

## 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 December 31, 1986 and the Profit and Loss Account for the year ended December 31, 1986 are shown in Table 2.1.

At the end of 1986, the total assets/liabilities of the Central Bank stood at Rs. 43,163.9 million registering an increase of 4.9 per cent over their level last year. The increase in assets resulted from a rise in Domestic Assets (12.4 per cent) and an increase in Other Assets and Accounts (16.8 per cent). Within Domestic Assets, increases were recorded in Loans and Advances to Government (9.7 per cent), Medium and Long-term loans (8.1 per cent), Short-term loans (66.4 per cent) and Government and Government Guaranteed Securities (9.1 per cent). During the year, the liabilities of the Bank rose mainly on account of increases in Currency in Circulation (13.6 per cent), Medium and Long-term Credit Fund (32.2 per cent), Central Bank Securities (122.9 per cent) and Other Liabilities and Accounts (11.9 per cent). However, Deposits decreased by 23.0 per cent.

The income of the Bank for the year 1986 at Rs. 3,689.5 million showed a decrease of 3.5 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. 1,724.0 million. A sum of Rs. 1.0 million is to be transferred to the surplus of the Bank in terms of Section 39(b) of the Monetary Law Act. The balance amount of Rs. 1,723.0 million is earmarked to be paid to the Government in terms of Section 39(c) of the Monetary Law Act to be utilized for 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 1986, the spot buying and selling rates per U.S. Dollar were Rs. 28.5125 and Rs. 28.5275, 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 1986, 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 U.S. \$ 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 U.S. \$ 100 against the spot middle rate.

### **Asian Clearing Union**

The total value of transactions routed through the Asian Clearing Union Facility during the year 1986 amounted to Rs. 7,907.6 million compared with the total of the previous year which amounted to Rs. 5,960.1 million.

# ACCOUNTS OF THE CENTRAL

## Balance Sheet as

31st December 1985 Rs.		LIABILITIES	31st December 1986 Rs.	
15,000,000		<b>Capital Accounts</b>	15,000,000	
70,000,000	85,000,000	Capital ...	80,000,000	95,000,000
		Surplus ...		
		<b>Currency in Circulation</b>		
10,763,800,798		Notes ...	12,229,000,668	
555,634,845	11,319,435,643	Coins ...	634,241,496	12,863,242,164
		<b>Deposits</b>		
2,119,925,142		Government ...	1,710,810,540	
85,447,855		Government Agencies and Institutions ...	122,732,153	
5,490,156,739		Commercial Banks ...	5,045,339,209	
		International Organisations Foreign Government and Foreign Banking Institutions ...	2,463,197,152	
4,108,963,586		Compulsory Savings Fund excluding Rs. 164,352,500/- invested in Treasury Bills ...	103,942	
54,476		Others ...	664,531,455	10,006,714,451
1,190,716,724	12,995,264,522			
	5,992,891	Borrowings Abroad ...		Nil
	775,000,000	Medium and Long Term Credit ...		1,025,000,000
	150,000,000	Capital Contribution Accounts ...		160,000,000
	1,168,125,000	Central Bank Securities ...		2,603,633,000
	14,659,800,056	Other Liabilities and Accounts ...		16,410,354,180
	41,158,618,112			43,163,943,795

## Profit and Loss Account

31st December 1985 Rs.			31st December 1986 Rs.	
		To General Charges (including Salaries Expenditure on Currency Notes and Coins and Depreciation on Land and Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act ...		1,729,274,810
	1,882,274,433	<b>Net Profit for the Year ended 31st December 1986</b>		
		To Monetary Adjustment Account in Liquidation of Balance in terms of Section 39(a) of the Monetary Law Act ...	236,255,802	
153,735,000		Carried to Surplus in terms of Section 39(b) of the Monetary Law Act ...	1,000,000	
10,000,000		To Part Liquidate Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act ...	1,723,000,000	1,960,255,802
1,779,000,000	1,942,735,000			
	3,825,009,433			3,689,530,612

The accounts of the Central Bank of Sri Lanka for the year ended 31st December 1986 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.  
7th April, 1987.

W. GAMINI EPA  
Auditor-General

**at 31st December, 1986**

**at 31st December, 1986**

for the Year ended 31st December, 1986

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

The net payments for the year under review amounted to Rs. 925.6 million as against a net payment of Rs. 927.3 million in 1985.

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 remained at 11 per cent per annum during 1986.

The Central Bank's accommodation to commercial banks under refinance schemes for exports continued to be in operation throughout the year. The period of refinance for exports that fall under Category I (traditional exports) was extended from 60 days to 90 days, the same period that was applicable to exports under Category II (non-traditional exports); however, extensions by a further 30 day period was provided on a case by case basis upto a total of 120 days for both categories. The grant of an interest rebate of 4 percentage points was applicable only if the export proceeds were repatriated to Sri Lanka within a period of 90 days in both categories.

The rate of interest in respect of refinance for exports under Category I remained at 11 per cent per annum with an on-lending rate of 14 per cent per annum; for Category II exports, the corresponding rates applicable were 6 and 9.8 per cent per annum. During the year, the global limit for commercial banks was increased from Rs. 1,500.0 million to Rs. 1,663.4 million for exports under Category I of the Export Credit Facility.

The rate of interest on Central Bank advances 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 remain at 1.5 per cent per annum. These advances were disbursed under the New Comprehensive Rural Credit Scheme. The rate of interest on 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. Advances upto a maximum of Rs. 100 million to People's Bank on account of its advances to the Co-operative Wholesale Establishment for purchase of chillies in the Mahaweli area was granted at 4 per cent per annum with an on-lending rate of 6 per cent per annum.

### Medium and Long-term Credit

During the year 1986, 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 the above Scheme remained the same. The Central Bank also continued to refinance the capitalisation of overdue interest and loan instalments of the tourist industry. The balance in the Medium and Long-term Credit Fund increased from Rs. 775.0 million to Rs. 1,025.0 million in December 1986, of which Rs. 748.5 million was outstanding from credit institutions as at December 31, 1986.

### Commercial Bank Credit

The credit ceilings imposed in 1984 continued to be in operation during 1986. However, on February 21, 1986, credit granted by commercial banks for the purpose of "industry" was exempted from the credit ceiling. 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;
- (c) total advances granted and outstanding to the private sector other than for exports, agriculture and industry do not exceed 5 per cent of the total amount of such advances granted and outstanding as on May 11, 1984.

### Reserve Requirements

With effect from January 9, 1986, every commercial bank was required to pay interest on deficiencies in its required reserves at the rate of one-tenth of one per centum per day instead of the previous rate of one-thirtieth of one per cent per day in terms of the Monetary Law (Amendment) Act No. 52 of 1985.

With effect from February 28, 1986, the marginal reserves under the Reserve Tranche System applicable to incremental deposits that commercial banks were required to maintain was withdrawn. Except this change the reserve requirements enforced on August 9, 1985 continued to be in operation during 1986.

### Secondary Market Operations in Treasury Bills

The Central Bank continued its transactions in Treasury Bills in the Secondary Market. The sales turnover decreased from Rs. 75,844.1 million in 1985 to Rs. 74,295.1 million in 1986. Purchase turnover too decreased from Rs. 37,131.5 million to Rs. 31,817.3 million.

The interest rates in the Call Money Market during the year varied between 9.0 to 12.75 per cent per annum whereas the discount rates applicable to Secondary Treasury Bill Market operations varied between 10.0 to 10.5 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. 0.467 million was paid to repatriates during 1986. The total amount of ex-gratia payments made in respect of 129 repatriates who left the Island during the year amounted to Rs. 0.5 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. 3.6 million (inclusive of interest) on 1,263 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 1986 was 162 (Government Departments 147 and Others 15).

### **CURRENCY ISSUE**

The total currency in circulation as on December 31, 1986 stood at Rs. 12,863.2 million comprising Rs. 12,229.0 million in notes and Rs. 634.2 million in coins. This represents an increase of Rs. 1,543.8 million over the figure of Rs. 11,319.4 million at the end of the preceding year. Currency notes and coins in circulation during the year increased by Rs. 1,465.2 million and Rs. 78.6 million, respectively.



Consequent on the change of the name of the Bank in English from the "CENTRAL BANK OF CEYLON" to "CENTRAL BANK OF SRI LANKA", action was initiated to give effect to this amendment on all currency notes printed by the Bank and bearing a date on or after December 31, 1985 (the date of the amending legislation). In the case of coins, the abbreviated title of the Bank in English appearing on the edge of the Rs. 5 coin was also amended to read as "C.B.S.L." instead of "C.B.C.". The title of the Bank in Sinhala and Tamil however remains unchanged.

During the year under review, steps were taken to change the picture of the Lion depicted in the watermark panel of the currency notes. Accordingly, all currency notes issued in line with the amendment to the title of the Bank in English, will have a Lion in the watermark, as depicted in the National Flag. Action was also initiated during the year to issue a currency note in the denomination of Rs. 1,000 with a new design.

### **BANKING DEVELOPMENT**

At the beginning of 1986, there were 25 commercial banks operating in Sri Lanka, comprising 21 foreign banks and 4 local banks with a network of 600 main branches. In addition, there were 914 Rural Banks, 53 Agricultural Service Centres and 17 branches of the Regional Rural Development Banks. Two representative offices of foreign banks and two merchant banking companies were also carrying on business in the country.

The year under review witnessed several changes in the field of banking development. Two foreign banks ceased to operate in Sri Lanka with effect from December 31, 1986. Consequent on the take-over of the Dubai Bank Ltd., by the Union Bank of the Middle East Ltd., the Colombo branch of the Union Bank of the Middle East Ltd., took over the business of the Colombo branch of the Dubai Bank Ltd., and announced its decision to operate under the name of the Union Bank of the Middle East Ltd. The Bank of America which established a branch in Sri Lanka in July 1980, closed its branch with effect from December 31, 1986, as a part of the Bank's worldwide rationalisation programme. With these changes the total number of foreign banks operating in the country as at the end of December 1986, declined from 21 to 19. During the year, permission was granted to set up two locally incorporated commercial banks under Section 121B of the Monetary Law Act and the groundwork for their establishment was still under way by the end of the year. Of the two representative offices operating in Sri Lanka, the Mellon Bank N.A. Sri Lanka wound up its operations with effect from February 1986.

During the year, the two State Banks opened seven new bank branches. The Bank of Ceylon opened three branches at Meegallawa and Eppawala in the Anuradhapura District and at the Ruhuna University Campus in the Matara district while it closed down its Olcott Mawatha branch in December 1986. Accordingly the total number of branches of the Bank of Ceylon as at end-December 1986 stood at 238. The People's Bank opened four branches during the year. Of these, two were at Malwatte Road and Katubedda in the Colombo district, one at Talawa in

the Anuradhapura district and the other at Ragama in the Gampaha district. Thus, as at the end of 1986, the total number of branches of the People's Bank stood at 297. The Commercial Bank of Ceylon also opened a new branch at Kurunegala in December 1986, while the State Bank of India closed its Anuradhapura branch in February 1986. With these changes and the closure of the Bank of America and the Dubai Bank Ltd., the total number of main commercial bank branches in the country which stood at 600 at end 1985 increased to 604, as at the end of 1986.

The National Savings Bank opened three branches during 1986 at Galnewa, Mawanella and Bandarawela, bringing the total number of its branches to 60.

The Regional Rural Development Banks (RRDB) opened 15 new branches during 1986, bringing the total number of their branches to 32 (excluding Head Offices). A new RRDB was also established in December 1986, in the Hambantota district with the Head Office at Ambalantota.

The Central Bank continued to pursue its policy of modernisation of banking services in Sri Lanka. In keeping with this policy, the Central Bank granted permission to Hongkong and Shanghai Bank Ltd., to instal Electronic Teller Card machines (ETC). With the installation of two ETCs by this Bank, Sri Lanka entered the field of electronic banking services for the first time in 1986. The Central Bank also initiated action to computerize banking services by taking steps to introduce an automated cheque clearing system. Several commercial banks have in addition introduced data communication networks for prompt collection of information from the branches.

## **BANK SUPERVISION**

### **Commercial Banks**

In 1986, the Central Bank commenced the examination of eleven commercial banks for the examination period 1986/87 under Section 29(1) of the Monetary Law Act and concluded three of these examinations. 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 1985 was also evaluated on the basis of returns furnished by them. The Bank also monitored the training facilities provided by foreign banks to their employees.

The Bank continued its programme of monitoring the transactions of Foreign Currency Banking Units established by commercial banks under the Foreign Currency Banking Scheme.

### **Finance Companies**

The Bank was 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 (CFCA). As at December 31, 1986, 72 institutions

were registered with the Central Bank. Two applications received during the year in the Bank for registration were turned down, since those companies did not conform to the provisions of the CFCA.

Seventy one (71) finance companies were visited in order to ascertain the extent to which those companies have complied with the directions given by the Monetary Board. The examination of thirteen (13) companies under Section 15(1) of the Act commenced during the year 1986. In addition, the Director of Bank Supervision, acting on the directions given by the Monetary Board to institute legal action against certain finance companies for violation of directions given by the Monetary Board under the CFCA, filed complaints with the Police against the directors of these finance companies as a preliminary step to instituting legal action. The Monetary Board also approved the suspension of businesses of three companies under Section 16 of the Act. Subsequently, one company was allowed to continue business, while in the other two cases, action was filed for liquidation.

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, paying particular attention to compliance with directions given by the Monetary Board in respect of the required levels of liquid assets, capital funds and transfers to reserve funds.

## **DEVELOPMENT FINANCE**

Approval of refinance under the Medium and Long-term Credit Fund (MLCF) of the Central Bank recorded a substantial increase in 1986. Aggregate refinance under Categories II, III and IV amounted to Rs. 442.8 million. As in the previous year, a major share amounting to Rs. 316.4 million or 71 per cent was for the rehabilitation of sick industries including capitalization of interest in arrears on loans granted by commercial banks to tourist hotels. Approval of refinance for the agricultural sector amounted to Rs. 80.6 million largely due to the approvals granted to meet the domestic finance component of the Medium Term Investment Programme for the plantation sector. A breakdown of refinance approvals is shown in Table 2.2.

The Central Bank continued to implement the package of relief measures granted to the tourist hotel sector. This scheme was first announced in 1984. These measures initially included a moratorium on the repayment of principal and interest on loans extending to March 1987, rescheduling of outstanding debts thereafter over an extended period and refinancing of 60 per cent of the interest in arrears by the Central Bank. These concessions were revised in 1985 by extending the moratorium upto March, 1989 and raising the extent of rescheduling granted to loans upto 100 per cent as against 80 per cent allowed earlier.

By the end of 1986 rescheduling of loans aggregating to Rs. 371.3 million was completed involving 66 hotel projects. In addition to this, the Central Bank refinanced interest in arrears aggregating to Rs. 116.5 million. In another 48 hotels, loans aggregating to Rs. 245.6 million were under consideration for rescheduling. Progress made under this scheme is shown in Table 2.3.

During the year, follow-up work in respect of refinance approvals was intensified in order to ascertain the proper utilisation of funds and achievement of targets and to identify any symptoms of industrial sickness.

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

(Rs. Million)

Category	1984		1985		1986	
	Loan amount	Amount refinanced	Loan amount	Amount refinanced	Loan amount	Amount refinanced
II Export Sector	113.0	79.1	13.7	9.0	41.4	29.0
III and IV						
(i) Agriculture	0.1	0.1	2.6	1.6	134.4(a)	80.6
(ii) Industry	98.2	49.1	38.9	27.2	1.0	0.6
(iii) Hotels	—	—	—	—	2.5	1.5
(iv) Others	2.2	1.3	6.5	3.9	16.5	14.7
Rehabilitation of Sick Industries	—	—	145.5	101.9	325.6(b)	316.4
Total	213.5	129.6	207.2	143.6	521.4	442.8

Source: Central Bank of Sri Lanka.

- (a) Includes five loans aggregating to Rs. 130.4 million granted for Tree Crop projects under the Medium Term Investment Programme.
- (b) Includes capitalisation of interest in arrears on loans amounting to Rs. 40.9 million granted to tourist hotels.

**TABLE 2.3**  
**Relief to Tourist Industry—Rescheduling of Loans**  
**(Cumulative Total as at December 1986)**

Name of Credit Institution	Rescheduling completed		Rescheduling under consideration		Interest in arrears refinanced by Central Bank
	No. of Hotels	Loan amount (Rs.)	No. of Hotels	Loan amount (Rs.)	Amount (Rs.)
Development Finance Corporation of Ceylon	25	132,686,710	—	—	72,929,789
National Development Bank of Sri Lanka	10	105,678,568	2	14,380,000	33,296,389
People's Bank	11	34,628,822	20	120,540,168	—
Bank of Ceylon	10	53,732,389	11	38,681,975	—
Hatton National Bank Ltd.	5	36,606,301	2	2,670,063	8,528,919
Commercial Bank of Ceylon Ltd.	4	4,941,450	9	28,783,776	—
Grindlays Bank	—	—	1	6,964,285	—
Deutsche Bank (Asia) A.G.	1	3,059,256	—	—	1,833,943
Banque Indo-Suez	—	—	3	33,655,847	—
Total	66	371,333,496	48	245,676,114	116,589,040

Source: Central Bank of Sri Lanka.

The utilization of the second SMI line of credit granted by the International Development Association improved appreciably in the year under review. By the end of December 1986, a total of Rs. 748.7 million had been committed in respect of 1,751 projects under this scheme. Participating credit institutions have reported an improved commitment rate of around Rs. 30 million per month. Consequently, it is now anticipated that the SMI-II project will be fully committed in the early part of 1987.

The Central Bank also intensified its SMI follow-up work with direct project inspections. In 1986, direct inspections were carried out in 98 projects. The follow-up work was mainly directed at projects that displayed signs of industrial sickness and appropriate action was taken to advise banks and projects for the rehabilitation or the recovery of the projects where necessary. There is clear evidence that the follow-up programme of the Central Bank has contributed to the improvement of the repayment of loans. Loans classified to be in arrears under SSI and SMI-I Schemes declined from 622 in 1985 to 492 in 1986.

### **Credit Guarantee Operations**

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

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

The issue of credit guarantee under the SSI Scheme was completed by the end of 1981. Under the SSI Scheme, the Central Bank provided guarantees on behalf of the government for loans disbursed by the credit institutions on the recommendation of the Industrial Development Board. Accordingly, the Central Bank issued 767 guarantees covering Rs. 31 million. By the end of December 1986, 545 loans were reported to be fully recovered and 62 guarantees were considered lapsed or withdrawn. By the end of 1986, the total outstanding loans numbered 108. Of these, 105 were reported to be in arrears. Under this scheme, the Central Bank had settled or admitted 50 claims amounting to Rs. 1.5 million. Another 10 claims were under consideration. These payments were made from an allocation of funds from the Government Budget.

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

Under the SMI-I Credit Guarantee Scheme which commenced in 1979, the Central Bank provided its own guarantees for loans disbursed by credit institutions. The issue of credit guarantee was completed in 1984. A total of 1,668 guarantees covering Rs. 286 million in loans were issued under the scheme. Of these Rs. 89 million granted under 913 loans was fully recovered.

By the end of December 1986, 571 loans with an aggregate loan balance of Rs. 76.8 million remained to be recovered. The number of loans in arrears declined from 504 in 1985 to 387 in 1986, but the amount outstanding in the loans in arrears amounted to Rs. 48.6 million or 63 per cent of the loans outstanding under this scheme.

TABLE 2.4

## Central Bank Credit Guarantee Schemes (1985 - 1986)

(As at December 31, 1986)

(Value in Rs. Million)

Item	Small Scale Industries (S.S.I.)				Small and Medium Scale Industries							
	1985		1986		SMI-I				SMI-II			
					1985		1986		1985		1986	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
Loans granted ...	767	31.2	767	31.2	1,664	284.1	1,668	286.1	831	382.3	1,540(e)	782.7
Loans guaranteed ...	767	23.4(a)	767	23.4(a)	1,664	156.4(c)	1,668	157.5(c)	831	204.7(d)	1,540(e)	406.9(d)
Loans fully repaid ...	508	17.2	545	19.4	691	51.2	913	89.4	23	4.1	56	8.66
Guarantees withdrawn/lapsed	62	3.6	62	3.6	45	11.4	48	12.8	23	6.9	50	30.33
Claims admitted/settled												
(i) Loans outstanding	47	2.0	50	2.067	95	10.835	123	15.900	—	—	1	0.060
(ii) Liability admitted	47	1.5	50	1.550	95	6.502	123	9.541	—	—	1	0.036
Claims rejected												
(i) Loans outstanding	2	0.22	2	0.22	10	2.83	13	4.05	2	0.17	2	0.17
(ii) Amount claimed	2	0.16	2	0.16	10	1.66	13	2.42	2	0.1	2	0.1
Loans outstanding ...	148	3.6(b)	108	2.5(b)	823	105.8(b)	571	76.8(b)	783	371.4(b)	1,431(e)	490.0(b)
(of which in arrears)	118	2.9	105	2.4	504	51.9	387	48.6	79	18.5	197	59.1
Guarantees outstanding	148	2.7(a)	108	1.9(a)	823	60.9(c)	571	44.1(c)	783	231.9(d)	1,431(e)	260.0(d)
Claims pending												
(i) Loans outstanding	13	0.4	10	0.685	69	14.1	82	16.428	5	0.52	12	4.326
(ii) Amount claimed	13	0.3	10	0.514	69	8.5	82	9.857	55	0.31	12	2.596
Premium collection		0.86		0.89		7.80		8.69		1.39		3.39

Source: Central Bank of Sri Lanka.

(a) 75 per cent loans outstanding.

(b) Excluding instalments recovered.

(c) 60 per cent of loans outstanding subject to a maximum of Rs. 0.4 million.

(d) 60 per cent of loans outstanding subject to a maximum of Rs. 0.8 million with respect to loans upto Rs. 2.0 million and Rs. 1.2 million in respect of loans between Rs. 2.0 million to Rs. 4.0 million.

(e) Includes 213 loans amounting to Rs. 151.96 million which are not reported as disbursed as at 31.12.86.

By the end of 1986, the Central Bank had settled 123 claims amounting to Rs. 9.5 million submitted by credit institutions. Only 13 claims amounting to Rs. 2.42 million had been rejected. Total guarantee premium collections under this scheme at the end of 1986 amounted to Rs. 8.69 million.

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

TABLE 2.5

## SMI-I Scheme—Industry-wise Classification of Loans

(Amount in Rs. Thousand)

Industry	1979-1986		
	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. Readymade garments, batiks, handloom carpets, etc. ...	142	22,142	11,525
5. Rubber and rubber-based products ...	31	9,294	4,696
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	28
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 ...	52	11,113	6,645
24. Printing ...	44	12,906	6,951
25. Miscellaneous ...	116	31,763	17,089
Total ...	1,668	286,116	157,531

Source: Central Bank of Sri Lanka.

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

SMI-II Credit Guarantee Scheme commenced in 1982 and recorded slow progress in the initial years. In the year under review, there was a marked improvement in the utilization of the second SMI line of credit granted by the International Development Association. By the end of December 1986, the Central Bank had issued 1,540 guarantees covering Rs. 782.7 million granted in loans. By the end of 1986,

56 loans amounting to Rs. 8.7 million had been fully recovered. Among the outstanding loans 197 loans with a loan balance of Rs. 59.1 million had fallen into arrears. Under this scheme, the Central Bank has settled one claim while 12 claims are under consideration. An industry-wise classification of loans granted under SMI-II is shown in Table 2.6.

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

(Amount in Rs. Thousand)

Industry	1982-1986			1986		
	No. of loans	Amount granted	Amount guaranteed	No. of loans	Amount granted	Amount guaranteed
1. Food Processing ...	491	257,644	132,535	243	136,444	69,570
2. Other Agro Industries ...	35	14,613	7,648	11	5,940	3,164
3. Rubber Products ...	56	38,366	19,900	25	17,434	9,560
4. Metal Products ...	156	64,478	32,897	59	29,985	14,701
5. Construction Materials	105	61,114	32,834	49	29,229	15,579
6. Construction Contracting ...	8	12,075	5,785	4	6,500	3,000
7. Wood Products ...	113	37,620	20,817	43	16,307	8,484
8. Garments ...	87	33,205	18,306	32	10,751	5,611
9. Textiles ...	32	19,356	10,668	12	10,053	5,406
10. Repair Workshop ...	63	24,655	14,366	38	15,860	9,276
11. Miscellaneous ...	394	219,573	111,121	197	108,891	54,920
Total ...	1,540	782,699	406,877	713	387,394	199,271

Source: Central Bank of Sri Lanka.

## RURAL CREDIT

The Central Bank continued to play an active role in the sphere of rural credit in 1986, which included formulation of national policy guidelines, monitoring and supervision of various credit schemes and the promotion and development of rural credit institutions. In addition to the four Regional Rural Development Banks (RRDBs) established in 1985, which expanded rapidly in 1986 with more branches, a new RRDB was established in the Hambantota district.

The Rural Credit Advisory Board (RCAB) held seven meetings during the year under review. At these meetings, a number of policy issues relating to rural credit were discussed by the Board. Among these were the desirability of introducing a credit guarantee scheme for investment loans granted by banks to support production/employment oriented activities undertaken by poorest groups in the population, the need for recruitment of additional supervisory personnel by lending banks to strengthen the end use supervision and follow up on loans, the revision of the scale of finance for several crops financed under the New Comprehensive Rural Credit Scheme (NCRCS) and the examination of deficiencies of the Agricultural Insurance Scheme with a view to making it more responsive to the needs of the



farmer. The slow absorption of refinance allocations and foreign loans granted by international agencies also drew the attention of the Board which considered various proposals to speed up lending. The Board appointed a Committee comprising the representatives from the Central Bank, People's Bank, Bank of Ceylon, Ministry of Finance and Planning and the Ministry of Plan Implementation to examine the problems of the Livestock sector of the country and make suitable recommendations to overcome those problems. The Committee submitted its report to the Board for its consideration. The Board approved the Credit Scheme for Dairy Development and the Kegalle Integrated Rural Development Project Loan Scheme in 1986. The Credit Guarantee Scheme for loans granted under the Category I of the MLCF, the Credit Guarantee Scheme for loans granted under the Second (West Coast) Fisheries Project funded by the Asian Development Bank (ADB) and the revision of scales of finance for cultivation of potatoes were also approved by the Board.

The Central Bank implemented the New Comprehensive Rural Credit Scheme (NCRCS) from Yala, 1986 during which a total sum of Rs. 150.9 million was sanctioned as cultivation loans. This surpasses the average level of lendings for Yala in the previous 20 years. The highest volume of loans given previously was in 1985 when the banking system granted Rs. 36.8 million for paddy during Yala 1985. The loans granted under the NCRCS enjoy a guarantee cover of upto 50 per cent. Thrift and Credit Co-operative Societies also started lending to farmer members under this scheme. This is the first time that these Societies have participated in a loan scheme sponsored by the banking system. The other features of this scheme such as the line of credit for cultivation for three years and the roll-over facility in respect of the rescheduled loans of non-wilful defaulters were well received by the banks as well as farmers. The new reporting system incorporated in the NCRCS facilitated the computerisation of data pertaining to the grant and recovery of cultivation loans. The Bank was able to get a satisfactory feedback on the operation of this credit scheme and give the lending banks a detailed analysis of the distribution of loans geographically as well as by various types of borrowers in a short period of time. The monitoring system has helped the Central Bank in the effective implementation of the roll-over facility under which the Bank provides refinance for rescheduling cultivation loans of non-wilful defaulters.

The Marketing Loan Scheme for financing the purchase of maize, soya-beans pulses and other coarse grains required for production of livestock feed and vegetable oils by the Ceylon Oils and Fats Corporation (COFC) progressed satisfactorily in the year under review. In Anuradhapura district where this Scheme was first introduced, a total sum of Rs. 15 million was granted by banks to the COFC for this purpose in 1986. The District Agricultural Committee has observed that this scheme has helped to ensure better prices for the producers.

During the year under review, five new credit schemes were introduced to provide Medium and Long-term Credit to the rural sector and modifications were introduced to some of the ongoing schemes. The All-Island Dairy Development Scheme was introduced to replace the earlier scheme, the Credit Scheme for Dairy Development in the Nuwara Eliya district which was terminated in 1985. The new scheme incorporated several new components such as credit for purchase of stud

## Loan Schemes approved for refinancing under Category I

Name of Credit Scheme	Refinance allocation (Rs. Mn.)
<b>A. Credit Schemes at the beginning of the year 1986:</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. Farm Machinery Loan Scheme for Kurunegala District Inte- grated Rural Development Project ...	76.50
6. Loan Scheme for Dairy Development (Pilot) Project in Saman- thurai Electorate ...	0.12
7. Credit Scheme for construction of Fertilizer Stores by M.P.C.S. ...	14.00
8. Abu-Dhabi Funded North West Coast Fisheries Development Project ...	60.00
9. Credit Scheme for cultivation of Orchid Plants—People's Bank/ Sarvodaya/Lakmalsala ...	3.00
10. Credit Scheme for Fisheries Co-operatives ...	42.00
11. Matale-Puttalam District Integrated Rural Development Project ...	54.79
12. Credit Scheme for Financing of Windmills ...	2.56
13. Youth Self-employment and Village Adoption Schemes in Matara District ...	8.20
14. ADB-Sri Lanka Rural Credit Project Loan Scheme ...	137.00
15. Fertilizer Credit Scheme for Tea Small Holders ...	7.50
16. Credit Scheme for financing the purchase of draught animals in districts not covered under Sri Lanka Rural Credit Project ...	5.60
17. Credit Scheme for financing the projects identified under Village Adoption and Self-employment Programme in Anuradhapura District ...	6.00
18. Credit Scheme for the construction of Small On-farm Potatoe Seed Stores ...	1.00
19. Badulla District Integrated Rural Development Project ...	7.00
20. Credit Scheme for Madel Fishing (Beach seining) ...	5.00
21. Credit Scheme for settlers for cultivation of Sugarcane under Pelwatte Sugar Project ...	66.00
22. Vavuniya-Mannar District Integrated Rural Development Project ...	32.00
23. Credit Scheme to assist small farmers for cultivation of Sugar- cane in Sevanagala, Hingurana and Kantalai Sugar Project ...	120.60
24. 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
25. Credit Scheme for Traders displaced under the Victoria Project for purchase of commercial buildings ...	22.00
26. Credit Scheme for purchase of Two Wheel Tractors in Wet-Zone Districts and Moneragala District ...	81.99
27. Special Credit Scheme to assist Estate Sector Women in Income Generating Activities under the FAO/Women Bureau Project ...	1.00
28. Credit Scheme for the cultivation of Chinese Ginger, Pineapple and Passion Fruit in the Kurunegala District ...	32.00
29. Anuradhapura Dry Zone Agricultural Project Loan Scheme ...	22.30
30. Credit Scheme to assist settlers in Minipe Scheme for the install- ation of Bio-gas plants ...	0.40
<b>B. Credit Schemes approved during the year 1986:</b>	
1. Sri Lanka-ADB Livestock Development Project ...	68.20
2. Scheme for financing Self-employment and other Medium Farm Projects in the Districts of Kandy, Kegalle, Matale ...	6.00
3. Credit Scheme for Dairy Development ...	20.60
4. Credit Scheme to promote Self-employment in Kalutara and Kurunegala Districts ...	20.00
5. Credit Scheme for Tube wells for lift irrigation purposes ...	1.10
<b>Total</b> ...	<b>1,139.65</b>

of the Medium and Long Term Credit Fund

TABLE 2.7

Amount utilised as at 31.12.86 (Rs. Mn.)	Amount unutilised as at 31.12.86 (Rs. Mn.)	Date of commencement of project	Period for disbursement of the allocation (years)
3.49	1.01	03.02.79	3
46.85	8.15	26.03.79	3
112.88	27.12	07.07.79	3
7.69	—	02.06.79	1
71.57	4.93	28.10.79	5
—	0.12	27.11.79	3
9.14	4.86	13.10.80	1
—	60.00	13.10.80	3
0.23	2.77	10.12.80	5
1.28	40.72	28.04.81	2
45.07	9.72	08.05.81	6
1.05	1.51	11.12.81	1
5.90	2.30	10.04.81	—
82.31	54.69	01.07.82	1
0.96	6.54	11.08.82	1
0.01	5.59	10.09.82	2
3.68	2.32	14.10.82	—
—	1.00	01.03.83	1
2.54	4.46	27.09.83	5
0.68	4.32	26.04.84	1
—	66.00	10.05.84	6
0.70	31.30	14.06.84	4
9.34	111.26	20.09.84	5
0.08	7.92	26.12.84	3
—	22.00	11.03.85	2
18.84	63.15	26.03.85	2
0.30	0.70	31.12.85	1
3.11	28.89	27.06.85	3
2.26	20.04	02.07.85	3
—	0.40	16.09.85	1
—	68.20	01.03.86	3
—	6.00	01.03.86	—
1.76	18.84	16.04.86	3
5.71	14.29	15.05.86	—
—	1.10	08.09.86	2
437.43	702.22	—	—

Source: Central Bank of Sri Lanka.

bulls and bicycles for transport of milk, extension and upgrading of cattle sheds and construction of bio-gas plants. Further, a credit scheme to grant loans under the Sri Lanka-ADB Livestock Development Project for dairy, piggery and poultry was also introduced in 1986 in the districts of Colombo, Galle, Gampaha, Jaffna (and Kilinochchi), Kalutara, Kegalle, Kurunegala and Puttalam. The Wet-Zone Farm Machinery Loan Scheme, introduced in 1985, has shown remarkable progress and in view of the increased demand for farm power equipment the scheme was extended to all the districts in the island in 1986. The scheme was re-designated as the All-Island Farm Machinery Loan Scheme. The Credit Scheme to Assist Settlers in the Mahaweli Project Area for Purchase of Tractors was terminated in 1986 and the unutilised balance of refinance funds amounting to Rs. 49 million that had been allocated by the Central Bank for this scheme was transferred to refinance the All-Island Farm Machinery Loan Scheme. The expansion of this scheme to cover the entire island was necessitated because many Integrated Rural Development (IRD) projects and the ADB-Sri Lanka Rural Credit Project which catered to the requirements for farm power in several districts of the country came to an end or were drawing a close in the first half of 1986.

With the establishment of the RRDBs, the promotion of self-employment opportunities for the rural youth received wide recognition in the credit schemes designed to reach the rural sector. Credit schemes for this purpose were introduced in Kalutara and Kurunegala districts. Further, a credit scheme to promote self-employment of youth was introduced for the districts of Kegalle, Matale and Kandy which fall under the purview of the Central Bank Regional Office in Matale.

A loan scheme for establishment of tube wells was also introduced in 1986 for the grant of loans in six districts in the dry-zone. The loan scheme under the Integrated Rural Development Project in Kurunegala district ended in 1986, while the loan scheme under the Vavuniya-Mannar district Integrated Rural Development Project was suspended in view of the worsening security situation which hindered the progress of the project and also made it difficult to inspect project progress by the Mission Staff of the International Development Association. The progress in the implementation of existing Medium and Long-Term Credit Schemes under Category I of the MLCF is indicated in Table 2.7.

There were 35 Medium and Long-term Credit Schemes in operation in the year 1986 and the Central Bank allocated Rs. 1,139.7 million for the provision of refinance in respect of loans granted under these schemes. The amount of refinance utilized by the lending banks stood at Rs. 437.4 million or 38 per cent of the allocation as at the end of the year.

Among the projects that had shown satisfactory progress were the Coconut Fertilizer Credit Scheme, Farm Machinery Loan Scheme under the Kurunegala Integrated Rural Development Project, the Credit Scheme for Purchase of Two-wheel Tractors in Wet-Zone districts and Moneragala district and the Sri Lanka-ADB Rural Credit Project. Further, certain credit schemes introduced in late 1985 and those launched in 1986 have also shown satisfactory progress during the year

under review. For example, the Credit Scheme to Promote Self-employment in Kalutara and Kurunegala districts has shown rapid progress during the seven months of its operation.

The slow progress of the loan schemes for fisheries sector can be attributed to the general reluctance of lending banks to participate in the schemes due to the very poor recoveries of earlier loans granted to this sector. With regard to the Credit Scheme for Settlers under the Pelwatte Sugar Project, the Bank of Ceylon, the participating bank, could not grant loans on account of the delay in finalising the lease arrangements with the settlers by the Pelwatte Sugar Company. These matters have been resolved and it is expected that this facility will be utilised from next year.

The Sri Lanka-ADB Rural Credit Project which was in operation since 1982 was completed in 1986. Out of the revised allocation of US. \$ 6.9 million, US. \$ 5.1 million or Rs. 128.8 million had been utilised by the end of the project period. The Central Bank acted as the co-ordinating agency in the implementation of the project. Table 2.8 gives a break-up of the loan allocation and the amount utilised under each category.

TABLE 2.8

**Utilisation of Funds under the ADB-Sri Lanka  
Rural Credit Project**

(US. \$'000)

	Revised allocation	Amount utilised
1. Farm Power Facilities ...	3,792	3,779
2. Irrigation Facilities ...	448	400
3. Rice Mills and Paddy Threshers ...	400	11
4. Supporting Service Facilities ...	256	158
5. Training Institute ...	1,107	771
6. Draught Animals ...	25	22
7. Unallocated ...	872	—
<b>Total</b> ...	<b>6,900</b>	<b>5,141</b>

Source: Central Bank of Sri Lanka.

The Central Bank commenced preliminary discussions with the ADB in July, 1986 for a second rural credit project funded by the ADB. Further missions from the ADB in this regard are expected in 1987. A project preparatory mission from the IFAD also visited the country in October 1986 to study the rural credit structure in the administrative districts of Kandy, Galle and Puttalam and formulate a "Small Farmers and Landless Rural Credit Project" for implementation in these districts through the RRDBs.

During the year, the Central Bank completed the inspection of the agricultural loan portfolio of five branches of the People's Bank, five branches of the Bank of Ceylon, four Co-operative Rural Banks and the Matara Branch of the Indian Overseas Bank. These bank branches were in the districts of Matara, Badulla, Ratnapura and Anuradhapura. The inspection reports were sent to the Head Offices of the respective banks and to the branches inspected, recommending courses of action for rectification of deficiencies observed and for improving rural lending. These inspections were followed up with compliance reports from the bank branches inspected. In addition to the above inspections, special teams of officers visited several districts to examine the progress and to evaluate the effectiveness of the NCRCS at field level with a view to getting a feedback for effecting necessary modifications to the Scheme.

### REGIONAL RURAL DEVELOPMENT BANKS (RRDBs)

During 1986, the Central Bank established the fifth Regional Rural Development Bank in the District of Hambantota with Ambalantota as the principal place of business. This bank was opened on December 13, 1986. The four RRDBs established during the previous year in Kalutara, Matara, Kurunegala and Anuradhapura districts with Bulathsinhala, Yatiyana, Kuliyaipitiya and Mihintale, respectively, as the principal places of business were in operation successfully.

Each RRDB had a target of opening at least one branch office per electorate in the initial stages. At the end of 1986, RRDBs expanded the branch network to 32 branches. This enabled a large number of people to obtain the benefits of various activities which were designed by RRDBs for the development of rural masses in areas under their purview.

A districtwise breakdown of the branch network is indicated in Table 2.9.

**TABLE 2.9**  
**Branch Network of RRDBs**

Name of the RRDB	Head Office	No. of branches opened		Total as at end of 1986
		1985	1986	
Kalutara	Bulathsinhala	04	03	07
Matara	Yatiyana	05	02	07
Kurunegala	Kuliyaipitiya	06	04	10
Anuradhapura	Mihintale	02	04	06
Hambantota	Ambalantota	—	02	02
Total		17	15	32

Source: Central Bank of Sri Lanka.

Mobilization of rural savings was carried out by the RRDBs and a breakdown of savings and fixed deposits with them as at December 31, 1986 is given in Table 2.10.

TABLE 2.10

**A Districtwise Breakdown of Mobilization of Deposits**  
**End of 1985 and 1986**

(Amounts in Rs. '000)

Name of RRDB	Savings				Fixed				Total			
	1985		1986		1985		1986		1985		1986	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Kalutara ...	2,845	728	10,295	3,389	15	180	94	3,446	2,860	908	10,389	6,835
Matara ...	3,472	1,134	10,503	5,350	05	51	105	672	3,477	1,185	10,608	6,022
Kurunegala ...	4,786	906	13,958	4,221	10	50	49	446	4,796	956	14,007	4,667
Anuradhapura ...	1,382	336	5,377	2,749	03	29	02	42	1,385	365	5,379	2,791
Hambantota ...	—	—	509	259	—	—	06	48	—	—	515	307
<b>Total ...</b>	<b>12,485</b>	<b>3,104</b>	<b>40,642</b>	<b>15,968</b>	<b>33</b>	<b>310</b>	<b>256</b>	<b>4,654</b>	<b>12,518</b>	<b>3,414</b>	<b>40,898</b>	<b>20,622</b>

Source: Central Bank of Sri Lanka.

( xx )

The five RRDBs had opened 40,898 accounts with deposits amounting to Rs. 21 million as at the end of 1986. About 99 per cent of the accounts were savings deposit accounts. The number of deposit accounts as well as the amount mobilized increased in 1986, the first complete year of operations of the banks, mainly due to the expansion of the branch network from 17 to 32. The RRDBs have attempted to mobilize savings, by and large, in the form of small savings from the people of the area. A salient feature in the banking operations of RRDBs was therefore the relatively small size of the deposits especially the savings deposits, as illustrated by Table 2.11.

TABLE 2.11

## Average size of a Deposit Account

(Rupees)

Name of RRDB	Savings Deposits		Fixed Deposits	
	1985	1986	1985	1986
Kalutara ...	255	329	12,033	36,660
Matara ...	326	509	10,200	6,403
Kurunegala ...	189	302	5,000	9,102
Anuradhapura ...	243	511	9,583	20,925
Hambantota ...	—	509	—	7,917
All Banks ...	248	393	9,401	18,179

Source: Central Bank of Sri Lanka.

Some of the RRDBs also commenced the acceptance of demand deposits as a part of their policy to provide a full package of banking services to their customers.

As at December 31, 1986, the RRDBs had granted 7,273 loans aggregating Rs. 47 million in comparison to 1,104 loans aggregating Rs. 4 million at the end of 1985. This significant increase in the number and the total amount of loans in 1986 was mainly due to the expansion of banking activities to a larger area by the setting up of new branch offices.

A purposewise classification of loans granted by the RRDBs and outstanding as at December 31, 1986 is given in Table 2.12.



TABLE 2.12

## A Purpose-wise Classification of Loans Outstanding by Districts

(Amount in Rs. '000)

Purpose	Kajutara		Matara		Kurunegala		Anuradhapura	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1. Agriculture								
1.1 Cultivation ...	279	232	820	1,210	488	3,283	393	2,286
1.2 Farm Equipment	29	252	90	2,992	142	1,300	166	5,617
1.3 Others ...	261	561	295	657	273	1,404	182	1,526
2. Livestock ...	151	615	49	393	318	2,655	75	874
3. Small Industries ...	527	1,575	352	1,280	355	2,529	94	1,796
4. Trade and Business	616	1,680	519	1,706	216	2,116	73	7,113
5. Others ...	64	306	376	789	8	73	62	194
Total	1,927	5,221	2,501	9,027	1,800	13,360	1,045	19,406

Source: Central Bank of Sri Lanka.

A purpose-wise comparison of loans granted and outstanding as at the end of 1985 and the end of 1986 is given in Table 2.13.

TABLE 2.13

## A Purpose-wise Comparison of Loans Granted in 1985 and 1986

Purpose	1985			1986		
	No.	Amount Rs. '000	Percentage	No.	Amount Rs. '000	Percentage
Agriculture ...	395	2,027	42	3,418	21,321	45
Livestock ...	77	554	11	593	4,536	10
Small Industries ...	257	999	21	1,328	7,180	15
Trade and Business ...	287	790	16	1,424	12,615	27
Other ...	88	478	10	510	1,362	3
Total	1,104	4,848	100	7,273	47,014	100

Source: Central Bank of Sri Lanka.

The RRDBs favour the granting of loans to small farm holders in the agricultural sector and the small entrepreneurs in the trade and business sector with a view to generating self-employment opportunities in rural areas. Thus, 45 per cent and 27 per cent of the total amount of loans granted as at the end of 1986 had been for Agriculture and Trade and Business, respectively.

In keeping with their objectives, the RRDBs have adopted some innovative banking methods in their operations. Almost all branches of the RRDBs had organised a number of meetings in villages in their respective command areas (Jana-hamuwa) during the year with the purpose of explaining the objectives of the RRDB scheme and its role in the development of the rural economy. A large number of people were able to obtain loans as a result of these meetings. Efforts were also made by banks to collect deposits at the meetings themselves and arrange to deliver the pass book to the depositors at their residences subsequently. Besides, some RRDBs have implemented 'mobile banking services' for the public who need such facilities in places where banks do not carry out these services regularly.

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

In 1986, the Rural Banking and Staff Training College organized and conducted 23 training courses and seminars in which 442 persons participated. Target groups of these training courses and seminars varied from field level officers to the senior executives 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 Ministry of Plan Implementation, Ministry of Youth Affairs and Employment, Department of Co-operative Development, Mahaweli Authority of Sri Lanka and the Industrial Development Board. The areas of training provided by the College to the banking sector ranged from rural banking to international banking. Rural banking and rural development were considered as priority areas for training. There were many courses on rural banking and rural credit such as Rural Credit Policy and Practices, Role of Co-operatives in Rural Banking, Rural Development Strategies, Small Farmer Credit and Regional Banking.

Training programmes were also conducted in outstations. In response to a request made by the Centre for International Co-operation and Training in Agricultural Banking (CICTAB) based in Pune, India, the Central Bank hosted the CICTAB Workshop which was conducted with the assistance of the Rural Banking and Staff Training College. The objective of this workshop was to study the agricultural banking and rural development policies and programmes in member countries with a view to improving the training arrangements available for rural banking personnel in Sri Lanka.

The College completed the fifth year of its operation in September 1986. The fifth anniversary lecture titled 'The Role of Banking in Rural Development' was delivered by Mr. R. N. Malhotra, Governor, Reserve Bank of India to an invited gathering of executives of banks and financial institutions.

The College was housed in the somewhat confined space in rented premises in Colombo since its inception in September, 1981. The rapid expansion of banking activities into rural areas and the greater sophistication of banking activity both in the domestic and international sphere, together with increased competition in the banking field have increased the urgency for continuous training to be conducted in a more systematic manner. These needs necessitated the construction of a full-fledged residential Staff Training College with modern training facilities. The new

building complex of the Rural Banking and Staff Training College at No. 58, Sri Jayewardenepura Mawatha, Rajagiriya, Kotte was ceremonially opened by His Excellency J. R. Jayewardene, President of the Democratic Socialist Republic of Sri Lanka on December 20, 1986. Residential facilities are available at this new premises for 60 participants. Besides the classrooms and syndicate rooms, the College building has a spacious conference room, an auditorium and a well equipped library.

## **EMPLOYEES' PROVIDENT FUND**

The Monetary Board of the Central Bank is charged with the responsibility of receiving contributions, surcharges and income from the investment of monies of the Employees' Provident 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 the provisions of the EPF Act. These activities are carried out by the Department of Employees' Provident Fund of the Bank in close co-operation with the Employees' Provident Fund Division of the Department of Labour which attends to the administration and enforcement of the provisions of the Act.

### **Contributions**

The contributions received by the Fund during the year under review amounted to Rs. 2,047.9 million as against Rs. 1,920.6 million in 1985. This represents an increase of Rs. 127.3 million or 6.6 per cent over the level of contributions received during the previous year.

### **Members' Balances**

Members' balances as at December 31, 1986, before allocation of interest for the year under review, stood at Rs. 16,402.1 million which record an increase of Rs. 3,315.4 million or 25.3 per cent over the balance as at end of 1985.

### **Investments**

During the year under review, the Fund invested a sum of Rs. 6,138.0 million in Government securities and Treasury bills, as against an investment of Rs. 5,401.9 million in 1985. This represents an increase of Rs. 736.1 million over the level of 1985. The total investments made during 1986 included a sum of Rs. 2,471.4 million representing maturity proceeds of earlier investments in securities and Treasury bills. The total of the investments made in Government securities alone amounted to Rs. 5,117.9 million which represents 65.8 per cent of the total rupee securities issued by the Government during the year 1986. The total amount invested in short maturity Treasury bills at various intervals during the year amounted to Rs. 1,020.0 million. The total investments held by the Fund as at December 31, 1986 amounted to Rs. 17,718.6 million which is an increase of Rs. 3,666.6 million over the level of 1985.

### Income Received from Investments

In 1986, the income from investments of the Fund amounted to Rs. 1,953.5 million as against Rs. 1,552.4 million in 1985 recording an increase of Rs. 401.1 million or 25.8 per cent. This increase was mainly due to the investment of increased volume of contributions received by the Fund and the re-investment of income derived from the existing investments during the year under review.

### Refunds

The total sum paid out by way of refund of EPF benefits to members during the year 1986 amounted to Rs. 352.7 million as against Rs. 523.6 million in 1985. This records a decrease of Rs. 170.9 million or 32.6 per cent over the level of refunds in 1985. During the year under review, 33,412 claims for refund of benefits were received in the Department which included 898 claims from repatriates of Indian origin and 1,623 claims on medical grounds. A substantial decrease in the number of claims on medical grounds admitted for payment was recorded during 1986.

### 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 in the Fund. The rate of interest payable on members' balances as at the end of 1986 remained at 12.5 per cent per annum, the same rate which prevailed during the previous year. However, the effective rate of interest is higher than the above rate, since the interest is calculated on the end-year balance irrespective of whether the current year's contributions had remained to the credit of the member for the full year or not.

### Recording of Balances in EPF Pass Books

Recording of balances in the EPF Pass Books issued by the Department of Labour during the recent past commenced in October 1986. However, the customary statements, indicating the balances as at the end of the year continued to be despatched as was done in the past. A comparative statement of the operations of the Fund based on data presently available is given in Table 2.14.

**TABLE 2.14**  
**EPF Statistics 1985-1986**

Item	1985	1986
1. Contributions received (Rs. '000) ...	1,920,653(a)	2,047,962(a)
2. Investments (Rs. '000) ...	5,401,865(b)	6,137,982(b)
3. Income received from Investments (Rs. '000) ...	1,552,425	1,953,489
4. Refund Payments (Rs. '000) ...	523,629	352,709
5. Number of Refunds ...	46,123	25,219
6. Rate of Interest (per cent) ...	12.5	12.5
7. Interest Provision on members' balances (Rs. '000) ...	1,635,834	2,050,259

Source: Central Bank of Sri Lanka.

(a) Excludes contributions credited to Suspense Accounts.

(b) Includes maturity proceeds re-invested in Government Securities and monies invested in short-term Treasury bills at various intervals.

## EXCHANGE CONTROL

The Central Bank, continuing its function as the agent of the Government with regard to the implementation of exchange control, effected the following changes in exchange control procedure during the year under review.

### 1. Imports

The limit on the import of goods for the personal use of an individual (not in commercial quantities) without establishing Letters of Credit was enhanced from Rs. 5,000 c.i.f. value Colombo, to US. \$ 500 c.i.f. Colombo (Operating Instructions No. EC/13/86(B) of 1986.03.27).

### 2. Education

Authorised Dealers were permitted to release the following enhanced exchange allowances to Sri Lankans who are pursuing their studies abroad for the purpose of meeting their living expenses (Operating Instructions No. EC/26/86(E) of 1986.08.26).

Group of Countries	Living Allowances	
	Undergraduate Professional and Technical Education	Postgraduate Study
(a) Bangladesh, Bhutan, Burma, India, Maldives, Nepal and Pakistan	Ind. Rs. 8,640 p.a.	Ind. Rs. 11,520 p.a.
(b) Europe including U.K. and U.S.S.R.	Sterling Pound 3,120 p.a.	Sterling Pound 3,840 p.a.
(c) Australia, Canada, Japan, New Zealand and U.S.A.	U.S. \$ 7,200 p.a.	U.S. \$ 8,640 p.a.
(d) All other Countries	U.S. \$ 4,320 p.a.	U.S. \$ 5,760 p.a.

### 3. Encashment of Travellers' Cheques

The requirement of obtaining Exchange Control approval for the encashment of Travellers' Cheques exceeding S.L. Rs. 100,000 in value on any one day was withdrawn by Operating Instructions No. EC/39/86(D) of 1986.12.16.

## PUBLIC DEBT

The Bank 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 loans were the main functions handled by the Bank during the year 1986.

The outstanding gross and net Public Debt as at end of 1986 stood at Rs. 156,292.7 million and Rs. 149,863.6 million, respectively. During 1986, rupee loans amounting to Rs. 7,776.4 million were floated. The total repayments of rupee loans during 1986 amounted to Rs. 5,216.8 million and the amount outstanding as at the end of the year stood at Rs. 39,128.8 million. The authorized limit of Treasury bills was increased from Rs. 25,000 million to Rs. 35,000 million in 1986. The amount of Treasury bills outstanding at the end of the year was Rs. 26,172.6 million. With a view to popularising Treasury bills among the general public, the Bank commenced the weekly issue of Government Treasury bills in November 1986. They were made available for sale through the Regional Offices of the Bank from December 1986. Total drawings of medium and long term external borrowings during the year amounted to Rs. 12,060.8 million and repayments amounted to Rs. 3,024.4 million. Total interest payments and other charges on external public debt in 1986 amounted to Rs. 2,134.6 million. Consequently, the total external Public Debt outstanding as at end of 1986 stood at Rs. 86,208.3 million.

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

In order to facilitate the computerization of Sri Lanka's external debt, an inventory of Foreign Loans prepared by the Department of Public Debt was forwarded to the External Debt Monitoring Unit (EDMU) of the Ministry of Finance and Planning in 1986. In addition, data relating to external public debt upto the end of 1986 were transmitted to EDMU for updating the data base.

## **REGIONAL OFFICE—MATARA**

During 1986, the activities of the Matara Regional Office expanded into new areas, while the existing activities were improved in order to provide a better service. Acting in close liaison with the relevant local agencies and government authorities, the Regional Office implemented six rural credit schemes. Many training and orientation classes were conducted in fields such as agriculture, dairy, goat and poultry farming and small industry with a view to developing entrepreneurial skills of the prospective credit users under various rural credit schemes.

## **Refinance Credit Operations**

Table 2.15 illustrates a statistical summary of credit operations of various schemes implemented by this Office for which refinance was made available to the participating banks.

TABLE 2.15

**Matara Regional Office: A Statistical Summary  
of Refinance Credit Operations**

Scheme	Year 1986		Cumulative end 1986	
	No. of loans	Amount (Rs.)	No. of loans	Amount (Rs.)
1. Self-employment Refinance Credit Scheme ...	317	1,623,185	797	7,056,685
2. Village Adoption Refinance Credit Scheme ...	04	26,000	116	592,685
3. Model Yaya Paddy Cultivation Loan under New Comprehensive Rural Credit Scheme ...	1,212(a)	2,992,526	1,212	2,992,526
4. Highland Farming Loans ...	93	880,520	143	1,145,925
5. Tea Fertilizer Refinance Loan Scheme ...	33	105,423	229	1,337,106
6. Coconut Fertilizer Refinance Loan Scheme...	24	440,431	363	2,867,048
<b>Total</b> ...	<b>1,683</b>	<b>6,068,085</b>	<b>2,860</b>	<b>15,991,975</b>

(a) 1985/86 Maha  
1986 Yala  
1986/87 Maha

Source: Central Bank of Sri Lanka.

**Self-employment and Village Adoption Loan Schemes—Galle and Matara Districts**

**(i) Loan Recommendations**

Table 2.16 gives the details of loans recommended under the above two loan schemes by the participating banks during 1986.

TABLE 2.16

**Matara Regional Office: Loans Recommended under Self-employment  
and Village Adoption Schemes—1986**

Bank	Self-employment Scheme		Village Adoption Scheme	
	No. of Projects	Value (Rs.)	No. of Projects	Value (Rs.)
Bank of Ceylon ...	190	2,055,685	—	—
People's Bank ...	71	495,415	—	7,000 (a)
Indian Overseas Bank ...	18	130,250	03	17,500
Regional Rural Development Bank ...	28	170,050	—	—
<b>Total</b> ...	<b>307</b>	<b>2,851,400</b>	<b>03</b>	<b>24,500</b>

(a) Second Loan..

Source: Central Bank of Sri Lanka.

The total number of loans recommended during 1986 was 310 involving Rs. 2,875,900 with a cumulative total figure of 1,252 projects amounting to Rs. 10,408,591 upto the end of 1986.

## (ii) Loan Approvals

Table 2.17 shows the details of the loans approved during 1986 under the Self-employment and Village Adoption Schemes.

**TABLE 2.17**  
**Matara Regional Office: Loans approved for the Year 1986 under**  
**Self-employment and Village Adoption Schemes**

Bank	Self-employment Scheme		Village Adoption Scheme	
	No. of Projects	Value (Rs.)	No. of Projects	Value (Rs.)
Bank of Ceylon ... ..	145	1,414,450	01	5,500
People's Bank ... ..	45	345,615	—	3,000 <sup>(a)</sup>
Indian Overseas Bank ... ..	18	130,250	03	17,500
Regional Rural Development Bank ... ..	11	65,500	—	—
<b>Total ... ..</b>	<b>219<sup>(b)</sup></b>	<b>1,955,815</b>	<b>04<sup>(b)</sup></b>	<b>26,000</b>

(a) Second Loans

Source: Central Bank of Sri Lanka.

(b) Includes 10 second loans and 32 special project loans.

## (iii) Repayments

During 1986, 85 loans amounting to Rs. 1,034,167 were fully re-paid bringing the total number of fully paid loans to 255. Consequently, the total value of fully paid loans upto the end of 1986 stood at Rs. 1,706,457 and represented 22 per cent of the total approved loan portfolio.

Table 2.18 gives sector-wise classification of loan approvals under Self-employment and Village Adoption Schemes.

**TABLE 2.18**  
**Matara Regional Office: Sectoral Classification of Loan Approvals**

Sector	No. of Projects		Loan Amount (Rs.)	
	Year 1986	Upto the end of 1986 (Cumulative)	Year 1986	Upto the end of 1986 (Cumulative)
Agriculture ... ..	64	267	649,715	1,890,850
Industry ... ..	104	438	1,020,680	2,642,075
Services, Farm power, etc. ... ..	55	208	311,420	3,139,445
<b>Total ... ..</b>	<b>223</b>	<b>913</b>	<b>1,981,815</b>	<b>7,675,370</b>

Source: Central Bank of Sri Lanka.



The highest number of loans was concentrated in the industrial sector, while agriculture and service sectors accounted for the second and third places, respectively.

The average loan component for each project was in the region of Rs. 6,000-7,000 and facilities mostly related to working capital requirements. Out of a total loan portfolio of Rs. 7.6 million, only Rs. 2.6 million or 34.0 per cent accounted for industrial activities, while services and farm power sector accounted for the highest share at 41.0 per cent.

### Paddy Loans under New Comprehensive Rural Credit Scheme (NCRCS)

Since the operation of the NCRCS came into force, the Regional Office had a special role to play in forming farmer-groups and thereafter referring to participating banks for credit facilities. The Regional Office together with the officials of the Agricultural Insurance Board continued close surveillance over cultivation activities from the commencement of sowing upto the harvesting period. The repayment rate in respect of 1985/86 Maha stood at around 90 per cent, while the corresponding rate for 1986 Yala was 95 per cent. The most encouraging aspect of this scheme was that it attempted to bring about close contact with the farmers and improve their living standards by enabling them to obtain increased yields. Table 2.19 shows a breakdown of the paddy cultivation loans on an electoral basis during the respective seasons.

TABLE 2.19

### Matara Regional Office: Model Yaya Loans—Activities

Electorate	1985/86 Maha (a)			1986 Yala (b)			1986/87 Maha (c)		
	Acres	No. of farmers	Amount sanctioned (Rs.)	Acres	No. of farmers	Amount sanctioned (Rs.)	Acres	No. of farmers	Amount sanctioned (Rs.)
Matara ...	13	11	20,000	39	24	74,300	Not Available	—	—
Akuressa ...	362	160	542,600	217	138	151,600		73	108,523
Hakmana ...	77	67	108,500	55	53	80,000		57	86,224
Kamburupitiya ...	584	285	928,400	302	143	311,800		39	103,334
Devinuwara ...	88	46	130,200	20	11	35,900		10	19,545
Welligama ...	49	28	86,200	73	42	126,600		—	—
Hambantota ...	17	07	40,000	—	—	—	—	—	—
Moneragala ...	24	18	38,800	—	—	—	—	—	—
Total ...	1,214	622	1,894,700	706	411	780,200		179	317,626

(a) 23 Yayas

(b) 18 Yayas

(c) 12 Yayas

Source: Central Bank of Sri Lanka.

It is evident from Table 2.19 that the number of yayas adopted for group credit facilities was on the decline with the farmers continuing to seek direct facilities from the banks due to discouraging experience gained at the initial implementation stages

of the scheme. In order to identify the borrowers eligible for rescheduling of loans on account of reasons beyond their control, the Regional Office conducted seven Roll-Over Facility meetings during 1986.

### Highland Farming

This activity had been confined to areas in the Hambantota and Moneragala districts mainly due to the ideal conditions prevailing in these areas. In the case of the Moneragala district, 42 pump sets for open dug wells have been granted to farmers in Buttala and Wellawaya. The progress in each of these projects is being monitored regularly on a monthly basis. In addition, the Tangalle Branch of the Bank of Ceylon continued to provide cash credit loans to vegetable cultivators in the Ranna area. A total of 143 projects representing a loan value of Rs. 1,145,925 has been approved in the two districts mentioned above upto the end of 1986.

### Tea and Coconut Fertilizer Loan Schemes

The performance of these two schemes in 1986 has been below expectations on account of the low prices prevailing in the market. Nevertheless, meetings were held with the extension staff and the local bank officers in tea cultivation areas in Gurusinghagoda, Neluwa, Opata, Kalubovitiyana, Morawaka in an attempt to convince the smallholders of the advantages accruing under this scheme.

Table 2.20 gives the details of the operations of these two loan schemes.

**TABLE 2.20**

#### **Matara Regional Office: Coconut and Tea Fertilizer Loan Schemes Operations—1986**

Scheme	Year 1986		Cumulative end of 1986	
	Loan Units	Value (Rs.)	Loan Units	Value (Rs.)
Coconut Fertilizer Loan Scheme ...	24	440,431	363	2,867,048
Tea Fertilizer Loan Scheme ...	33	105,423	229	1,337,106
Total ...	57	545,854	592	4,204,154

*Source:* Central Bank of Sri Lanka.

### Regional Clearing House

During the period under review, the Regional Clearing House which met twice daily at the Regional Office premises, cleared 143,230 cheques valued at Rs. 1,043 million. A fascimile machine was installed this year and entries were passed at the Head Office on the day of clearing on transmission of these figures.

## REGIONAL OFFICE—ANURADHAPURA

During 1986, the Anuradhapura Regional Office extended its activities into new areas, while improving the existing facilities. A comprehensive extension and counselling service was provided to prospective borrowers covering financial, managerial and technical aspects of small business and industry. A two-way communication between the villagers and the authorities was established by organising seminars, workshops and 'Jana Hamuwas' (People's Gatherings) at the village level. An agricultural competition was conducted in the Yala, 1986 Season, in order to create an awareness of the intensive cultivation techniques among farmers and assess the extent of knowledge acquired at various training programmes organised by the Regional Office.

### Refinance Credit Operations

Table 2.21 presents a summary of the refinance credit operations of the Regional office during 1986.

TABLE 2.21

#### Anuradhapura Regional Office: Refinance Credit Operations

Sector	No. of Projects recommended	Amount recommended (Rs. '000)	Number approved	Amount approved (Rs. '000)
1. Medium and Long-term				
Agriculture	870	9,915	315	3,733
Livestock	523	2,680	146	741
Small Industry	246	2,387	133	1,310
Services	107	813	53	392
2. Short-term				
Paddy and Subsidiary Crops	447	—	288	1,815

Source: Central Bank of Sri Lanka.

Most of the borrowings were for agricultural projects using underground water resources for cultivation with either the kerosene pump or the windmill as a means of lift irrigation during the dry season. These projects have been found to be economically viable and have won popularity among farmers in the district. The windmill is now becoming increasingly popular due mainly to the increase in the capital cost of kerosene pumps and the advantages in the form of low operational costs associated with windmills.

### Performance of Projects

The main objectives of the projects implemented by the Regional Office were to increase production and income levels and create additional employment opportunities by using resources available locally. Upto the end of 1986, 647 projects had been approved, of which 557 were in operation.

## Income and Employment

The total income generated by the projects in operation during the year is estimated at Rs. 20.6 million. A sector-wise analysis shows that agricultural projects have generated a higher and steady income regularly. Income from most of the agricultural projects averaged between Rs. 10,000 to 15,000 each season, while the income from some projects exceeded Rs. 35,000 to 40,000 per season with a cultivation area of 1 to 2 acres of cash crops.

Most agricultural projects employed 5-6 persons per project on a regular basis. Industrial and Service sector projects have shown remarkable progress having provided greater employment opportunities on a regular basis. Some of the small-scale industrial projects have been able to generate employment opportunities for as many as 6-8 persons. Table 2.22 gives data on estimated income and employment generated by these projects.

**TABLE 2.22**

### Anuradhapura Regional Office: Estimated Income and Employment

Sector	No. of Projects in operation	Monthly income Rs.	Annual income Rs.	Employment
Agriculture ...	274	665,527	7,986,324	440
Livestock ...	112	27,000	324,000	67
Small Industry ...	122	898,000	10,776,000	194
Service sector ...	49	129,500	1,554,000	60
Total ...	557	1,720,027	20,640,324	761

Source: Central Bank of Sri Lanka.

## Loan Repayment

Table 2.23 provides a summary of the repayment of loans of the Medium and Long-term Credit Programme.

The highest repayment rate of 81.1 per cent was recorded by the Service sector, while the rate of repayment of agricultural projects was 80.1 per cent. The repayment rates of Industry and Livestock were 73.1 and 65.5 per cent, respectively. The Livestock sector recorded a relatively poor repayment rate. Failure of almost all poultry units was one of the main contributory factors for the low repayment rate in this sector.

TABLE 2.23

**Anuradhapura Regional Office: Repayment of Loans**

Sector	No. of Projects in operation	No. of Projects due to commence repayment	Paid up Units	Amount due to banks Rs.	Amount repaid Rs.	Overdue amount Rs.	Rate of repayment Per cent
Agriculture ...	274	173	21	456,635	365,635	91,000	80.07
Livestock ...	112	74	44	185,785	121,650	64,135	65.47
Small Industry...	122	92	26	201,130	147,010	54,120	73.09
Service sector ...	49	34	08	68,400	55,500	12,900	81.11
Total ...	557	373	99	911,950	689,795	222,155	75.64

Source: Central Bank of Sri Lanka.

**Farmer Training Programmes, Seminars/Workshops**

Emphasising the need for bringing the results of scientific research and technical advancements to farmers, various training programmes were designed and given special attention by the Regional Office. Under the farmer training programmes 17 training sessions and seminars on paddy, cash and subsidiary crop cultivation were conducted at different centres in the district as in the previous year to facilitate the farmers in remote areas. Over 1,000 farmers benefitted in 1986. In addition, several other seminars and workshops were also conducted for farmers and village leaders during the year.

**The New Comprehensive Rural Credit Scheme (NCRCS)**  
**Short-term Production Loans**

During the year 1986, the Regional Office expanded credit facilities in the area of short-term production loans with its active participation in the NCRC Scheme.

The scheme came into operation with effect from Yala 1986. The Regional Office decided to participate in this programme against a background of heavy defaults of previous bank loans. It became necessary to launch a vigorous campaign not only to introduce the scheme, but also to educate the masses of the benefits under numerous other schemes in operation. The facilities offered under the rescheduling scheme too had to be made known to the farmers to draw the defaulters into the banking network. As an initial step, a few pockets were selected for operation.

**Issue of Treasury Bills**

The Regional Office was able to market Treasury bills to the value of Rs. 900,000 in the Anuradhapura district as a part of the programme of the Central Bank to popularise Treasury bills among the public in outstation areas.

### Local Clearing House

The Clearing House continued to provide cheque clearing facilities to banks in the region. The Anuradhapura RRDB too joined the Clearing House in 1986 and was represented by the Regional Office. During the year, cheques to the value of Rs. 190.1 million have been cleared through the local Clearing House.

### REGIONAL OFFICE—MATALE

In pursuance of its catalytic role in rural upliftment and development, the main activities of this office during the period under review centred on giving publicity to the various rural credit schemes, identification of borrowers and appraising and recommending applications for cultivation, self-employment and medium-term loans to the commercial banks. Furthermore, activities related to development credit such as Credit Camps, Recovery Camps, Roll-over Facility Committees and Thrift and Credit Co-operative Societies were simultaneously organised during the same period. The loan schemes which provided the framework for the rural credit activities of this office are given in Table 2.24 together with a summary of the corresponding number of beneficiaries/units directed to the banks and the loan quantum recommended during 1986.

**TABLE 2.24**

#### Matale Regional Office: Credit Operations in 1986

Type of Loan	No. of beneficiaries/units directed to banks	Loan quantum recommended (Rs.)
1. New Comprehensive Rural Credit Scheme (NCRCS) ...	427	1,822,005
2. Self-employment Credit Scheme (Matale/Kandy/Kegalle) ...	154	996,740
3. Dairy Development Credit Scheme ...	38	400,300
4. All Island Farm Machinery Loan Scheme ...	23	326,845
5. Integrated Rural Development Programme—Matale District ...	01	68,758
6. Small and Medium Industry Projects ...	04	146,500
7. Other ...	01	168,150
<b>Total ...</b>	<b>648</b>	<b>3,929,298</b>

Source: Central Bank of Sri Lanka.

### Yala Cultivation Season—1986

Due to the inadequacy of water for paddy cultivation in the Yala season in the Matale district, farmers usually cultivate vegetables and subsidiary food crops in their fields during this season. In accordance with the area approach adopted under the New Comprehensive Rural Credit Scheme (NCRCS), three regions in the Matale

district were identified for the promotion of appropriate subsidiary food crops, viz., Kimbissa for bombay onion and Devahuwa and Wilgamuwa for soyabean and other subsidiary food crops. Loans were recommended in respect of a considerable number of beneficiaries.

A novel method of disbursing and recovering loans was adopted by the Matala Regional Office by organising Credit and Loan Recovery Camps in co-operation with commercial banks and other relevant government authorities. The approved loans were disbursed at the Credit Camps both in kind and cash. In order to minimise the misuse of credit, a continuous and effective supervision was carried out by the Regional Office. Arrangements were made to recover the loans on the appropriate dates at the Loan Recovery Camps which proved highly successful in view of the hundred per cent loan recovery rates achieved in most of the cases.

#### **Maha Cultivation Season—1986/87**

Similar to the Yala of 1986, Credit Camps were organised for the disbursement of credit approved under the group applications for direct cultivation loans to be granted by the two state banks. A total of bank loans amounting to Rs. 1.3 million was disbursed at these Credit Camps in respect of 210 beneficiaries. In addition, a sum of Rs. 705,000 was also disbursed for the purpose of purchasing two-wheel and four wheel tractors.

#### **Minor Export Crops**

Minor export crops occupy a very significant place in the economy of this region and are largely grown in small mixed gardens. The Regional Office has encouraged minor export crop producers to obtain the available subsidy to develop their cultivation and also recommended credit facilities for the establishment of minor export crop nurseries in the districts of Matala, Kandy and Kegalle.

#### **Training, Consultancy and Publicity Activities**

The Regional Office conducted a few introductory training programmes on bee-keeping, bombay onion cultivation and dairy farming to educate rural farmers with a view to offering them an ancillary source of income.

#### **The Self-employment Loan Scheme and other Medium term Loan Schemes for Dairy Development and Farm Machinery and Implements**

The Regional Office conducted 31 meetings to introduce the above schemes during 1986. Some 1,252 individual loan applications were received. Animal husbandry projects constituted approximately 40 per cent of the on-going projects of which nearly a half in this category are for dairy farming.

In regard to Self-employment Schemes, the popular pursuits were small-scale garment manufacture, brick making, metal work in small foundries and workshops, confectionery manufacture and village bakeries. Certain villages in the Kegalle

district specialise in the making of brooms, while loan applicants for handicrafts are mainly from the Kandy district. The majority of the loan applications had been for purposes of improving and expanding existing manufacturing units.

### **Clearing House Operations**

The Regional Clearing House at Matale commenced operations in May, 1986 with the participation of the two state banks and the Commercial Bank of Ceylon. During the eight months from May to December, 1986 a total of 49,794 cheques amounting to Rs. 2.72 million was cleared.

### **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 the services offered by commercial banks to customers. The Committee met thrice in 1986 and discussed various matters relating to customer services.

The report on the Survey of Customer Services in Banking in Sri Lanka which was instituted by the Committee in 1985 was published in December, 1986. The survey was conducted by post and questionnaires seeking information and views on a wide range of banking services were despatched to a sample of 10,000 customers drawn from five commercial banks. Although only 23 per cent of those receiving questionnaires responded, they have highlighted areas in which the services offered by banks leave room for improvement. It is hoped that the report will be of interest to both banks and their customers and lead to an overall improvement in the services provided by commercial banks.

### **PUBLICATIONS**

The Central Bank's Annual Report for the year 1985 was presented to the Honourable Minister of Finance and Planning in terms of Section 35(1) of the Monetary Law Act. A publication dealing with a brief review of the economy for the first half of 1986, was published in November under the title "Economic Performance in the First Half of 1986" in Sinhala, Tamil and English.

A book titled "Central Bank of Sri Lanka—Functions and Working" was released by the Bank in August, 1986. This book provides a comprehensive account of the development of the Bank from its inception, current activities and the role it plays in the economy of Sri Lanka in various capacities.

During the year, several other publications were put out. Among them were: The Economic and Social Statistics of Sri Lanka—Vol. VIII 1985 and the Socio-Economic Data Folder—1986. These publications contain the basic data on key economic variables. Two theses, namely, 'Drought Hazard and Rural Development' by Dr. M. U. A. Tennekoon, and 'Some Experiments with a Multisectoral Inter-temporal Optimisation Model for Sri Lanka' by Dr. D. S. Wijesinghe were published.



in 1986. Occasional paper No. 14 which dealt with the 'Role of Banking in Rural Development' by Sri R. N. Malhotra, Governor, Reserve Bank of India was also one of this year's publications. The first volume of the 'Survey Analysis' series was also published. The Bulletin, the Sinhala monthly—Satahana, and the English—News Survey continued to be published in the year under review.

### **Library**

The Library is fast gaining popularity as a centre of reference to those within the Bank. Outsiders, though restricted, also had access to it. During the year, there were 1,523 new acquisitions to the Library in the field of economics and related topics.

### **SEMINARS**

During 1986, the following distinguished economists delivered lectures on topics of interest to officers at the Central Bank.

1. Dr. Gamani Corea, former Secretary-General, UNCTAD, delivered a lecture on "Commodity Prices and Their Impact on Developing Countries".
2. Professor J. S. G. Wilson, Professor Emeritus, University of Hull, delivered a lecture on "Money Markets and the Implementation of Monetary Policy".
3. Professor N. Kakwani, Senior Fellow, World Institute for Development Economic Research, delivered a lecture on "Undernutrition: Measurement and Policy".

### **SURVEYS**

#### **Survey of Business Activities and Planned Investments**

The fifth Survey on Business Activities and Planned Investments was conducted during the second half of 1986. Tabulation of data has been completed and the Report is under preparation.

#### **Consumer Finance and Socio-Economic Survey 1986/87**

The Consumer Finance and Socio-Economic Survey 1986/87 commenced in October, 1986. This is the sixth survey of Consumer Finances conducted by the Central Bank. The field data collection of the survey is done in four rounds to cover a period of twelve months. A sample of 7,104 households scattered throughout the country, excluding the areas affected by terrorist activities, was used for this Survey.

#### **Country-Wide Data Collection System**

The Bank continued to collect data on retail prices of nearly 220 items, produce prices of agricultural inputs and activity-wise daily wage rates in paddy farming, tea, rubber and coconut smallholdings as well as construction activities under its Country-Wide Data Collection System. Information pertaining to the availability of consumer

goods, agricultural inputs and labour is also collected. Data are collected on a regular basis from 100 centres in the country and presented with a brief analysis in the annual publication—"Price and Wage Statistics: Retail Producer and Input Prices and Wages".

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

The Bank continued to monitor the imports under the import liberalization programme by collecting particulars of Letters of Credit opened by importers. In respect of each Letter of Credit, commercial banks are required to inform the Central Bank of any modification and cancellation and the settlement of bills. This information along with analytical notes is made available to relevant authorities on a regular basis.

### **TRAINING**

The Training Department continued arranging training programmes for Central Bank officers in academic and non-academic fields. The academic courses were confined to post-graduate studies in Economics and allied fields at universities abroad as well as in Sri Lanka and covered courses leading to Masters and Ph.D degrees. A total of eight officers proceeded on post-graduate studies abroad during 1986, while two officers followed post-graduate studies in Sri Lanka. Six officers followed Diploma courses at the University of Colombo.

Training in non-academic fields consisting of practical short-term training courses, seminars, workshops, study tours, visits, etc., mainly covered the areas in Rural Development, Agricultural and Industrial Credit, Banking and Computer Studies both local and foreign. In all, 77 officers proceeded abroad on short-term training in 1986, while another 217 participated in local training courses.

The in-service training programme in commercial banking practices and operations for Central Bank officers at the People's Bank and the Bank of Ceylon continued during 1986.

### **DATA PROCESSING**

The major projects undertaken in 1986 were the Automated Clearing House Project, Comprehensive Rural Credit Scheme and the Consumer Finance and Socio-Economic Survey—1986/87. Details of these are given below:

#### **1. Automated Clearing House (ACH) Project:**

The Automated Clearing House will replace the present cheque clearing arrangement in Colombo. The banks which participate in the Central Bank Clearing House will be the participants of the new ACH. Instead of the manual exchange of cheque bundles by bank representatives, (seated at a table) unsorted instruments will be accepted at a counter and will be read and sorted by machines. Hence, the first step in the process of this change is to make the cheques machine-readable.

During 1986, most of the banks including the Central Bank have tested their MICR (Magnetic Ink Character Recognition) encoded cheques and it is hoped these cheques will go into circulation during the early part of 1987.

During the year 1986, after the technical specifications of the system were finalised, tenders were called, evaluated and awarded. Implementation of the system will take place during 1987.

## **2. Rural Credit Department—Comprehensive Rural Credit Scheme**

The Data Processing Department has developed a system to provide statistics to the Rural Credit Department with regard to its Comprehensive Rural Credit Scheme.

The system will provide statistics of loans given under the above scheme for the Maha season of this year. Operations will commence when the data are made available.

## **3. The Consumer Finance and Socio-Economic Survey—1986/87**

The Data Processing Department commenced the development of system and programming for the processing of the data collected under this survey. Processing will be done in 1987.

Systems re-designed or completed during the year were:

1. The *Exports Monitoring System* for the Exchange Control Department—Post-Check Branch which was finalised and implemented in January, 1986.
2. The daily production runs of the *General Ledger System* which commenced in September 1986 replacing the manual system at the Banking Department.
3. System development of the *EPF Passbook System* was completed and the inauguration of the special division to update passbooks was held in November, 1986.
4. *Medium and Long-term Refinance System* to monitor the Medium and Long-term Refinance Scheme of the Banking Department was re-designed and developed with the online facility to update and inquire individual loan accounts.
5. The development of a system to produce the *Trade Indices* for the Economic Research Department—Trade Division.

## **MANAGEMENT AUDIT**

The Internal Audit Division of the Bank, in accordance with its programme of work audited the accounts of the various Departments of the Bank, including the Regional Offices at Matale, Matara and Anuradhapura during 1986.

The Management Services Division conducted a study on the additional requirement of labourers in the Bank. The Division also commenced revising the Audit Manual currently being used by the Bank. Furthermore, as a part of the on-going project on studying the manpower requirements of the Bank, the Division undertook a study on the manpower requirements of the Management Audit Department of the Bank.

## PERSONNEL

The Governor Dr. W. Rasaputra attended the following conferences and meetings during the year 1986 :—

- (1) The 21st South East Asian Central Bank (SEACEN) Governors' Conference held in Baguio City, the Philippines.
- (2) The Special Ministerial Meeting of the Group of 24 held in Buenos Aires, Argentina and thereafter meetings in Chile and Venezuela as a member of the Ministerial Delegation.
- (3) The 46th Meeting of the Deputies of the Group of 24 and the Meeting of the Interim Committee of the International Monetary Fund held in Washington D.C., U.S.A.
- (4) The Meeting of the Asian Clearing Union held in Dhaka, Bangladesh.
- (5) The Commonwealth Central Bank Governors' Conference held in London, England.
- (6) The Annual Meetings of the International Monetary Fund and the International Bank for Reconstruction and Development and the Meetings of the Group of 24 held in Washington D.C., U.S.A.
- (7) The 16th South East Asia New Zealand and Australia (SEANZA) Governors' Symposium held in Dhaka, Bangladesh.

Mr. G. Cumararatunga, Deputy Secretary to the Treasury acted as the Alternate of the Secretary to the Ministry of Finance and Planning at meetings of the Monetary Board in the absence of the latter.

Mr. B. Mahadeva attended meetings of the Monetary Board as Acting Secretary, Ministry of Finance and Planning in the absence of the Secretary, 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, Superintendent of Public Debt was appointed Adviser, Special Projects with effect from 1st April, 1986.

Mr. S. Ratnapragasam, Deputy Chief Accountant was appointed Acting Additional Director of Management Audit with effect from 1st April, 1986.

Mr. T. S. N. Fernando, Deputy Director of Economic Research was appointed Acting Superintendent of Public Debt with effect from 1st April, 1986.

Mr. Y. A. Piyatissa, Deputy Director, Regional Rural Development Banks' Monitoring Unit was appointed Acting Additional Director of Bank Supervision with effect from 11th November, 1986.

Dr. W. Hettiarachchi, Adviser, Banking Development and Training was appointed Director of Banking Development and Director of Training, consequent on the reconstitution of the Office of the Adviser, Banking Development and Training as two Departments with effect from 1st December, 1986. He was also appointed Additional Director of Economic Research with effect from 1st December, 1986.

**Officers on release (as at 31st December, 1986)**

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 as Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka.

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

Mr. S. Easparathan to the Ministry of Finance and Planning to function as Additional Director, External Resources Department.

Dr. L. E. N. Fernando to the Ministry of Finance and 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. Abeysekera, Mr. M. B. Dissanayake, Dr. S. S. Colombage and Messrs. E. A. P. N. Dias, J. M. T. B. Jayasundera, G. A. V. Fonseka, Dr. I. Coomaraswamy, Mr. T. M. Z. Mutaliph and Mrs. Y. M. Indraratne to the Ministry of Finance and Planning.

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

Mr. N. A. De S. Athuraliya to the Mahaweli Authority of Sri Lanka.

**Resignations**

Mr. S. Rajalingam, Staff Officer Grade IV resigned from the Central Bank's service with effect from 5th October, 1986.