projects identified under the Development Scheme, 411 projects were approved by banks and 357 projects were in operation as at end of 1985. During the year under review 300 projects were identified and 122 were approved by the banks. The commercial banks' commitment for these projects was Rs. 3,162,410.

**TABLE 2.17****Summary of Projects Identified and Approved**

| Category       | No. of Units identified | Amount of Loan recommended Rs. | No. of units Approved by Banks | Bank Loan Rs. |
|----------------|-------------------------|--------------------------------|--------------------------------|---------------|
| Agriculture .. | 546                     | 5,517,700                      | 173                            | 1,870,200     |
| Livestock ..   | 483                     | 2,395,479                      | 127                            | 606,285       |
| Industry ..    | 160                     | 1,300,739                      | 79                             | 521,175       |
| Service ..     | 65                      | 364,750                        | 32                             | 164,750       |
| Total ..       | 1,254                   | 9,578,668                      | 411                            | 3,162,410     |

Source: Central Bank of Sri Lanka.

The largest concentration of projects identified by the Regional Office and approved by commercial banks continued to be in agriculture—the main economic activity in the district. Small scale agricultural projects with the use of underground water have become increasingly popular in the district.

## Village Adoption and Self-employment

| Category  | No. of Projects for-<br>warded to Banks |                | Projects Approved<br>by Banks |                |
|---|---|----------------|-------------------------------|----------------|
|   | Units                                   | Value          | Units                         | Value          |
| <b>1. Agriculture with Lift Irrigation facilities</b>             |   |                |                               |                |
| 1.1 Dug wells with Pump sets ..                                   | 429                                     | 3,842.9        | 131                           | 1,164.7        |
| 1.2 Banana cultivation ..   | 03                                      | 13.3           | 01                            | 3.5            |
| 1.3 Wind Mills ..   | 41                                      | 548.5          | 05                            | 71.2           |
| 1.4 Two wheel tractors ..   | 31                                      | 1,022.0        | 18                            | 606.0          |
| 1.5 Agricultural Equipment ..                                     | 42                                      | 91.0           | 18                            | 24.7           |
| <b>2. Livestock</b>   |   |                |                               |                |
| 2.1 Poultry Farming ..  | 77                                      | 474.2          | 28                            | 167.3          |
| 2.2 Dairy Farming ..  | 177                                     | 1,064.3        | 33                            | 193.0          |
| 2.3 Goat breeding ..  | 151                                     | 608.9          | 43                            | 160.5          |
| 2.4 Piggery ..  | 78                                      | 248.1          | 23                            | 85.5           |
| <b>3. Industry</b>  |   |                |                               |                |
| 3.1 Concrete & Metal Works ..                                     | 03                                      | 18.6           | —                             | —              |
| 3.2 Brick manufacture ..  | 11                                      | 46.3           | 05                            | 22.7           |
| 3.3 Bakery & Confectionery ..                                     | 48                                      | 319.3          | 31                            | 153.2          |
| 3.4 Blacksmithy, Tinkering & Welding ..                           | 22                                      | 407.3          | 05                            | 67.6           |
| 3.5 Carpentry & wood carving ..                                   | 17                                      | 131.0          | 11                            | 92.4           |
| 3.6 Beedi & Cigar manufacture ..                                  | 05                                      | 24.5           | 03                            | 13.9           |
| 3.7 Garments & Batik ..   | 24                                      | 175.2          | 12                            | 98.5           |
| 3.8 Coir Products ..  | 07                                      | 27.3           | 05                            | 19.3           |
| 3.9 Manufacture of Stationery & Soap ..                           | 03                                      | 20.3           | 01                            | 5.5            |
| 3.10 Prep. of Ayurvedic drugs ..                                  | 02                                      | 9.0            | 01                            | 3.0            |
| 3.11 Leather Products ..  | 03                                      | 25.0           | 03                            | 25.0           |
| 3.12 Clay Industry ..   | 11                                      | 65.5           | 01                            | 10.0           |
| 3.13 Rice Milling ..  | 01                                      | 10.0           | —                             | —              |
| 3.14 Aquarium & Inland Fisheries ..                               | 03                                      | 21.5           | 01                            | 10.0           |
| <b>4. Services</b>  |   |                |                               |                |
| 4.1 Packing & trading Household Ingredients & other provisions .. | 19                                      | 81.0           | 08                            | 28.0           |
| 4.2 Bicycle Repair Units ..                                       | 27                                      | 174.0          | 13                            | 68.0           |
| 4.3 Photography ..  | 02                                      | 15.0           | 01                            | 8.5            |
| 4.4 Hair dressing ..  | 07                                      | 24.8           | 05                            | 17.3           |
| 4.5 Electrical works ..   | 02                                      | 26.0           | 01                            | 16.0           |
| 4.6 Battery charging units ..                                     | 02                                      | 16.4           | 02                            | 16.4           |
| 4.7 Transport Services ..   | 01                                      | 2.0            | —                             | —              |
| 4.8 Preparation of Sign boards ..                                 | 01                                      | 5.0            | 01                            | 5.0            |
| 4.9 Radio repairing units ..                                      | 04                                      | 20.5           | 01                            | 5.5            |
| <b>Total</b> ..   | <b>1,254</b>                            | <b>9,578.7</b> | <b>411</b>                    | <b>3,162.4</b> |

TABLE 2.18

## Scheme - Position as at end December, 1985

Value in Rs. Thousand

| Projects Financed<br>Capital Involved |              |                                      |         | Repayment                                    |   |   |                            | Paid up<br>Units | Employ-<br>ment | Average<br>income<br>(Monthly) |
|---------------------------------------|--------------|--------------------------------------|---------|--|---|---|----------------------------|------------------|-----------------|--------------------------------|
| Units                                 | Bank<br>Loan | Borro-<br>wer's<br>Contri-<br>bution | Total   | Units<br>fallen<br>due for<br>Repay-<br>ment | Total<br>Amount<br>due as<br>at end<br>Decem-<br>ber,<br>1985 | Total<br>Amount<br>Repaid<br>as at<br>end<br>Decem-<br>ber,<br>1985 | Total<br>amount<br>Overdue |                  |                 |                                |
| 114                                   | 1,010.4      | 248.7                                | 1,259.1 | 77   | 209.6   | 141.2   | 68.4                       | 11               | 250             | 448.9                          |
| 01                                    | 3.5          | 0.5                                  | 4.0     | 01   | 3.5   | 1.5   | 2.0                        | —                | 01              | 3.2                            |
| 05                                    | 71.3         | 13.2                                 | 84.4    | 02   | 5.0   | 5.0   | —                          | —                | 08              | 26.3                           |
| 16                                    | 551.0        | 324.4                                | 875.4   | 08   | 15.9  | 15.9  | —                          | —                | 32              | 66.6                           |
| 18                                    | 24.7         | 7.7                                  | 32.4    | —  | —   | —   | —                          | —                | —               | —                              |
| 22                                    | 125.5        | 41.0                                 | 166.5   | 16   | 52.0  | 31.8  | 20.2                       | 06               | —               | —                              |
| 23                                    | 136.9        | 29.4                                 | 166.3   | 14   | 21.9  | 19.2  | 2.7                        | —                | 23              | 11.5                           |
| 37                                    | 131.7        | 20.9                                 | 151.9   | 27   | 59.3  | 44.0  | 15.3                       | 03               | 37              | 12.9                           |
| 18                                    | 65.8         | 20.5                                 | 86.3    | 11   | 26.1  | 9.2   | 17.0                       | 07               | —               | —                              |
| —                                     | —            | —                                    | —       | —  | —   | —   | —                          | —                | —               | —                              |
| 03                                    | 14.5         | 3.5                                  | 18.0    | 03   | 11.7  | 5.9   | 5.9                        | —                | —               | —                              |
| 28                                    | 135.2        | 91.0                                 | 226.2   | 21   | 53.1  | 39.4  | 13.7                       | 07               | 45              | 420.0                          |
| 05                                    | 67.6         | 23.4                                 | 91.0    | 03   | 15.9  | 15.9  | —                          | 02               | 09              | 25.4                           |
| 10                                    | 85.1         | 24.5                                 | 109.7   | 07   | 36.6  | 27.2  | 9.4                        | 02               | 15              | 100.0                          |
| 03                                    | 13.9         | 2.7                                  | 16.6    | 02   | 6.4   | 4.9   | 1.4                        | 01               | 12              | 25.6                           |
| 11                                    | 83.5         | 35.3                                 | 118.9   | 07   | 16.3  | 16.3  | —                          | 04               | 28              | 88.0                           |
| 05                                    | 19.3         | 3.4                                  | 22.7    | 05   | 11.9  | 8.0   | 3.9                        | —                | 03              | 8.0                            |
| 01                                    | 5.5          | 1.2                                  | 6.8     | 01   | 5.5   | 5.3   | 0.2                        | —                | —               | —                              |
| 01                                    | 3.0          | 1.0                                  | 4.0     | 01   | 2.1   | 1.9   | 0.2                        | —                | 02              | 2.8                            |
| 03                                    | 25.0         | 18.4                                 | 43.5    | 03   | 4.7   | 4.7   | —                          | —                | 08              | 36.0                           |
| 01                                    | 10.0         | 2.0                                  | 12.0    | 01   | 1.7   | 1.7   | —                          | —                | 02              | 2.3                            |
| —                                     | —            | —                                    | —       | —  | —   | —   | —                          | —                | —               | —                              |
| 01                                    | 10.0         | 3.5                                  | 13.5    | 01   | 1.9   | 1.8   | —                          | —                | 02              | 2.5                            |
| 07                                    | 25.0         | 16.7                                 | 41.7    | 06   | 9.3   | 7.4   | 1.9                        | 01               | 10              | 52.5                           |
| 13                                    | 68.0         | 31.5                                 | 99.5    | 13   | 35.0  | 34.1  | 0.8                        | —                | 16              | 39.0                           |
| 01                                    | 8.5          | 5.0                                  | 13.5    | 01   | 8.2   | 8.3   | —                          | —                | 01              | 6.4                            |
| 05                                    | 17.4         | 3.8                                  | 21.2    | 05   | 10.2  | 5.9   | 4.3                        | —                | 08              | 12.5                           |
| 01                                    | 16.0         | 8.0                                  | 24.0    | 01   | 4.5   | 3.7   | 0.8                        | —                | 03              | 12.4                           |
| 02                                    | 16.4         | 5.0                                  | 21.4    | 01   | 5.7   | 5.7   | —                          | —                | —               | 2.1                            |
| —                                     | —            | —                                    | —       | —  | —   | —   | —                          | —                | —               | —                              |
| 01                                    | 5.0          | 0.6                                  | 5.6     | 01   | 2.8   | 1.5   | 1.3                        | —                | 02              | 3.0                            |
| 01                                    | 5.5          | 0.6                                  | 6.1     | 01   | 1.0   | 1.0   | —                          | —                | 02              | 2.0                            |
| 357                                   | 2,754.6      | 987.5                                | 3,742.1 | 240  | 637.9   | 468.4   | 169.5                      | 44               | 520             | 1,409.9                        |

Source: Central Bank of Sri Lanka.

The Regional Office endeavoured to ensure that a major proportion of its disbursement under the Special Development Lending Programme was utilized for financing small farmers and lower income groups with concessional terms such as lower down payments, longer loan maturities and lower interest rates. The borrowers also enjoyed Central Bank training facilities, continuous guidance and support.

The projects in operation showed commendable progress in regard to employment creation and income generation. It is estimated that total income generated during the year was Rs. 12 million, and 274 employment opportunities (excluding the borrowers) have been offered. Continuous guidance and assistance and an uninterrupted flow of extension services are the contributory factors towards the success of most of the projects and repayment.

Of the 240 projects which were due to repay their loans as at end of December 1985, 44 projects repaid their loans in full. Failure of some projects and a few wilful defaulters affected the repayment rates. However, the repayment rate is still over 75 percent which could be considered highly satisfactory when compared with recovery rates experienced in agricultural loans. While re-scheduling programmes have been arranged for projects that failed, there was continuous surveillance of wilful defaulters.

#### **Training Programmes, Seminars and Village level Meetings**

Continuous dialogue with the rural folk and the training programmes for farmer-borrowers formed an essential component of the Lending Programme. Village level meetings (Jana Hamuwa) were a successful media for a forceful and effective communication with the masses in regard to development potential and institutional financing. Forty five such meetings have been conducted during the year covering approximately 2,000 people. Unlike in the previous year, farmer training programmes were decentralised and conducted at seven different centres in the district. Three hundred and fifty six persons underwent agricultural training, making a cumulative total of approximately 2,000 beneficiaries under the Central Bank Training programmes. The training programmes comprised a mix of classroom lectures and field visits.

In addition to communicating with the masses, the dialogue with bank officials was carried out on an ongoing basis to motivate them to venture out to new fields of rural financing.

Training programmes and village meetings were held with the objective of changing people's attitude towards development oriented long term projects and institutional borrowings.

In addition to its own training programmes, the Regional Office continued to assist other agencies in their training sessions. The Womens' Bureau, Ministry of Youth Affairs and Employment, Education Department, Industrial Development Board, Banks, Gramodaya Movement and Sarvodaya received continuous assistance from the Regional Office. The Regional Office addressed more than twenty five seminars/meetings during the period under review.

### **Exhibition of Development Work**

A special three day exhibition was held in August, 1985 to depict the development work and the project oriented lending programmes carried out so far to mark the opening of the Regional Office new building. The exhibition catered to three broad categories :—

- (i) Government officials;
- (ii) Rural masses and
- (iii) Students.

The attendance at the exhibition was estimated at well over 6,500. Subsequent to the exhibition, a large number of applications and inquiries for projects have been received.

The Regional Office continued to assist the Development Finance Department in the supervision of SMI Projects in the district. The Data Collectors of the Countrywide Data Collection Scheme were supervised by the Regional Office which also continued to collect consumer and input prices for this scheme.

The Regional Clearing House cleared cheques to the value of Rs. 160,028,346.19.

### **REGIONAL OFFICE—MATALE**

The third Regional Office of the Central Bank of Sri Lanka commenced its operation in Matale on 23rd December, 1985. The area of operation of this office are administrative districts of Matale, Kandy, and Kegalle.

A primary objective of setting up the Regional Office was to encourage commercial banks to expand their activities in the rural areas to cater to the banking needs of the rural sector more meaningfully and actively on the basis of the concept of development lending. For this purpose, the Regional Office is expected to identify development potential, resolve problems of development lending, and provide necessary assistance and guidance to the banking sector. The Regional Bank also attempted to make rural people aware of available loan facilities with concessionary interest rates and to change their present faulty attitudes. In this regard, convincing the farmers about the advantages of becoming good customers is essential, thereby eliminating the unsatisfactory banking practices and habits through a continuous dialogue with them. It is expected that this exercise would ultimately lead to bridging the ever widening gap between the village folk and the banker and so building a healthy banking structure for the development of the rural sector.

Until the proposed "Self Employment and Village Adoption Scheme" is finalised the Matale Regional Office was engaged in preliminary arrangements to conduct a series of seminars to explain the "New Comprehensive Rural Credit Scheme" (NCRCS) to farmers of the Matale district. Further, a conference was held in Kandy for Branch Managers of the Bank of Ceylon and People's Bank in Matale,

Kandy, Kegalle, Kurunegala, Nuwara-Eliya and Puttalam districts and for the Branch Managers of the Regional Rural Development Bank in the Kurunegala district to explain the implementation of the NCRCS. Initial arrangements were also made to establish a regional "Clearing House" in Matale.

## CUSTOMER SERVICES

The Committee on Customer Services in Banking which comprises senior officials of the Central Bank, commercial banks and certain development oriented ministries and government institutions was established in mid 1981. It has been functioning since then with the main objective of improving commercial banks' services to customers.

During the year 1985, the Committee conducted a postal survey of Customer Services in Banking in Sri Lanka. Questionnaires were dispatched to a random sample of 10,000 customers drawn from five commercial banks in early 1985. Approximately 20 percent of those receiving the questionnaires responded and the responses were processed by the Data Processing Department. The Report on the survey prepared by the Statistics Department is presently in the draft stage and is expected to be available to the public in 1986.

## PUBLICATIONS

The Annual Report of the Central Bank for the year 1984 was presented to the Honourable Minister of Finance and Planning in terms of Section 35 of the Monetary Law Act. The Review of the Economy, 1984 was also published later in the year, while the monthly bulletin was published regularly. A brief review of the economy in the first half of 1985 was published during the year, under the title "Economic Performance in the first half of 1985".

Among the publications during the year were, Prices and Wages Statistics for 1985, which contained data collected under the countrywide data collecting system and the Socio-Economic Data Folder—1985, containing basic data for the year. The Economic and Social Statistics of Sri Lanka—1984, and the Sinhala version of the Consumer Finance Survey Report—1981/82 Part I, and Part II (English) of the same Report containing statistical tables were also published. Staff Studies Vol. 12 No. 2 and Vol. 13 No. 1 & 2 and the Theory of Multiple Exchange Rates and Exchange Rate Management in Sri Lanka by Dr. Wimal Wickramasinghe, were also published.

Occasional Papers—No. 9 on Mahaweli Settlers and the Problems of Rural Credit by N. G. P. Panditharatna, No. 10 on Relationship of Central Banks with Treasuries Planning and Development Agencies in the Government by Dr. W. Rasaputra, No. 11 on Banks and Agricultural Credit—The Indian Experience by M. Narasimham (former Governor, Reserve Bank of India), No. 12 on Regional Import Institutions—A Strategy for Regional Co-operation in Industry in South Asia by Sumathi Nimal Fernando, and No. 13 on Hire Purchase and Leasing Finance by N. U. Jayawardena were published.



The Credit information Bulletin No. 5 was published under the title "Credit for Fisheries."

## **SEMINARS**

The Central Bank hosted a three-day Seminar on 'Non-Bank Financial Institutions and Monetary Policy' from June 3rd-5th 1985. Officers from Bank Indonesia, Bank Negara Malaysia, Nepal Rastra Bank, Central Bank of the Philippines, Bank of Thailand and the Central Bank of Sri Lanka participated in this Seminar, organised by the South-East Asian Central Banks (SEACEN).

## **SURVEYS**

### **Country-wide Data Collection System**

Under the Country-wide data collection system data are collected on retail prices of nearly 220 consumer items, producer prices of major agricultural products, retail prices of agricultural inputs and wage rates in paddy farming, tea, rubber and coconut small holdings and in the construction industry. Information is also collected on the availability of consumer goods, agricultural inputs and labour. These data are collected on a regular basis from 100 selected centres in the country and presented annually in "Price & Wage Statistics: Retail, Producer and Input Prices and Wages".

### **Monitoring of Import Liberalization Programme**

The Statistics Department of the Bank continued to monitor the import liberalization programme by obtaining monthly data on Letters of Credit and Bills received against Letters of Credit. These data and their analysis were made available to the relevant authorities on a regular basis.

### **Survey of Planned Investment**

The Survey of Business Activities and Planned Investments is conducted on an annual basis in order to ascertain the structure of investment, its direction, the extent of planning, sources and uses of funds and the volume of investment. The report on the Survey of Business Activities and Planned Investment for the period 1983/1984 to 1985/1986 has been completed.

### **Survey of Customer Services in Commercial Banks in Sri Lanka**

At the request of the Committee on Customer Services in Banking, the Survey of Customer Services in Commercial banks was conducted during January-April 1985. The main objective of the Survey was to gather information from banking customers on attitudes towards services that are offered by their bankers in order to consider ways and means of improving the scope and efficiency of banking services in Sri Lanka.

## TRAINING

During the year 1985, the Central Bank continued its programme of academic and practical training for Bank officers. Academic courses were confined to post-graduate studies mainly in Economics and Econometrics. Practical training which was in the form of short-term courses, seminars, workshops, study tours, etc. covered chiefly the areas related to Rural Development, Agricultural and Industrial Credit Banking and Computer Studies which were held at institutions in Sri Lanka as well as in foreign countries.

During the 12 month period ending December 1985, nine officers proceeded abroad on post-graduate studies. Six of these officers followed Masters Courses while three were on Ph.D. studies. One officer undertook post-graduate studies at the Post-graduate Institute, Peradeniya University and four officers followed Diploma Courses at the University of Colombo, Institute of Chartered Accountants and National Institute of Business Management, Sri Lanka. Ninety four officers went abroad on practical training. One hundred and fifty one officers followed training courses conducted by the Rural Banking and Staff Training College and another 116 officers participated in short-term training courses and seminars conducted locally at other training centres.

The in-service training programme in Commercial Banking Practices and Operations for Central Bank officers at the Bank of Ceylon continued upto May 1985 and three officers participated in this programme. It is expected that this programme will be continued in the year 1986.

## DATA PROCESSING

The Data Processing Department handled the following computer applications in 1985 :—

- (1) Employees Provident Fund Accounting System
- (2) Balance of Payments of Sri Lanka
- (3) Imports Monitoring System
- (4) Government Accounts Branch and Current Accounts
- (5) Accounting System of the Public Debt Department
- (6) Statistical Surveys
  - (i) Survey of Customer Service in Banking
  - (ii) Analysis of Consumer Finance Survey Data of 1978/79 and 1981/1982 for the World Bank - Central Bank of Sri Lanka Study on Evolution of Living Standards in Sri Lanka Since 1970.

- (7) Estimation of Econometric Models for Policy - Sri Lanka
- (8) National Identity Numbering System for Registration of Persons Department.
- (9) Payroll Accounting System and other payments
- (10) Country wide Data Collection Scheme
- (11) Central Bank Employees Retirement Benefit System
- (12) Central Bank Welfare Loans System
- (13) Management Information System for Central Bank
- (14) National Savings Bank Accounting System
- (15) Money Market and Foreign Exchange Transactions
- (16) Statistical work of Ceylon Government Railways

In addition to the above, computerisation work with regard to the issue of Employees Provident Fund Passbook System was undertaken. The programmes of the Passbook Systems have been tested and are ready for operation. This Department also undertook the implementation of the Automated Cheque Clearing Project. Preliminary work on this project was completed in 1985 and operations are expected to commence by the end of 1986. The systems and programming activities on the Export Monitoring System was also undertaken during this period. Computerisation of the General Ledger and Balance Sheet of the Banking Department was done during 1985, and the Production Runs will start early 1986.

#### **MANAGEMENT AUDIT**

The Internal Audit Division audited the various departments of the Bank; including the Regional Offices at Matara and Anuradhapura during 1985. The audit of the Public Debt was widened to cover all operations of the Joint Investment Fund.

The Management Services Division reviewed staff requirements, work norms, existing procedures and study of internal controls in the course of carrying out O & M assignments. The study on requirements of Public Debt Department was completed during 1985. A report was compiled on the incidence of no-pay leave in all departments of the Bank. A report on work norms for the non-staff officers in the export 'Post Check Branch' of the Exchange Control Department was also finalised during the year.

## PERSONNEL

The Governor Dr. W. Rasaputra attended the following conferences and meetings during the year 1985 :—

- (a) The Twentieth Conference of the South East Asian Central Bank (SEACEN) Governors in Kota Kinabalu, Malaysia.
- (b) The South East Asia New Zealand & Australia (SEANZA) Governors' Conference in Kathmandu, Nepal.
- (c) The 13th Board Meeting of the Asian Clearing Union in Kathmandu, Nepal.
- (d) The Interim Committee Meeting of the International Monetary Fund in Washington, U. S. A.
- (e) The North - South Round Table and the Eighteenth World Conference of the Society for International Development (SID) in Rome, Italy.
- (f) The Annual Meetings of the International Monetary Fund and the International Bank for Reconstruction and Development in Seoul, South Korea.
- (g) The State Bank of Pakistan and the People's Bank of China for official discussions.

Mr. G. Cumaranatunga, Deputy Secretary to the Treasury acted as the Alternate of the Official Member of the Monetary Board in the absence of the Secretary to the Ministry of Finance and Planning.

Mr. D. L. Kannangara, Senior Deputy Governor acted as the Chief Executive Officer of the Bank and the Chairman of the Monetary Board in the absence of the Governor from Sri Lanka.

### Appointments—

Mr. V. N. D. Nanayakkara, Director, Data Processing Department was appointed Superintendent of Public Debt with effect from 15th January, 1985.

Mr. P. Amarasinghe, Superintendent of Public Debt was appointed Director of the Data Processing Department with effect from 15th January, 1985.

Dr. G. M. Abayaratna, Director of Economic Research was appointed Director of Statistics with effect from 15th November, 1985.

Mr. P. M. Nagahawatte, Director of Premises and Additional Chief Accountant was appointed Controller of Exchange with effect from 15th November, 1985.

Mr. D. A. P. Weerawardena, Controller of Exchange was appointed Adviser, Exchange Control, with effect from 15th November, 1985.

Dr. N. E. H. Sanderatne, Director of Statistics was appointed Director of Economic Research with effect from 15th November, 1985.

Mr. S. Pattavidana was appointed to act for the Superintendent of Currency with effect from 15th January, 1985. He was appointed Acting Superintendent of Currency with effect from 8th June, 1985 and Acting Director of Premises and Acting Additional Director, Rural Banking and Staff Training College with effect from 15th November, 1985.

Mr. G. D. B. Munidasa, Deputy Superintendent of Currency was appointed to act as Superintendent of Currency with effect from 15th November, 1985.

**Officers on release (as at 31st December, 1985)**

The following officers of the Bank were on release to Ministries, Government Departments and State Corporations in Sri Lanka and for assignments with International Organisations :—

Mr. A. S. Jayawardena, Executive Director, to the International Monetary Fund to function as Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka.

Dr. S. T. G. Fernando to the Ministry of Finance & Planning to function as Chairman, People's Bank.

Mr. S. Easparathan to the Ministry of Finance & Planning, to function as Director, Aid Utilization and Debt Management Unit, Department of External Resources.

Dr. L. E. N. Fernando to the Ministry of Finance & Planning, to function as Chairman, Bank of Ceylon.

Mr. A. A. D. Justin to the Ministry of Industries and Scientific Affairs to function as Secretary, Ministry of Industries and Scientific Affairs.

Dr. A. C. Randeni, Dr. G. Abeysekara, Dr. I. Coomaraswamy, Dr. S. S. Colombage and Messrs M. B. Dissanayake, E. A. P. N. Dias, G. A. V. Fonseka to the Ministry of Finance & Planning.

Dr. D. S. Wijesinghe to the SEACEN Research & Training Centre in Malaysia for an assignment as Research Economist.

**Retirements**

Dr. H. N. S. Karunatilake, Deputy Governor retired from the Central Bank's service with effect from 1st March, 1985.

Mr. M. E. de Abrew, Consultant Engineer, retired from the Central Bank's service with effect from 30th May, 1985. He was re-employed on a contractual basis from the same date.

Mr. R. M. Tennakoon, Superintendent of Currency retired from the Central Bank's service with effect from 8th June, 1985.

Mr. A. T. W. Jehorathnam, Staff Officer Grade IV retired from the Central Bank's service with effect from 12th November, 1985.

**Death**

Mr. T. G. Punchiappuhamy, Deputy Governor expired on 19th October, 1985.

DISCARDED