

PART II

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

Total assets/liabilities of the Central Bank as at the end of 1993, stood at Rs.133,634 million registering an increase of 32 per cent over the previous year. The increase in assets/liabilities of the Bank in 1992 over 1991 was around 5.7 per cent. The Balance Sheet of the Central Bank as at December 31, 1993, and the Profit and Loss Account of the Bank for the year ended December 31, 1993 are presented in Table 2.1.

The increase in assets was not reflected uniformly in all categories. The International Reserve of the Bank rose by 91.4 per cent, from Rs.39,663 million to Rs.75,896 million. International Reserve has now become the largest asset category, accounting for 56.8 per cent of total assets compared to 39.2 per cent at the end of 1992. Other assets increased by 87 per cent, from Rs.14,687 million to Rs.27,465 million. Domestic assets of the Bank, however, recorded a decline of 35.4 per cent, from Rs.46,904 million to Rs.30,273 million.

Within the category of Domestic Assets, the largest decrease of 81.9 per cent was in the sub-category of Government and Government guaranteed securities, while medium and long term credit facilities to commercial banks and other credit institutions and short term advances to commercial banks and Regional Rural Development Banks decreased by 14.2 per cent and 18.5 per cent, respectively. Meanwhile, loans and advances to the Government and contributions to financial institutions recorded increases of 10.9 per cent and 4.1 per cent, respectively.

On the liabilities side, currency in circulation increased by 17.8 per cent, from Rs.30,496 million to Rs.35,949 million. Total deposits with the Central Bank registered an increase of 43.9 per cent, from Rs.35,765 million to Rs.51,462 million during the year under review. Deposits constituted the largest category of liabilities and accounted for 38.5 per cent of total liabilities. Within the category of Deposits, the deposits of international organisations, foreign governments and foreign banking institutions increased by 58.7 per cent. Deposits of commercial banks and of Government agencies and institutions rose by 42.9 per cent and 46.2 per cent, respectively. Meanwhile, deposits of the Government declined by 32.2 per cent. A comparison of the major components of assets and liabilities of the Bank is shown in Table 2.2.

The income of the Bank for the year 1993, at Rs.12,098 million, showed an increase of 0.2 per cent over the preceding year. This low level of growth in the income of the Bank against a much higher growth (32 per cent) in total assets was mainly due to the shift in the asset portfolio from high interest earning domestic assets to low interest earning foreign assets and other non-interest bearing assets such as counter guarantees issued by the Government against guarantees issued by the Bank on behalf of the Government and Provisional Advances provided to the Government in terms of Section 89 of the Monetary Law Act.

After making allowances for expenditure and allocations to reserve accounts and provisions for depreciation and other charges, the balance net profit of the Bank, amounting to Rs.1,000 million, was earmarked to be paid to the Consolidated Fund of the Government in terms of Section 39(c) of the Monetary Law Act.

**COMPARISON OF THE CENTRAL BANK
as at 31st December, 1992 and**

31st December, 1992		LIABILITIES	31st December, 1993	
Rs.	Rs.		Rs.	Rs.
15,000,000 985,000,000	1,000,000,000	Capital Accounts Capital Surplus	15,000,000 985,000,000	1,000,000,000
29,270,372,778 1,225,882,746		Currency in Circulation Notes Coins	34,579,420,385 1,369,856,920	
2,654,614,089	30,496,255,524	Deposits Government	1,800,560,301	35,949,277,305
35,910,658 14,325,662,158		Government Agencies and Institutions	52,469,885	
17,827,214,959	35,765,136,290	Commercial Banks	20,466,190,194	
538,427 921,195,999		International Organisations, Foreign Government and Foreign Banking Institutions	28,291,350,601	
	4,925,000,000	Compulsory Savings Fund excluding Rs. 27,201,000/=	182,897	51,461,483,911
		invested in Treasury Bills	850,730,033	
	537,750,000	Others		4,925,000,000
	28,529,936,566	Medium and Long Term Credit Fund		
101,254,078,380		Capital Contribution Account		560,250,000
		Central Bank Securities		2,155,000,000
		Other Liabilities and Accounts		37,583,269,681
				133,634,280,897

Profit and Loss Account for the

31st December, 1992			31st December, 1993	
Rs.	Rs.		Rs.	Rs.
	11,070,337,959	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act.		11,097,761,934
	1,000,000,000	Net Profit for the Year To Part Liquidation of Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.		1,000,000,000
	12,070,337,959			12,097,761,934

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1993, were audited under my direction in pursuance of Article 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. No. 58 of 1949.

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

Auditor-General's Department,
Colombo 7.
19th April, 1994.

S. M. Sabry
Auditor-General

OF SRI LANKA GENERAL BALANCE SHEET

31st December, 1993.

31st December, 1992		ASSETS	31st December, 1993	
Rs.	Rs.		Rs.	Rs.
10,229,341,245	39,662,720,579	International Reserve	17,603,300,568	75,895,712,980
29,430,157,174		Cash and Balances Abroad	58,273,522,029*	
3,222,160		Foreign Securities and Treasury Bills	18,890,383	
		Holdings of Special Drawing Rights		
	46,904,444,874 14,686,912,927	Domestic Assets		30,273,172,514 27,465,395,403
18,801,831,081		Loans and Advances to Government	20,855,499,947	
4,839,548,302		Others – Medium and Long Term	4,150,604,897**	
923,265,218		Short Term	752,605,641	
		Government and Government		
		Guaranteed Securities	3,954,212,029	
21,802,050,273		Contributions to Financial and		
		other Institutions	560,250,000	
537,750,000		Other Assets and Accounts		
		* Including Securities acquired from Government Institutions on 01st February, 1964, at a face value of Rs. 5,527,675/= and on 24th May, 1965, at a face value of Rs.57,450/= (the estimated market value of these Securities were Rs. 2,933,697/= and Rs. 34,340/= respectively as on these dates).		
	** Includes special loan of Rs. 100.0 Mn. The amount outstanding is net of Rs. 291,168,392/= being provisions for loan losses.			
	101,254,078,380			133,634,280,897

year ended 31st December, 1993

31st December, 1992			31st December, 1993	
Rs.	Rs.		Rs.	Rs.
	12,070,337,959	By Interest, etc., Earned		12,097,761,934
	12,070,337,959			12,097,761,934

H. B. Disanayaka
Governor

M. B. Disanayake
Chief Accountant

Accounting Policies

1. General

The accompanying Balance Sheet and Profit & Loss Account have been prepared on the historical cost basis and in conformity with generally accepted accounting principles.

2. Foreign Currency Conversion

Assets and liabilities denominated in foreign currencies have been converted at the middle rate of exchange prevailing at the date of the Balance Sheet.

3. Investments

All investments are valued at cost.

4. Advances

Advances shown in the Balance Sheet are net of provisions for non performing loans due from Finance Companies.

5. Fixed Assets

Fixed Assets are shown at cost less depreciation. Depreciation is charged on the reducing balance method, at the following rates—

Buildings	2 per cent
Fixtures & Fittings	10 per cent
Office Furniture & Equipment	10 per cent
Computer Equipment	25 per cent
Motor Vehicles	10 per cent

Depreciation is provided on fixed assets for the full year in which such assets are purchased and no depreciation is provided for the year in which the fixed assets are sold or disposed.

6. Stocks

The total cost incurred during the year on Stationary & Engineering Stores have been charged to the Profit and Loss Account and no adjustments have been made in respect of closing stocks.

7. Income Recognition

Interest and other income are recognised in the books on an accrual basis except interest on non performing loans which is recognised on a cash basis.

8. Net Profit

The net profit disclosed in the Profit & Loss Account is after charging all expenses and making the following provisions -

- i. provision for non performing loans,
- ii. provision for depreciation on fixed assets, and
- iii. Other necessary provisions and allocations to reserves in terms of Section 38 of the Monetary Law Act.

TABLE 2.2

**Comparison of the Major Components of Assets and Liabilities of the Central Bank
as at the end of 1992 and 1993**

L I A B I L I T I E S					A S S E T S				
I T E M	1992		1993		I T E M	1992		1993	
	Rs. Mn.	%	Rs. Mn.	%		Rs. Mn.	%	Rs. Mn.	%
Capital Accounts	1,000.0	1.0	1,000.0	0.8	International Reserve	39,662.7	39.2	75,895.7	56.8
Currency in Circulation	30,496.3	30.1	35,949.3	26.9					
Deposits	35,765.1	35.3	51,461.5	38.5	Domestic Assets	46,904.5	46.3	30,273.2	22.6
Medium & Long Term Credit Fund	4,925.0	4.9	4,925.0	3.7	Other Assets	14,686.9	14.5	27,465.4	20.6
Capital Contribution Account	537.8	0.5	560.3	0.4					
Central Bank Securities	-	-	2,155.0	1.6					
Other Liabilities	28,529.9	28.2	37,583.2	28.1					
TOTAL	101,254.1	100.0	133,634.3	100.0	TOTAL	101,254.1	100.0	133,634.3	100.0

Source : Central Bank of Sri Lanka

Foreign Exchange Operations

The Central Bank continued to engage in foreign exchange operations by way of spot purchases and sales of U.S. Dollars against Sri Lanka Rupees. As in the past, the Central Bank continued to invest its foreign exchange reserves in the international money and capital markets.

The total value of foreign currency purchases by the Central Bank from commercial banks in Sri Lanka amounted to Rs.31,332.4 million, while foreign currency sales to commercial banks amounted to Rs.914.6 million in 1993, compared to Rs.20,326.9 million and Rs.3,425.1 million, respectively in 1992.

Sale of Gold

The Central Bank continued its gold sales at the Head Office premises. The total value of gold sales at the Head Office counter amounted to Rs.9.5 million in 1993 compared to Rs.11.9 million in 1992.

Asian Clearing Union

The total value of transactions routed through the Asian Clearing Union (ACU) in 1993 amounted to Rs.22,735 million as compared with Rs.21,806 million during the previous year. The rupee value of the net settlements made in foreign currency in 1993 amounted to Rs.7,424 million compared with Rs.7,403 million in 1992. The facility granted to importers to make payments outside the ACU mechanism in respect of their imports from India was withdrawn in March, 1993, consequent to the introduction of a unified exchange rate system by India in place of the dual exchange rate system introduced in 1992. Sri Lanka's contribution to the swap facility provided under the ACU arrangement during the period under review was Rs.133 million.

Bank Rate

The Central Bank's rate of interest (Bank Rate) on short-term advances to commercial banks under Section 87 of the Monetary Law Act remained unchanged at 17 per cent per annum.

Short Term Credit

In 1993, no changes were introduced in short term refinance schemes except for the inclusion of a list of new items under Category II of the Export Credit Refinance Scheme (ECRS). The outstanding amounts of refinance granted under various short term refinance schemes as at end 1992 and 1993 were as follows:

TABLE 2.3
Outstanding Amounts of Refinance Loans

Scheme	Rs. Mn.	
	1992	1993
New Comprehensive Rural Credit Scheme	431.5	582.9
Export Credit Refinance Scheme		
Category I	99.8	33.2
Category II	131.1	107.2
Scheme for storage of paddy and other crops	2.9	26.2
Special Refinance Facility for tea factory owners	258.0	3.1
Total	923.3	752.6

Source : Central Bank of Sri Lanka

Medium and Long Term Credit

The Medium and Long Term Credit Fund remained unchanged at Rs.4,925 million during 1993. The amount repaid, net of disbursements, during the year amounted to Rs.398 million.

Accommodation to Finance Companies

The Central Bank continued to grant financial accommodation to finance companies in distress in terms of Section 20 (4) (a) and 21 (1) of the Finance Companies Act No.78 of 1988. The total amount disbursed under this facility in 1993 amounted to Rs.238 million and the total amount outstanding was at Rs.2,045 million as at the end of 1993.

Reserve Requirements

The Statutory Reserve Requirements (SRR) against deposit liabilities of commercial banks were revised a number of times during the year in keeping with monetary policy operations.

On 29th January, 1993, the SRR on rupee deposits was increased from 13 per cent to 13.5 per cent, while the reserves on deposit liabilities denominated in foreign currencies subject to payment upon demand by cheque, draft or order was reduced from 13 per cent to 10 per cent. The SRR on all other foreign currency deposit liabilities was also reduced from 13 per cent to 6 per cent. Commercial banks were allowed the concession of keeping the reserves on foreign currency deposits in the form of foreign currency.

On 16th April, 1993, the SRR reserve on rupee deposit liabilities was increased from 13.5 per cent to 14 per cent. The SRR on foreign currency liabilities not payable on demand was increased from 6 per cent to 8 per cent.

On 21st May, 1993, the SRR on rupee deposit liabilities was further increased from 14 per cent to 15 per cent. The SRR on foreign currency deposits repayable on demand was increased from 10 per cent to 11 per cent while the SRR on other foreign currency deposits was increased from 8 per cent to 9 per cent.

On 25th June, 1993, the SRR on all foreign currency deposits was increased to a uniform rate of 12 per cent while the SRR on rupee deposit liabilities remained unchanged at 15 per cent.

On 27th August, 1993, the SRR on all foreign currency deposit liabilities was increased from 12 per cent to 15 per cent bringing it in line with the SRR on rupee deposit liabilities. The changes that took place during the year under review are summarised in the following table.

TABLE 2.4
Commercial Bank Reserve Requirements on Deposit Liabilities
(percentage)

Effective Date	All Rupee Deposits	Foreign Currency Deposits	
		Deposits payable on Demand	Other Deposits
29.01.1993	13.5	10	6
16.04.1993	14.0	10	8
21.05.1993	15.0	11	9
25.06.1993	15.0	12	12
27.08.1993	15.0	15	15

Source : Central Bank of Sri Lanka

Open Market Operations

(a) Repurchase Market for Treasury Bills

The Central Bank introduced a Repurchase Scheme in Treasury bills with effect from 04th October, 1994. The objective of the scheme was to further develop the Secondary Market for Treasury bills by providing an investment avenue for financial institutions with short term excess liquidity, while eliminating erratic fluctuations in the inter-bank call money rates. Under this scheme, the Central Bank commits itself to buy back on an agreed date, the Treasury bills sold from its holdings. Commercial banks and other institutions which have access to the Secondary Treasury Bill Market of the Bank are eligible to participate in the Scheme. The maturity period of repurchase agreements varied from one day (overnight) to a maximum period of 3 months.

The total sales turnover under repurchase agreements during the three months in which it was in operation in 1993 was Rs.38,883 million. The sales turnover to the commercial bank sector was Rs.35,482 million and to the non-bank sector was Rs.3,401 million. The yield rates applicable on overnight investments under repurchase agreements during the said period varied between 16.50 per cent and 19.83 per cent per annum.

(b) Secondary Treasury Bill Market

The sales turnover of Treasury bills in the Secondary Market decreased from Rs.120,798 million in 1992 to Rs.95,377 million in 1993. The purchase turnover also decreased from Rs.50,907 million to Rs.47,382 million during the same period. The decline in sales turnover was mainly attributed to the shifting of investments by commercial banks and other institutions from Secondary Market Treasury bills to overnight repurchase agreements. The net sales turnover to the non-banking sector increased from Rs.20,718 million in 1992 to Rs.22,934 million in 1993.

The yield rates applicable on investments in 3 months Treasury bills in the Secondary Market varied between 17.71 per cent and 20.66 per cent per annum during the year, while the yield rates on six months and one year Treasury bills varied from 18.22 per cent to 20.70 per cent and from 19.13 per cent to 21.71 per cent per annum, respectively.

Subsidy and Ex-gratia Payment to Indian Repatriates

The Bank continued to operate the payment schemes relating to the repatriation of estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964, on behalf of the Government. Total subsidy payments under this scheme amounted to Rs.276,609.24 in 1993 compared to Rs.182,598.24 in 1992. Ex-gratia payments amounted to Rs.38,775 in 1993 compared to Rs.33,300 in 1992.

Import Duty Rebate to Exporters

The Bank continued to reimburse claims made by commercial banks in respect of import duty rebates paid to exporters on behalf of the Government. A total sum of Rs.784.6 million was reimbursed during 1993 compared with Rs.638.4 million in 1992.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies collected under the Compulsory Savings Act No.6 of 1971 and the ceiling on Income & Compulsory Savings Law No.15 of 1972 and continued to administer the Compulsory Savings Fund on behalf of the Government. During the year, the Bank paid out Rs.54,529 (inclusive of interest) on applications made by 23 contributors.

Government Accounts

As Banker to the Government, the Central Bank continued to maintain accounts of Government Departments, Government Agencies and Institutions and certain Statutory Boards. The number of operational accounts at the end of December, 1993 was 184 compared to 182 in 1992.

Foreign Finance

During the year under review, the Bank continued to receive disbursements made available under various foreign loans and grants while repayments of foreign loans were also effected on behalf of the Government.

CURRENCY ISSUE

The Bank, as the sole currency issuing authority, continued to perform the function of issuing legal tender currency in Sri Lanka for use in domestic transactions during the year 1993. The volume of currency in circulation as at the end of 1993 stood at Rs.35,949.3 million. Notes in circulation comprised 96 per cent of the total currency in circulation.

On 4th June 1993, the Bank issued a commemorative silver coin in the denomination of Rs.500/- to mark the Anubudu Mihindu Jayanthiya - the 2300th anniversary of the arrival of Arahath Mahinda in Sri Lanka. This was the second occasion that the Bank issued a commemorative coin to mark a religious event, the first being the issue of the 2500th Buddha Jayanthiya commemorative coin in 1957. The inaugural presentation of the Anubudu Mihindu Jayanthiya coin to His Excellency the President took place at a special ceremony held at Mihintale. Arrangements were also made to issue the coin to the general public at a special counter set-up at Mihintale.

The mobile currency exhibition of the Bank, which was launched in 1992, continued its functions during 1993. Specimen currency notes of almost all countries of the world, as well as counterfeit notes and defectively printed Sri Lanka notes are displayed in the mobile exhibition. During 1993, 20 such exhibitions were held in various parts of the country. In August 1993, the Bank participated in a Numismatic Workshop and Coins Exhibition organised by the Colombo National Museum.

The currency processing system was automated in 1992, and for this purpose, two Currency Verification, Counting & Sorting Systems (CVCS Systems) were installed in the Currency Department. The automated system continued to operate during 1993. However, the Systems have to be re-tuned to process the new design Sri Lanka Heritage Series currency notes and steps are being taken to accomplish the retuning process.

BANKING DEVELOPMENT

Branch Expansion

During 1993, the banking network of the country expanded at a slower pace than in the previous year as shown in Table 2.5. With the opening of a Regional Rural Development Bank (RRDB) in the administrative district of Gampaha, the total number of banking institutions, including development banks and savings banks, increased from 43 in 1992 to 44 in 1993. As at the end of 1993, the banking system comprised 23 commercial banks (6 domestic commercial banks and 17 foreign commercial banks), 17 RRDBs, 3 development banks and a savings bank.

The branch network of commercial banks and the RRDBs showed a slow growth during 1993. The total number of branches in operation increased by 4.4 per cent to 1,017 whereas in 1992, the number of branches rose by 9.2 per cent. The expansion of the branch network of the State banks was slow during the year 1993 mainly as a result of the policy of consolidating the existing branches. The number of branches of other commercial banks (local private banks and foreign banks) and the RRDBs too, increased slowly during 1993.

Bank of Ceylon opened only one new branch in 1993, named the "Second Corporate Branch", for the purpose of monitoring and supervising certain categories of loans. The Agrarian Service Centre (ASC) branches at Helboda, Diyatalawa, Mihintale, Naula and Pasgoda were upgraded to 'C' grade status and in addition to the re-opening of its Muttur branch, Bank of Ceylon also opened an extension office at the Ceylon Shipping Lines warehouse. As a result of these changes, by the end of the year, the number of main branches of Bank of Ceylon stood at 259, while the ASC branches, kachcheri branches, extension offices and pay offices numbered 29, 24, 18 and 3, respectively. The number of overseas branches of Bank of Ceylon remained unchanged at 2.

People's Bank opened 3 new branches at Dehiattakandiya, Ganemulla and Yakkala in addition to re-opening its Serunuwara and Mullaitivu branches. Further, People's Bank opened an extension office at the premises of the Open University of Sri Lanka. With these additions, the number of branches of People's Bank increased to 320 while the number of extension/pay offices and pawning centres of People's Bank increased to 7.

Hatton National Bank Ltd. expanded its branch network to 51 by opening 4 branches at Grandpass, Dambulla, Gampaha and Horana. The extension and pay offices of Hatton National Bank rose to 2 with the opening of a pay office at the Koggala Free Trade Zone. Commercial Bank of Ceylon Ltd. expanded its branch network to 31 by opening 3 branches at Kandana, Maradana and Akuressa. Sampath Bank Ltd. established 2 branches at Gampaha and Dehiwela, thus increasing its total number of branches, excluding pay offices and extension offices to 15 by the end of 1993. Seylan Bank Ltd. during the year under review, established 11 branches at Nawala, Bandarawela, Kuliyaipitiya, Mawanella, Old Moors Street, Hinguragoda, Embilipitiya, Puttalam, Maradana, Katuneriya and Koggala and upgraded its mobile banking centres located at Alubomulla (and shifted it to Bandaragama) and Manampitiya, to the status of fully fledged branches. Accordingly, the number of branches of Seylan Bank Ltd. totalled 57 by the end of 1993.

ANZ Grindlays Bank opened three branches at Moratuwa, Rajagiriya and Kollupitiya, increasing its total number of branches to 7. Meanwhile, ABN-AMRO Bank opened one branch in Colombo 7. Consequent to the opening of branches by ANZ Grindlays Bank and ABN-AMRO Bank, the number of foreign bank branches as at end 1993 totalled 33, an increase of 4 over the previous year.

The Regional Rural Development Banks (RRDBs) expanded their branch network further. The newly opened RRDB Gampaha opened 2 branches at Gampaha and Mawaramandiya, while the RRDB Ampara expanded its branch network from 5 to 7 by opening 2 branches at Kalmunai and Mahaoya. The RRDB Polonnaruwa established one branch at Galamuna while the RRDB Ratnapura opened one branch at Kalawana. The RRDB Kegalle increased the number of its branches to 13 by establishing a branch at Nelumdeniya. With these changes, the total number of branches of the RRDB network increased from 156 in 1992 to 163 in 1993.

The National Savings Bank opened a branch at Wattala, increasing its total number of branches from 84 to 85. The office network of the National Development Bank and the Development Finance Corporation of Ceylon remained unchanged during the year. The State Mortgage & Investment Bank closed its Matara branch, thereby reducing the number of its branches from 3 to 2.

Mobile Banking Centres

With a view to catering to the banking needs of people in areas without banking facilities or with poor facilities, the RRDBs and a few commercial banks, including the two State banks, continued to provide mobile banking services. Seylan Bank commenced mobile banking services at Raddoluwa, Ganemulla and Kotiyakumbura and the Anuradhapura RRDB commenced mobile banking services at Negampaha and Siyambalangamuwa during 1993.

Installation of Automated Teller Machines (ATMs)

The year 1993 witnessed progress in the installation of Automated Teller Machines (ATMs) by commercial banks at on-site and off-site premises. With the expansion of its computerised

TABLE 2.5
Composition of Banking Institutions and Distribution
of Bank Branches 1990 – 1993

Category	1990	1991	1992	1993
1. No. of Institutions	40	42	43	44
1.1 Commercial Banks	24	23	23	23
1.1.1 Domestic Commercial Banks	6	6	6	6
1.1.2 Foreign Banks	18	17	17	17
1.2 RRDBs (a)	12	15	16	17
1.3 Savings Banks	1	1	1	1
1.4 Development Banking Institutions (DBIs)	3	3	3	3
2. No. of Bank Branches (b)	924	973	1,058	1,102
2.1 Commercial Bank Branches	747	768	818	854
2.1.1 Branches of Domestic Banks	724	743	789	821
(i) Main Branches	638	656	699	733
(ii) ASC Branches	38	36	34	29
(iii) Kachcheri Branches	23	24	24	24
(iv) Extension/Pay Offices/ Pawning Centres*	23	25	30	33
(v) Overseas Branches (c)	2	2	2	2
2.1.2 Foreign Bank Branches	23	25	29(d)	33(d)
2.2 RRDB Branches	101	124	156	163
2.3 National Savings Bank Branches	76	81	84	85
3. No. of Branches/Offices of DBIs (e)	6	7	7	6
3.1 Development Finance Corp. of Ceylon (DFCC)	3	3	3	3
3.2 State Mortgage & Investment Bank (SMIB)	2	3	3	2
3.3 National Development Bank (NDB)	1	1	1	1

Source : Central Bank of Sri Lanka

(a) Regional Rural Development Banks established under the RRDB Act No. 15 of 1985

(b) Excluding Co-operative Rural Banks.

(c) Two overseas branches of the Bank of Ceylon (London & Male Branches).

(d) Including two sub-branches of the Hong Kong and Shanghai Banking Corporation.

(e) Including Head Office and Branches of the DBIs.

* Revised to include all extension/pay offices and pawning centres of People's Bank, Bank of Ceylon, Hatton National Bank and Sampath Bank.

branch network, People's Bank installed 4 ATMs at its branches at Kiribathgoda, Kurunegala, Kegalle and Moratuwa. In addition, an off-site ATM was installed at the premises of the Nawaloka Hospital Private Ltd. by People's Bank. Hatton National Bank installed 4 ATMs at the premises of its branches at Moratuwa, Kirillapone, Kandy and Grandpass. Meanwhile the BOC and the Commercial Bank of Ceylon Ltd. installed one ATM each during the year. Sampath Bank Ltd. also installed 2 ATMs at Dehiwala and Gampaha.

BANK SUPERVISION

The Bank Supervision Department is responsible for the continuous supervision and periodic examination of all banking institutions in the country. The basic objective underlying the role of supervision is to ensure public confidence in the banking system and safeguard the interests of the depositors.

The Department carries out these responsibilities through on-site examinations and off-site surveillance. With regard to on-site examinations, the Department commenced the examinations of 15 commercial banks, one Regional Rural Development Bank (RRDB) and one Development Banking Institution (DBI) during 1993. Of these, examinations of the RRDB, DBI and 9 commercial banks, were completed in the year under reviewed. The examination of three commercial banks which had commenced in 1992 were also concluded during 1993. On the basis of the observations made at on-site examinations, it was ensured that corrective action where necessary was taken by the Managements of the relevant banks.

In regard to the off-site surveillance of commercial banks, the Department continued to monitor the financial condition of commercial banks and RRDBs on the basis of the monthly Statements of Assets and Liabilities forwarded to the Department. Monitoring the operations of the FCBUs established under the Foreign Currency Banking Scheme too was carried out on a monthly basis, with emphasis in this regard being on the lending operations of resident exporters. Information on irregular and large advances was also obtained on a quarterly basis to examine the continuous development of commercial banks regularly. The profitability and financial strength of each commercial bank as well as the industry as a whole, were computed and evaluated on the basis of annual statements on income and expenditure furnished by the banks.

The Department continued to exercise its responsibility in ensuring strict compliance with the regulatory requirements under the Banking Act and other guidelines issued by the Department on prudential requirements. These included the maintenance of a minimum level of liquid assets and capital, the adherence to the single borrower limits, restrictions on accommodation to directors and their interests, submission of annual financial statements in the prescribed accounting formats within the statutory period, setting up interest in suspense accounts on non-performing advances and making adequate provisions for bad debts. The daily monitoring of foreign working balances of commercial banks was continued to ensure that banks do not exceed the limits imposed by the Central Bank. The Department prepared the initial plans to computerise and adopt modern analytical techniques to become more up to date in these operations.

During the year under review, the implementation of the new capital adequacy measures based on requirements laid down by the Banking Regulations and Supervisory Practices Committee (the BASLE Committee) was a major task undertaken by the Department. In terms of Section 102 of the Monetary Law Act, the Monetary Board prescribed these requirements for commercial banks as set out in the Government Gazette Extraordinary No.786/15 of 1st October, 1993. In terms of these requirements, commercial banks were required to satisfy a core capital adequacy ratio of 4 per cent as at 31st December, 1993 and an overall ratio of 8 per cent as at 31st March, 1994. Under the new standard, the adequacy of capital is measured against the risky assets. This is a departure from the earlier practice of measuring capital adequacy against a bank's total liabilities. Commercial banks are required to submit a quarterly return on their capital adequacy in a specified format prescribed by the Department. Regular monitoring will be carried out by the Department on the basis of these returns.

In the year under review, the Department administered the Deposit Insurance Scheme which has been in operation since 1987. The number of institutions registered under the Scheme remained at 11 during the year, while the premium payable continued to be 3.75 cents per quarter, for every Rs.100/- as in the previous year.

The Department was also actively involved in formulating several amendments to the Banking Act which were necessitated by reforms in Sri Lanka's financial sector, which have either already taken place and or which have been proposed. The amendments proposed in this regard, it is hoped, would have the effect of levelling the playing field for all licensed commercial banks in Sri Lanka. They would broaden the scope of supervision by bringing hitherto unregulated financial operations such as off-shore operations of commercial banks, within the supervisory ambit of the Central Bank and strengthen the regulatory powers of the Central Bank. The proposed amendments would also make prudential regulations currently in force applicable to Development Finance Institutions and savings banks whose operations have not been subject to such regulations in the Banking Act.

NON-BANK FINANCIAL INSTITUTIONS

As in previous years, in 1993 too, the Central Bank continued to monitor and supervise the finance companies which are registered with it. During the year, the Department of Supervision of Non-Bank Financial Institutions placed greater emphasis on on-site examination of finance companies, while continuing with the off-site surveillance through the Early Warning System (EWS). In order to strengthen the off-site surveillance further, the Department decided to call for Profit and Loss Accounts and Balance Sheets on monthly basis.

The consolidated balance sheet of finance companies which have been permitted to accept public deposits indicates a 16 per cent growth in deposit liabilities during the financial year ending 31.03.1993. The borrowings of these companies declined by 37.5 per cent, while their net capital funds increased by 15 per cent. The provision for bad and doubtful debts more than doubled during the financial year. On the asset side the total liquid assets increased by 20 per cent during the financial year, while the advances, which amounted to 58 per cent of the total assets as at 31.03.1992, increased to 64 per cent as at 31.03.1993, indicating a growth rate of about 22 per cent. More details are given in Table 2.6.

Under the provisions of the Finance Companies Act No.78 of 1988, 28 finance companies have been granted registration by the Monetary Board of the Central Bank. The registrations granted to two companies were withdrawn during the year. The registration of Shabra Unico Finance Ltd. was withdrawn on 27.08.1993, while the registration of Citicredit Ltd. was withdrawn on 29.11.1993. The registrations of these two companies were withdrawn for continuous violation of the Directions issued by the Monetary Board. No new companies were granted registration during the year.

The relief scheme to depositors of failed finance companies which became operational in 1989, continued to be implemented during the year. The relief payments made to depositors of 7 distressed finance companies during the year amounted to Rs.48.0 million. The total value of relief payments made to depositors upto the end of 1993 was Rs.509.9 million. These relief payments were financed largely through loans granted by the Central Bank. One registered finance company, the administration and management of which was taken over by the Monetary Board in February 1992, was granted loans amounting to Rs.213.1 million during the year to meet its deposit liabilities. As at end December, 1993, the total outstanding Central Bank loans which have been granted to this Company amounted to Rs.1,141 million.

TABLE 2.6

Consolidated Balance Sheet of Operational Finance Companies*

	As at 31.03.92 ('000)	As at 31.03.93 ('000)	Percentage Change Over Previous Year
LIABILITIES			
1. Capital Funds			
Issued Share Capital	185,533	170,012	
Capital Reserve	315,629	455,065	
General Reserve	196,087	246,525	
Reserve Fund	147,457	175,368	
Other Reserves	191,737	45,930	
Profit & Loss A/c.	(56,578)	17,625	
Gross Capital Funds	979,865	1,110,525	
Less: Deferred Expenditure	13,868	107	
Net Capital Funds	965,997	1,110,418	+ 14.95
2. Provision for Bad Debts	125,866	258,903	+105.69
3. Public Deposits	4,288,943	4,986,693	+ 16.26
4. Borrowings			
Banks	1,147,746	718,553	
Others	49,159	29,724	
Total Borrowings	1,196,905	748,277	- 37.48
5. Other Liabilities	659,677	951,104	+ 44.48
GRAND TOTAL	7,237,388	8,055,395	+ 11.30
ASSETS			
1. Liquid Assets			
Cash and Due from Banks	441,076	168,216	
Fixed Deposits	-	325,207	
Government Treasury Bills	405,915	501,915	
Interest on FDs & TBs	-	28,352	
Total Liquid Assets	846,991	1,023,690	+ 20.36
2. Investments			
Shares in Sub. & Associates	102,686	119,347	
Shares in Other Companies	444,814	428,298	
Shares in related Companies	-	500	
Total Investments	547,500	548,146	+ 0.11
3. Advances			
Loans	1,071,482	577,968	
Hire Purchase	1,911,866	1,991,550	
Leasing	1,246,388	472,892	
Lease Finance	-	1,633,504	
Real Estate	-	200,614	
Other Estates	-	275,738	
Total Advances	4,229,736	5,152,266	+ 21.81
4. Due from Subsidiaries & Associates	-	9,538	
5. Fixed Assets			
Freehold Land & Buildings	507,495	591,429	
Furniture, Fittings, Fixtures & Office Equipment	96,434	92,246	
Motor Vehicles	83,178	68,912	
Machinery	-	33,993	
Others	303,336	11,419	
Total Fixed Assets	990,443	797,999	- 19.43
6. Other Assets	622,718	523,757	- 15.89
GRAND TOTAL	7,237,388	8,055,395	+ 11.30

Source : Central Bank of Sri Lanka

* Number of Companies Reported excluding the Companies which were not permitted to accept fresh public deposits.

The order in respect of the petition which was filed in the District Court of Colombo for the winding up of Castle Finance Ltd., was given on 25th June, 1993, and a liquidator was accordingly appointed. The amendment made by the Monetary Board in 1992 in respect of the Direction on Provisioning for Bad and Doubtful Debts was extended for a further period of one year with effect from 31.03.1993.

Consequent to the cancellation of the licences of Citicredit Ltd. and Shabra Unico Finance Ltd., they were directed by the Monetary Board of the Central Bank of Sri Lanka to divest their finance business and settle their liabilities to depositors. An extract of the Order issued to Shabra Unico Finance Ltd. on 10th August, 1993 and published in the Government Gazette is as follows;

FINANCE COMPANIES (DIVESTING FINANCE BUSINESS AND SETTLEMENT OF DEPOSIT LIABILITIES OF SHABRA UNICO FINANCE OF "SHABRA HOUSE", NO.2-2/1, R.A.DE MEL MAWATHA, COLOMBO 4) DIRECTION OF 1993.

Shabra Unico Finance Ltd. (hereinafter called and referred to as the Company) shall commence divesting its finance business and settling its deposit liabilities of Rupees One Hundred and Eighty Seven Million Two Hundred and Twenty Four Thousand Seven Hundred and Forty and Cents Eighteen (Rs.187,224,740.18) in the manner hereinafter provided

- (i) A sum of not less than Rs.102.7 million shall be paid to the depositors proportionately on the outstanding deposits, in the order of maturity of such deposits, within 12 months commencing from 1st September 1993, in the following manner -
 - (a) a sum of Rs.65.2 million to be paid to depositors during the period 1st September, 1993 and 31st December, 1993;
 - (b) a sum of Rs.24.5 million to be paid to depositors during the period 1st January, 1994 and 30th April, 1994;
 - (c) a sum of Rs.13.0 million to be paid to depositors during the period 1st May, 1994 and 31st August, 1994.
- (ii) Thereafter, a sum of not less than Rs.55.7 million shall be paid to the depositors proportionately on the outstanding deposits, in the order of maturity, within the next 12 months commencing from 1st September, 1994 in the following manner -
 - (a) a sum of Rs.10.7 million to be paid during the period 1st September, 1994 to 31st December, 1994;
 - (b) a sum of Rs.45.0 million to be paid during the period 1st January, 1995 to 31st August, 1995.
- (iii) The Balance deposit liabilities outstanding as at 1st September, 1995 and the accrued interest upto 1st July, 1993 on the total deposit liabilities of Rs.187,224,740 shall be paid within 12 months commencing from 1st September, 1995.

An extract of the Order issued to Citicredit Ltd. on 30th November, 1993 and published in the Government Gazette is as follows;

FINANCE COMPANIES (DIVESTING FINANCE BUSINESS AND SETTLEMENT OF DEPOSIT LIABILITIES OF CITICREDIT LIMITED OF 329 1/1, GALLE ROAD, COLOMBO 3) DIRECTION OF 1993.

Citicredit Ltd. (hereinafter called and referred to as the "Company") shall commence divesting its finance business and settling its deposit liabilities of Rupees Twelve Million Two Hundred and Twenty Seven Thousand One Hundred and Twenty Two and Cents Sixty Six (Rs.12,227,122.66) in the manner hereinafter provided.

- (i) The Company shall pay not less than 8.5 per cent per month of its deposit liabilities (excluding interests) to its depositors. Payments shall be made in the order of maturity of deposits, commencing from 1st December, 1993.
- (ii) The accrued interest upto 30th June 1993 on the total deposit liabilities of Rs.12,227,122.66 shall be paid commencing from 1st December, 1994 within a period of 12 months.

DEVELOPMENT FINANCE

During 1993, the Development Finance Department continued the operation of the Credit Guarantee Schemes for Small and Medium Scale Industries (SMI), the Bus Purchase Loan (BPL), and the Entrepreneur Development Programme in addition to the Refinance Scheme for Low Income Housing under the United States Agency for International Development (USAID) Low Income Shelter Programme (HGLISP) Phase IV. The suspension of refinance under the Medium and Long Term Credit Fund (MLCF) which came into effect in December 1991, continued into 1993 as well. Therefore, the administration of the MLCF was limited only to following up on the performance of projects (excluding refinance provided to Finance Companies) which had been refinanced prior to the suspension of the MLCF facility.

Credit Guarantee Operations

A summary of credit guarantee operations under the six credit guarantee schemes administered by the Central Bank as at 31st December 1993 *i.e.*, the Small Scale Industries (SSI) Scheme, SMI I, II, III and IV Schemes and BPL Scheme is given in Tables 2.7 and 2.8 respectively. Table 2.9 gives an industry-wise classification of projects financed under the SMI-II, III and IV Schemes.

Small Scale Industries (SSI) Scheme

The SSI Scheme which came into effect in 1978 was superseded by the SMI-I Scheme in 1979. The issue of credit guarantees under the SSI Scheme was completed in 1981. Out of a total of 767 loans guaranteed under this scheme, only 10 loans amounting to Rs.0.58 million and involving a total guarantee commitment to the Central Bank of Rs.0.44 million were still in operation as at the end of 1993. Claims under this scheme will be met by the Treasury which has already paid Rs.1.7 million. In the event that claims in respect of all 10 loans outstanding are submitted, this will involve a further payment of Rs.0.5 million by the Treasury.

Small and Medium Scale Industries - I (SMI - I) Scheme

The SMI-I Scheme came into operation in 1979. Under this scheme 1,670 guarantees covering loans amounting to Rs.286 million were issued during 1979 - 1982. A total of 1,223 loans were fully repaid upto 1993. At the end of 1993, 113 guarantees amounting to Rs.31 million had been either withdrawn or had lapsed due to non compliance by the Participating Credit Institutions (PCIs) with the Central Bank's operating instructions. The total liability in respect of 337 claims received was Rs.33.5 million, of which 229 claims amounting to Rs.18.9 million were settled. In terms of a decision taken, 50 per cent of the liability on 27 loans granted for projects located in the Northern and Eastern Provinces of the country, which were declared either in default or as failures,

TABLE 2.7

Summary of the Central Bank Credit Guarantee Schemes as at December 31, 1993

(Value Rs. Mn.)

SCHEMES AND YEARS	SMALL SCALE INDUSTRIES (SSI)		SMALL AND MEDIUM SCALE INDUSTRIES (SMI)													
			SMI - I		SMI - II				SMI - III				SMI - IV			
	1993		1993		1992		1993		1992		1993		1992		1993	
Items	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans granted	767	31.20	1,670	286.10	2,531	1,392.54	2,531	1,392.54	3,129	1,955.04 (a)	3,130	1,955.59 (a)	2,621	1,915.99	4,899	3,477.03
1.2 Loans guaranteed	767	23.40 (b)	1,670	157.50 (c)	2,531	713.63 (d)	2,531	713.63 (d)	3,129	1,312.18 (e)	3,130	1,312.62 (e)	2,621	1,137.52 (f)	4,899	2,102.03 (f)
2.1 Loans fully repaid	596	22.90	1,223	182.53	1,111	441.65	1,368	575.58	227	99.36	505	183.85	6	1.26	19	13.74
2.2 Guarantees withdrawn or lapsed	90	4.89	113	31.38	340	167.37	340	167.37	267	202.09	252	195.19	22	11.62	52	32.69
CLAIMS																
3.1 Total claims received	88	4.32 (g)	337	75.72 (g)	204	84.71 (g)	216	87.21 (g)	36	14.54 (g)	90	37.18 (g)	1	0.14 (g)	13	6.50 (g)
3.2 Central Bank liability		2.42		33.51		49.87		55.76		12.74		30.98		0.14		6.39
3.3 Settlement of claims																
3.3.1 Fully settled	63	1.68	229	18.87	113	25.94	117	29.44	16	3.45	50	15.39			5	1.08
3.3.2 Partly settled	1	0.00 (h)	27	2.11	5	0.71	4	0.67								
3.3.3 Claims rejected	7	0.22	29	5.08	39	9.08	40	9.41	5	1.70	16	5.49			1	0.16
3.3.4 Loans fully paid after submission of claims (i)	16	0.24	37	2.03	2	0.58	5	1.10								
3.3.5 Claims deferred (k)	1	0.27	11	2.64	24	7.51	24	7.51	3	0.40	5	2.57			1	1.11
3.3.6 Claims pending (k)			3	0.51	21	5.16	19	2.99	12	7.18	19	8.44	1	0.14	6	4.06
3.3.7 Claims withdrawn (k)							7	3.62								
4.1 Loans outstanding	10	0.58 (i)	49	5.96 (i)	923	287.27 (i)	662	203.51 (i)	2,614	1,128.53 (i)	2,307	872.88 (i)	2,592	840.75 (i)	4,822	1,801.26 (i)
4.2 (of which in arrears)	10	0.58	49	5.96	678	163.37	427	55.72	893	73.16	748	80.89				
4.3 Central Bank liability on guarantees outstanding	10	0.44 (b)	49	3.58 (c)	923	164.76 (d)	662	117.05 (d)	2,614	759.41 (e)	2,307	577.04 (e)	2,592	579.09 (f)	4,822	1,220.18 (f)
5. Premia collected		1.00		12.17		27.17		28.38		27.96		34.68		2.58		17.93
6. Post Claim Recoveries		0.61		6.90		6.98		11.86		0.49		3.25				0.09

(a) Excluding loans transferred to SMI-IV by National Development Bank.

(b) 75% of loans outstanding.

(c) 60% of loans outstanding subject to maximum of Rs. 0.4 mn. per project.

(d) 60% of loans outstanding subject to maximum of Rs. 0.8 mn. in respect of loans upto Rs. 2.0 mn. and Rs. 1.2 mn. for loans between Rs. 2.0 mn. to Rs. 4.0 mn.

(e) 80%, 60% and 40% respectively for upto Rs. 2.0 mn., Rs. 2.0 mn. - Rs. 3.0 mn. and Rs. 3.0 mn. - Rs. 4.0 mn. subject to maximum of Rs. 1.6 mn. per project.

(f) 90%, 80%, 70% and 60% respectively for upto Rs. 0.5 mn., Rs. 0.5 mn. - Rs. 1.0 mn., Rs. 1.0 mn. - Rs. 2.0 mn. and Rs. 2.0 mn. - Rs. 8.0 mn., subject to maximum of Rs. 1.6 mn. per project.

(g) Amount in default including interest accrued therein.

(h) Amount of Rs. 4,504.75 has been settled.

(i) Excluding instalments recovered.

(j) Included under 2.1.

(k) Included under 4.1.

Source : Central Bank of Sri Lanka

were paid as interim settlements amounting to Rs.2.1 million. Loans relating to 37 claims amounting to Rs.2.0 million were repaid by the borrowers after submission of claims while 29 claims with a total value of Rs.5.1 million were rejected on account of non compliance by the PCIs with operating instructions. Consideration of 11 claims amounting to Rs.2.6 million was deferred on account of either rehabilitation programmes undertaken by the PCIs or re-commencement of repayment of the loan by the borrowers after the submission of such claims. At the end of December 1993, only 49 loans amounting to Rs.5.96 million with a maximum guarantee liability of Rs.3.6 million were reported to be operational. Premia collected under this scheme and post claim recoveries by the Central Bank amounted to Rs.12.2 million and Rs.6.9 million respectively. Available resources, made up of premia inflows and post claim recoveries amounting to Rs.19.1 million, were not sufficient to meet liabilities under the scheme and a sum of Rs.2 million had to be met by the Central Bank. The estimated liability in respect of 49 guarantees on loans outstanding amounting to Rs.5.9 million is Rs.3.6 million.

Small and Medium Scale Industries – II (SMI - II) Scheme

The SMI - II Scheme came into effect in 1982 and guarantees under this scheme were issued upto 1989. During the period 1982 – 1989, 2,531 guarantees were issued on loans amounting to Rs.1,393 million involving a maximum guarantee liability of Rs.714 million. Of these, 1,368 loans amounting to Rs.576 million were fully repaid, while 340 guarantees to the value of Rs.167 million were either withdrawn or had lapsed due to non-compliance by the PCIs with the Central Bank's operating instructions. A total of 216 claims with a liability of Rs.56 million was received as at the end of 1993, of which 117 claims amounting to Rs.29 million were settled. Interim payments not exceeding 50 per cent of the liability of the Central Bank, amounting to Rs.0.67 million, were made in respect of 4 claims from the Northern and Eastern Provinces in terms of a decision taken in that regard, while 40 claims amounting to Rs.9 million were rejected on account of non-compliance by the PCIs with operating instructions. Loans relating to 5 claims were repaid by the borrowers after submission of claims to the Central Bank while PCIs have withdrawn 7 claims amounting to Rs.3.6 million. At the end of 1993, consideration of 24 claims amounting to Rs.7.5 million had been deferred on account of either rehabilitation programmes undertaken by the PCIs or re-commencement of repayment of the loans by the borrowers after the submission of such claims. At the end of 1993, 662 loans amounting to Rs.204 million, and with a total Central Bank guarantee liability of Rs.117 million, were operational. Of these, 427 loans with a liability of Rs.55.7 million were reported to be in arrears.

Premia collected under this scheme amounted to Rs.28.4 million as at the end of 1993 while postclaim recoveries by the Central Bank amounted to Rs.11.9 million, making a total of Rs.40.3 million.

Small and Medium Scale Industries – III (SMI - III) Scheme

The SMI - III Scheme came into operation in 1988. Under this scheme 3,130 loans amounting to Rs.1,956 million have been guaranteed. In terms of a decision taken in 1991, 754 loans originally approved under SMI - III were transferred to the SMI - IV Scheme.

Of the 3,130 loans under SMI - III, 505 loans amounting to Rs.184 million were fully repaid while guarantees relating to 252 loans amounting to Rs.195 million had either been withdrawn or had lapsed due to non-compliance by the PCIs with the operating instructions. A total of 90 claims with a Central Bank guarantee liability of Rs.31 million was received as at the end of 1993. Of these, 50 claims totalling Rs.15.4 million, were settled while 16 claims totalling Rs.5.5 million were rejected. Consideration of 5 claims was deferred due to regularisation of the respective loan accounts by the borrowers after the submission of such claims. By the end of December 1993, 2,307 loans amounting to Rs.873 million with a maximum guarantee liability of Rs.577 million were operational.

The total premia collected under this scheme as at 31st December, 1993 was Rs.34.7 million while Rs.3.3 million was recovered by the Central Bank as postclaim recoveries.

Small & Medium Scale Industries - IV (SMI - IV) Scheme

The SMI - IV Scheme commenced in March 1992 and is currently operational. By the end of 1993, 4,899 loans amounting to Rs.3,477 million had been guaranteed. The Central Bank's liability in respect of these loans amounted to Rs.2,102 million. During the year, 19 loans amounting to Rs.13.7 million had been fully settled while 52 guarantees had been either withdrawn or had lapsed due to non compliance with the Central Bank's operating instructions by the PCIs. At the end of 1993, 4,822 loans totalling Rs.1,801 million were operational. Guarantees issued on these loans amounted to Rs.1,220 million. At the end of December 1993, 13 claims amounting to Rs.6.5 million were received, of which 5 claims amounting to Rs.1.1 million were settled. The total amount collected as guarantee premia as at end 1993 was Rs.17.9 million.

Bus Purchase Loan (BPL) Scheme

This scheme was inaugurated in November, 1990 by the Central Bank to cover loans granted by the PCIs to private bus operators to purchase buses for public transport. Under the BPL Scheme,

TABLE 2.8
Summary of the Bus Purchase Loan Scheme

Item	(Value - Rs. Million)			
	As at December 31, 1992		As at December 31, 1993	
	No.	Value	No.	Value
1.1 Loans granted	1,928	1,096.57	1,932	1,098.58
1.2 Loans guaranteed	1,928	870.62 (a)	1,932	871.18 (a)
2.1 Loans fully repaid	9	4.78	51	27.75
2.2 Guarantees withdrawn or lapsed	104	59.51	114	66.45
Claims				
3.1 Total claims received	5	3.17 (b)	6	3.71 (b)
3.2 Central Bank liability	-	1.94	-	2.33
3.3 Settlement of claims				
3.3.1 Fully settled			2	0.39
3.3.2 Partly settled	1	0.2	1	0.3
3.3.3 Claims rejected	1	0.6	1	0.6
3.3.4 Claims deferred (d)	-	-	-	-
3.3.5 Claims pending (d)	3	1.82	2	0.81
4.1 Loans outstanding	1,810	903.50 (c)	1,763	725.71 (c)
4.2 Central Bank liability on guarantees outstanding	1,810	716.79 (a)	1,763	574.60 (a)
5 Premia collected		8.90		12.61

Source : Central Bank of Sri Lanka

- (a) 80%, 60% and 40% respectively for upto Rs. 2.0 mn., Rs. 2.0 mn.-3.0 mn., and Rs. 3.0 mn.-Rs. 4.0 mn., subject to maximum of Rs. 1.6 mn., per project.
(b) Amount in default including interest accrued therein.
(c) Excluding instalments recovered.
(d) Included under 4.1.

TABLE 2.9

SMI - II, SMI - III and SMI - IV Credit Guarantee Schemes – Industry-wise Classification as at December 31, 1993

(Rs. '000)

Industry	SMI - II, III & IV 1982 - 1993						SMI - IV 1993					
	Loans Granted	%	Loan Amount	%	Guaranteed Amount	%	Loans Granted	%	Loan Amount	%	Guaranteed Amount	%
01. Food Processing	2,595	24.6	1,662,856	24.4	959,495	23.2	500	22.2	352,991	22.6	204,884	21.2
02. Other Agro-Industries	260	2.5	111,528	1.6	73,625	1.8	73	3.2	25,310	1.6	18,540	1.9
03. Rubber Products	221	2.1	219,904	3.2	121,570	2.9	24	1.1	34,325	2.2	16,406	1.7
04. Metal Products	879	8.3	431,704	6.3	266,121	6.4	153	6.7	65,517	4.2	45,464	4.7
05. Construction Materials	683	6.5	361,298	5.3	247,291	6.0	89	3.9	36,773	2.4	26,578	2.8
06. Construction Contracting	134	1.3	187,276	2.7	89,378	2.2	43	1.9	74,005	4.7	36,663	3.8
07. Wood Products	641	6.1	275,271	4.0	189,830	4.6	109	4.8	51,026	3.3	35,977	3.7
08. Garments	710	6.7	601,137	8.8	339,444	8.2	100	4.4	81,522	5.2	43,641	4.5
09. Textiles	235	2.2	244,238	3.6	129,006	3.1	22	1.0	34,320	2.2	16,141	1.7
10. Repair Workshop	399	3.8	179,288	2.6	125,526	3.0	84	3.7	40,643	2.6	30,467	3.2
11. Others	3,803	36.0	2,550,663	37.4	1,586,994	38.4	1,075	47.2	764,611	49.0	489,751	50.8
T O T A L	10,560	100.0	6,825,163	100.0	4,128,280	100.0	2,278	100.0	1,561,043	100.0	964,512	100.0

Source : Central Bank of Sri Lanka.

1,911 new buses were introduced to the public bus transport fleet by 1,816 borrowers, indicating the high proportion of single bus owners who made use of this scheme. Under this scheme, 1,932 loans amounting to Rs.1,099 million were guaranteed with a Central Bank liability of Rs.871 million. The scheme ceased to operate at the end of 1992 as the resources available to the National Development Bank (NDB) to provide refinance were fully committed by that date.

At the end of 1993, 51 loans amounting to Rs.28 million had been fully repaid, while 114 guarantees to the value of Rs.66 million had either lapsed or been withdrawn due to non compliance with the Central Bank's operating instructions by the PCIs.

A total of 6 claims amounting to Rs.3.7 million was received by the end of 1993, where the Central Bank's liability was Rs.2.3 million. Of these, two claims amounting to Rs.0.39 million have been settled and an interim settlement of Rs.0.3 million was made in respect of one claim. At the end of 1993, two claims amounting to Rs.0.8 million were outstanding while one claim for Rs.0.6 million was rejected.

The total premia collected under the scheme upto the end of 1993 amounted to Rs.12.6 million. Table 2.8 summarises the performance of the scheme.

Housing Guarantee Low Income Shelter Programme (HGLISP) Phase IV

The refinance scheme under the Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV, which was inaugurated in July 1992, recorded significant progress in 1993. The Central Bank functions as the Apex Lender under this scheme. Refinance facilities are granted by the Central Bank from funds loaned to the Government of Sri Lanka under the United States Government Housing Loan Guarantee Programme - Phase IV. These funds are made available to the participating credit institutions designated as Sub Apex Lenders (SALs)/Direct Primary Lenders (DPLs) who have entered into an agreement with the Central Bank under the HGLISP Programme. At present, Bank of Ceylon, People's Bank, Hatton National Bank Ltd., State Mortgage & Investment Bank, Seylan Bank Ltd., Commercial Bank Ltd., Housing Development Finance Corporation and the Regional Rural Development Banks of Kurunegala, Kandy, Kegalle, Puttalam, Galle and Badulla participate as Sub Apex Lenders under this scheme. The National Housing Development Authority participates in this scheme, through the Bank of Ceylon. Loans are granted under this scheme for any purpose related to owner occupied housing, including acquisition of land for house construction, additions/improvements and renovation to existing houses. Households earning a monthly income of Rs.4,600 or less are eligible to obtain loans under this scheme.

A statistical profile of the performance of HGLISP is given in Tables 2.10, 2.11 and 2.12. The salient features of the performance of HGLISP are as follows:

As at the end of 1993, Rs.246 million had been approved as refinance on loans under this programme, of which Rs.137 million had been disbursed. Half the loans approved under this scheme were for construction of new houses while loans for improvement of houses made up about a third of loans approved. While loans under this scheme have been for amounts upto Rs.100,000, over half of these loans have been for amounts below Rs.10,000, with a further 12 per cent of loans being for Rs.10,000 - Rs.15,000. The high proportion of small loans indicates that the scheme has catered largely to the low income groups. In fact the National Housing Development Authority, which lends mainly to borrowers eligible under the 1.5 million housing programme, accounted for around 70 per cent of the total loans approved as at the end of 1993. Nearly 80 per cent of loans under this scheme were for the rural sector. About half of the loans have been for periods of 6 to 10 years, with nearly a third of the loans being for periods upto 5 years and about a fifth of the loans for periods from 11 to 15 years. The breakdown of borrowers by gender showed that 30 per cent of borrowers in the Rural sector and 36 per cent of borrowers in the Urban sector respectively, were female.

TABLE 2.10
Housing Guarantee Low Income Shelter Programme – Phase IV
Refinance Approvals and Disbursements

(Rs. '000)

Sub-Apex Lender	Refinance Approved		Refinance Disbursed	
	1992	1993	1992	1993
1. Bank of Ceylon	24,497	150,254	7,611	91,858
2. Commercial Bank of Ceylon Ltd.	–	847	–	216
3. Hatton National Bank Ltd.	1,177	3,522	–	2,920
4. Housing Development Finance Corporation	–	10,350	–	3,401
5. People's Bank	–	35,792	–	22,900
6. Regional Rural Development Banks	–	5,343	–	2,201
7. Seylan Bank Ltd.	–	1,600	–	915
8. State Mortgage & Investment Bank	1,707	11,055	–	4,493
T O T A L	27,381	218,762	7,611	128,902

Source : Central Bank of Sri Lanka

TABLE 2.11
Summary of Performance of the HGLISP – Phase IV
Loans Approved by Purpose, Maturity and Size
(From 01.10.92 to 31.12.93)

(Rs. '000)

Category	Approvals		
	Urban	Rural	Total
1. Construction	24,758	117,589	142,347
2. Improvements	15,508	62,842	78,350
3. Land Acquisition	4,693	20,061	24,753
4. Infrastructure Development	110	582	692
T O T A L	45,068	201,074	246,143
Loans by Maturity			
Less than 5 years	11,030	60,497	71,526
6 to 10 years	17,504	99,368	116,872
11 to 15 years	16,326	40,761	57,087
16 to 20 years	209	449	658
Size of Loans Rs.			
0 – 2,500	99	7,109	7,208
2,501 – 5,000	1,350	20,011	21,361
5,001 – 7,500	2,656	31,185	33,841
7,501 – 10,000	5,770	84,950	90,720
10,001 – 15,000	25,585	5,046	30,631
15,001 – 20,000	1,565	7,861	9,426
20,001 – 25,000	1,267	8,786	10,053
25,001 – 30,000	535	4,132	4,667
30,001 – 35,000	478	2,212	2,690
35,001 – 40,000	541	3,919	4,460
40,001 – 45,000	439	2,310	2,749
45,001 – 50,000	1,540	11,308	12,848
50,001 – 100,000	3,243	12,246	15,489
T O T A L	45,068	201,074	246,143

Source : Central Bank of Sri Lanka

TABLE 2.12
Housing Guarantee Low Income Shelter Programme - Phase IV
Loan Approvals by Province
(From 01.10.92 to 31.12.93)

Province	Amounts (Rs. '000)	Percentage
1. Central	31,819	12.9
2. Eastern	8,021	3.3
3. North Central	86,612	35.2
4. North Western	18,970	7.7
5. Northern	944	0.4
6. Sabaragamuwa	17,921	7.3
7. Southern	20,610	8.4
8. Uva	9,402	3.8
9. Western	51,844	21.1
T O T A L	246,143	100.0

Source : Central Bank of Sri Lanka.

Investment of SMI and BPL Guarantee Fund Resources

Investment of SMI & BPL Guarantee Fund Resources in the Primary Treasury bill market which commenced in July 1988, continued during 1993. Investments and the premia collected at the end of 1993 totalled Rs.492 million. Interest income from investments in 1993 amounted to Rs.72 million.

Entrepreneurship Development Programme (EDP)

The EDP aims at upgrading technical and management skills of existing small industrialists through specially designed training programmes which are held in various districts. Training programmes have been organised to benefit industry sub-groups such as electroplating, iron and steel product manufacture and food processing operating at village level. Programmes are also held for the benefit of school leavers and Janasaviya recipients to create an awareness of self-employment projects. The impact of programmes already conducted is being monitored in collaboration with the Industrial Development Board and the respective Regional Rural Development Banks. Funds necessary for this purpose were approved by the World Bank in late 1993. Six training programmes have been initially planned for 1994 and further training programmes will be organised on the basis of identified training needs of small industrialists in the various districts.

Follow-up and Inspection of Projects

During 1993, inspection of SMI projects continued in order to monitor their viability and operation. A total of 275 projects was inspected with a view to recommending corrective action where necessary and to settling claims lodged by the PCIs. The majority of projects were located in the districts of Colombo, Galle, Puttalam, Gampaha, Anuradhapura, Kandy, Ratnapura and Matara.

RURAL CREDIT

In 1993, as in the previous year, the Bank continued to act as the credit executing agency for the following foreign funded projects for the upliftment of agriculture and the rural sector.

1. International Fund for Agricultural Development (IFAD) funded Kegalle District Integrated Rural Development Project.
2. Asian Development Bank (ADB) funded Kirindi Oya Irrigation and Settlement Project (Phase II).
3. ADB funded Small Holder Tea Development Project.
4. ADB funded Mid-Country Perennial Crop Development Project.
5. ADB funded Agriculture Rehabilitation Project.
6. ADB funded Southern Province Rural Development Project.
7. ADB funded North Western Province Water Resources Development Project (NWP/WRD Project).
8. The IFAD and the Canadian International Development Agency (CIDA) funded Small Farmers and Landless Credit Project.

Kegalle District Integrated Rural Development Project

The Integrated Rural Development Project in the Kegalle District, which has a credit component of SDR 1.55 million, commenced operations on October 15, 1987, was scheduled to be terminated on December 31, 1994. Loans granted under this project are entitled to 100 per cent refinance. In respect of medium term agricultural and industrial loans, 75 per cent refinance is provided out of project funds, while the remaining 25 per cent is provided out of the Central Bank (CBSL) funds. In respect of cultivation loans, 50 per cent of the amount granted per year in excess of Rs.330,000/- is eligible for reimbursement out of IFAD funds. The amount disbursed under all categories of the Project stood at Rs.64 million as at 31.12.93 against a total allocation of Rs.90 million (SDR 1.55 million).

Kirindi Oya Irrigation & Settlement Project

The Kirindi Oya Irrigation and Settlement Project, which provides training, supporting services and finances for the purchase of two wheel tractors to farmers in the project area, has the Bank of Ceylon, People's Bank and Hambantota Regional Rural Development Bank (RRDB) as its Participating Credit Institutions (PCIs). The project was terminated on 31st December, 1993. The amount disbursed under this Project stood at Rs.19.56 million as at 31.12.93 against a total allocation of Rs.46.48 million (SDR 762 million).

Small Holder Tea Development Project

Under the Small Holder Tea Development Project, which has a credit component of US\$ 19.1 million, refinance amounting to Rs.32 million was provided by the Bank to PCIs during 1993 in respect of loans disbursed for field development (new planting and replanting), nursery development and factory rehabilitation. With a view to expediting the disbursement of funds under the project, a project awareness programme was launched by the Bank during 1993, targetting tea small holders, factory owners and PCI managers. During the year, several revisions were effected to the credit scheme, such as the enhancement of the credit guarantee cover from 50 per cent to 75 per cent for field development loans below Rs.100,000 and the relaxation of the security requirements for loans below Rs.50,000 for those borrowers who do not possess clear land titles, and simplification of the loan procedures.

During 1993, the value of loans disbursed increased by 72 per cent compared to the previous year. This increase is mainly reflected in the increased disbursement of loans for factory development during 1993. As at end 1993, total refinance granted by the Central Bank under the credit scheme stood at Rs.75 million, consisting of Rs.12 million granted for field development, Rs.9 million for nursery development and Rs.54 million for factory rehabilitation as against a total allocation of Rs.935.9 million under the credit component.

Seylan Bank Ltd., was admitted as a PCI under the scheme during the year under review.

Mid-Country Perennial Crop Development Project

The Perennial Crop Development Project Credit Scheme, which is in its fifth year of implementation, is designed to provide credit facilities to farmers with funds obtained from the ADB for the purpose of increasing the production and improving the commercialisation of perennial crops, particularly minor export crops and food crops. In view of the slow disbursement of funds, a reformulation of the project was effected in mid-1993 with a view to expediting the loan disbursements under the project. The reformulation included the extension of the project area to the districts of Gampaha, Kurunegala and Puttalam, removal of the minimum landholding size required for obtaining credit facilities, an increase in the credit guarantee cover from 50 per cent to 75 per cent for loans below Rs.200,000/- and the inclusion of subsidiary food crops and coconut cultivation as intercrops with perennial crops and dairy development. Consequently, Seylan Bank and the RRDBs of Puttalam, Kurunegala and Gampaha districts have been admitted as Participating Credit Institutions. Credit facilities under this project are provided for on-farm crop development, private nursery development and on-farm post harvest handling and processing activities of perennial crops. As at end 1993, a cumulative total of Rs.34.9 million had been disbursed by the Central Bank as refinance. The amount disbursed during the year was Rs.17.5 million.

Agriculture Rehabilitation Project

The main objective of the Agriculture Rehabilitation Project (ARP) is the provision of credit facilities for financing the capital requirements of projects for the rehabilitation of persons and property affected by the civil disturbances in the Northern and Eastern Provinces and the five bordering districts of Puttalam, Anuradhapura, Polonnaruwa, Moneragala and Hambantota. The project aims at revitalising the agriculture, livestock, fisheries and agri-business sectors which can complement and encourage farm production and expand employment and income generation. The Project Management Unit (PMU) which was set up in the Bank in 1991 to implement the credit component had provided refinance facilities totalling Rs.499.3 million to banks in respect of 9,916 sub loans granted by them at the end of 1993. The PMU had carried out a vigorous publicity campaign to create an awareness of the scheme among borrowers. Consequently, a heavy demand had been created for the sub loans under the scheme and the PMU had been able to disburse more than 80 per cent of the total allocation within a short period. Recoveries of these sub loans has commenced and the PMU has directed the PCIs to re-lend the recoveries to the applicants who had not been provided with financial assistance in the first round.

Southern Province Rural Development Project (SPRDP)

The main objective of the Southern Province Rural Development Project funded by the ADB is to raise the income and quality of life of people in the Southern Province through the creation of income and employment generating opportunities in the project area. For this purpose, financial assistance is made available for persons to initiate industrial and self-employment projects in the Southern Province.

The Bank functions as the executing agency for the credit component of the project. The Development Finance Corporation of Ceylon (DFCC) and the three RRDBs at Galle, Matara and Hambantota have been admitted as PCIs. Under the project, refinance is provided by the Bank for financing small/medium scale industries located at Charley Mount Industrial Estate in Weligama and other small/medium scale rural enterprises in the Southern Province. While sub loan agreements were signed with the PCIs in late 1993, the disbursement of funds is expected to be resumed during the following year.

North-Western Province Water Resources Development Project

The Bank commenced the operation of the credit scheme of the North Western Province (NWP) Water Resources Development Project in the last quarter of 1993. Under the credit scheme, refinance will be provided to the participating banks for on-lending to farmers for the construction of agro-wells and lift irrigation schemes and to rural women for self-employment projects during the period 1993 to 1998. The credit scheme is being implemented in the Kurunegala and Puttalam Districts with the RRDBs at Kurunegala, Puttalam and the Hatton National Bank Ltd.

The total cost of the credit scheme is US\$ 2.8 million, of which US\$ 1.8 million will be from ADB funds. The balance will be provided by the Government of Sri Lanka as a subsidy for agro-well construction and by sub-borrowers as their equity contribution.

As at end 1993, 18 loans for self-employment projects were approved and a sum of Rs.200,000/- had been disbursed by participating banks.

Small Farmers and Landless Credit Project

The Bank continued to function as the implementing agency for the above project. The Project was introduced in 1990 with the goal of raising the general welfare of approximately 32,870 impoverished rural households in the districts of Galle, Matara, Puttalam and Kandy through the provision of a cost-effective credit delivery system and other support services and to aid economic development in general.

For the project, IFAD has provided a loan of SDR 4.85 million and CIDA has provided a grant of SDR 4.75 million.

The number of loans approved as at end December, 1993 in the Kandy and Puttalam (IFAD) districts was 12,866 amounting to Rs.92.37 million, while 5,003 loans amounting to Rs.34.18 million had been approved in the Galle and Matara (CIDA) districts. The overall achievement upto the end of 1993 was 70 per cent of the credit disbursement targets set out in the Appraisal Report for the first four years of operation.

The loan recovery rates achieved so far have been satisfactory and averaged 92 per cent and 84 per cent on all payments falling due in the IFAD and CIDA districts, respectively.

There are 8 Participating Agencies (PA) (Government and non-Government) involved with Project activities other than the project district offices.

Computerisation of project financial reporting and Monitoring and Evaluation activities has been undertaken by the Canadian Executive Agency (CEA). Further Research and Development activities relating to viable economic activities in the project areas have also been undertaken under the Technical Assistance (TA) programme of the Project.

Under institutional strengthening, the four RRDBs of the districts have been provided with computers and relevant software packages, in addition to training provided to the staff of the RRDBs.

Inland Bill Scheme

The Inland Bill Scheme continued to operate during the year, with the approval of four acceptance credit limits amounting to Rs.6.9 million, thus bringing the total number of such limits to 34. This scheme was introduced in 1989 in order to assist green leaf suppliers and Bought Leaf Factory Owners in the tea sector through commercial banks. Subsequently, this scheme was extended to provide financial assistance to buyers and sellers of milk through the Nuwara Eliya RRDB.

REGIONAL RURAL DEVELOPMENT BANKS (RRDBs)

During 1993 the RRDBs expanded their activities significantly, thus continuing their efforts towards developing the rural economy.

Branch Network of RRDBs

With the establishment of the Gampaha RRDB the total number of RRDBs in operation increased to 17 in 1993. During the current year, 5 RRDBs established 7 new branches, bringing the number of RRDB branches to a total of 163. Details of the branch network of RRDBs are given in Table 2.13.

TABLE 2.13
Branch Network of RRDBs

Name of the RRDB	Date of Establishment of the RRDB	Head Office	Number of Branches Opened									Total at the end 1993
			1985	1986	1987	1988	1989	1990	1991	1992	1993	
1. Kalutara	85.07.13	Bulathsinhala	4	3	4	1	-	-	1	2	-	15
2. Matara	85.07.28	Matara	5	2	-	1	-	-	-	4	-	12
3. Kurunegala	85.08.10	Kuliyapitiya	6	4	2	1	1	1	-	2	-	17
4. Anuradhapura	85.08.12	Anuradhapura	2	4	1	-	-	-	3	1	-	11
5. Hambantota	86.12.13	Ambalantota		2	2	2	-	1	-	1	-	8
6. Kegalle	87.02.08	Kegalle			8	1	2	1	1	1	1	13
7. Puttalam	87.07.11	Chilaw			5	1	-	2	1	1	-	10
8. Galle	87.08.17	Elpitiya			1	7	1	-	-	3	-	12
9. Kandy	87.10.13	Kandy			6	3	-	2	-	2	-	13
10. Nuwara Eliya	88.10.10	Nuwara Eliya				1	3	2	-	2	-	8
11. Moneragala	88.10.11	Buttala				1	2	1	2	-	-	6
12. Badulla	90.10.13	Badulla						4	2	3	-	9
13. Polonnaruwa	91.05.17	Polonnaruwa							4	2	1	7
14. Matale	91.06.21	Matale							5	1	-	6
15. Ratnapura	91.09.30	Ratnapura							4	2	1	7
16. Ampara	92.02.24	Ampara								5	2	7
17. Gampaha	93.06.07	Gampaha									2	2
T O T A L			17	15	29	19	9	14	21	32	7	163

Source : Banking Development Division

Deposit Mobilisation

The total value of deposits mobilised by RRDBs at the end of the current year stood at Rs.1,099 million in respect of a total of 720,908 accounts, indicating an increase of 65 per cent in the value of deposits and 26 per cent in the number of accounts, when compared with 1992. This

reflects the efforts taken by RRDBs to mobilise rural savings and thereby channel these savings to the institutional sector. Of the total value of deposits, savings deposits amounted to Rs.979 million while the value of fixed deposits totalled Rs.120 million, indicating increases of 67 per cent and 50 per cent respectively over 1992. The average value of a savings account, which was Rs.1,031 in 1992, increased by 33 per cent to Rs.1,367 in 1993, while the average value of a fixed deposit increased by 11 per cent from Rs.23,675 in 1992 to Rs.26,307 in 1993. The introduction of attractive savings schemes, the expansion of branches, the provision of mobile banking facilities in unbanked and underbanked areas and the expansion of rural economic activities are among the main reasons that contributed to the increase in deposit mobilisation by the RRDBs.

Delivery of Credit

During the year 1993, RRDBs disbursed Rs.966 million in respect of 72,176 loans as against Rs.703 million disbursed in respect of 70,709 loans during 1992. The number of loans increased by 2 per cent, whereas the amount of loans increased by 37 per cent, reflecting an increase in the average size of a loan from Rs.9,945 in 1992 to Rs.13,390 in 1993.

As in previous years, agriculture occupied a major portion of the total loan portfolio of RRDBs and accounted for 44 per cent of the total value of loans granted in 1993. The amount of loans granted for commerce and business, small industries and various other sectors accounted for 18 per cent, 10 per cent and 28 per cent respectively.

As at the end of 1993, the cumulative amount of loans outstanding in RRDBs was Rs.1,515 million in respect of 226,717 loans.

Advances granted against the pledge of gold and gold articles recorded a significant expansion to Rs.411 million in respect of 156,757 loans in 1993, as against Rs.172 million and 65,125 loans in 1992.

Other Activities

The year 1993 witnessed an impressive expansion in ancillary services provided by RRDBs to their customers. These services included co-ordinating beneficiary training programmes for their customers on subjects such as entrepreneur development, resource identification and financing, and scientific and technological problems involved in livestock and other small scale projects.

RRDBs continued to hold "Janahamuwa" meetings organised at village level, as a means of linking weaker sections of the rural community with RRDB programmes. Credit facilities were extended to groups consisting of 5 to 7 like minded persons drawn from a similar socio-economic background. The security for such loans were inter se guarantees. Such schemes were operated by almost all RRDBs. The organisation of people into groups and the extension of credit on flexible terms and conditions assisted in bringing them into the mainstream of development.

RRDBs also played an important role in assisting rural producers in marketing their produce. RRDBs provided facilities for the storage of paddy, peanuts, chillies, maize *etc.*, valued at Rs.34.5 million, thereby enabling farmers to obtain reasonable prices after the harvesting season. Arrangements were also made by RRDBs to provide their customers with seed paddy, fertilizer, agro chemicals, spray machines, water pumps and various other inputs at concessionary rates. The delivery of credit to the rural poor accompanied by such ancillary services paved the way for RRDBs to play a significant role in developing the rural economy.

With the aim of supporting the government in its poverty alleviation programme, the RRDBs continued to implement several credit schemes. As at the end of 1993, 16,233 loans amounting to Rs.100 million were granted by RRDBs to Janasaviya recipients.

RRDBs also continued to act as Participating Credit Institutions under several special credit schemes namely, the Agriculture Rehabilitation Project, the North-Western Province Water Resource Development Project, the Perennial Crop Development Project, the Small Holder Tea Development Project, the Southern Province Rural Development Project and the USAID Housing Guarantee Low Income Shelter Programme.

RURAL BANKING & STAFF TRAINING COLLEGE

The Rural Banking and Staff Training College (RB & STC) of the Central Bank conducted 51 training courses for 1,111 persons during 1993 when compared with 67 training courses conducted for 1,901 persons during 1992.

Out of the 51 training courses conducted in 1993, 40 were conducted at the College and the balance 11 were conducted in the outstations and were attended by 292 persons. The participants of those training courses conducted in the outstations were mainly small scale entrepreneurs and self-employed persons who were either already receiving credit facilities provided largely by the Regional Rural Development Banks (RRDBs) or those who anticipated receiving institutional credit facilities made available by the RRDBs. A total of 819 persons, consisting of 311 participants from the Central Bank, 127 from commercial banks, 247 from RRDBs, 82 from the Small Farmers and Landless Credit Project and 52 from other institutions attended the 40 courses conducted in the College in 1993.

Rural banking, project-oriented development, commercial banking, international trade, foreign exchange operations, management, training of trainers and computer training were the main areas of training provided by the RB & STC in 1993. In addition to the scheduled training courses conducted in 1993, the RB & STC conducted several special training courses on request for the benefit of field level officers attached to: a) the Small Farmers and Landless Credit Project and b) the Perennial Crop Development Project. Two special training programmes were also conducted at the request of the Bank Supervision Department to expose the Acting and Probationary Staff Officers to commercial banking operations.

The RB & STC held the 12th Anniversary lecture on the topic "The Role of Competitive Markets in Rural Development" which was delivered by the Senior Deputy Governor, Mr. A.S. Jayawardene.

The setting-up of the English Language Laboratory at the College is in progress. The laboratory is expected to be commissioned in April, 1994.

EMPLOYEES' PROVIDENT FUND (EPF)

In terms of the Employees' Provident Fund Act No.15 of 1958, the Monetary Board of the Central Bank of Sri Lanka is charged with the responsibility of receiving contributions, surcharges and income from the investment of the monies of the Fund, maintaining proper accounts of registered employers and the individual members of the Fund and also effecting refund of benefits to its members. These activities were carried out 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 E.P.F. Act.

Contributions

The contributions received by the Fund during the year 1993 amounted to Rs.6,610.9 million against Rs.5,338.3 million in 1992. This represents an increase of Rs.1,272.6 million or 23.8 per cent over the level of contributions received during the previous year.

Members' Balances

Members' balances as at December 31, 1993, before allocation of interest for the year under review stood at Rs.62,425.0 million which is an increase of Rs.10,330.1 million or 19.8 per cent over that of 1992.

Investments

During the year under review, the Fund invested a sum of Rs.30,430.5 million in Government Securities, Treasury bills, Inter Bank Call Money Market and Plantation Company Debentures as against a sum of Rs.26,742.4 million in 1992. This is an increase of Rs.3,688.1 million over the level of investments in 1992. The total investments held by the Fund as at December 31, 1993 amounted to Rs.66,532.3 million which is an increase of Rs.11,697.6 million over the level of 1992.

Income Received from Investments

In terms of an amendment to the Inland Revenue Act in 1989, the exemption from income tax granted to the EPF was withdrawn. Accordingly, all income earned on investments with effect from April 01, 1989 is subject to a Withholding Tax of 10 per cent. The total Withholding Tax deducted from the investment income for the year 1993 was Rs.922.4 million.

In 1993, the income received from investments amounted to Rs.9,159.6 million as against Rs.6,905.5 million in 1992, recording an increase of Rs.2,254.1 million.

Refunds

The total sum paid out by way of refund of E.P.F. benefits to members during the year 1993, amounted to Rs.2,377.3 million as against Rs.2,265.1 million in 1992. This records an increase of Rs.112.2 million or 4.9 per cent. During the year under review 51,343 claims for refund of benefits were paid out, as against 49,864 claims disposed of in 1992.

Interest on Members' Balances

The Employees' Provident Fund is required to pay interest on members' Balances as at the end of each year out of the income from investment of monies of the Fund. The rate of interest payable on members balances as at the end of 1993 was 13.5 per cent per annum. This is an increase of 2 per cent over the level of interest in 1992.

Interest is paid on the cumulative balance standing to the credit of members at the end of the year. All contributions received during the year irrespective of the date of receipt of such monies qualify for the payment of the interest for the entire year - e.g., contributions received in December attract interest for the full year in the same way as contributions received in January of that year. Therefore, the effective rate of interest is somewhat higher.

EPF Housing Loan Scheme

The E.P.F. Act was amended by Act No. 42 of 1988 to enable the members to obtain a loan of upto 75 per cent of the balance standing to their credit from certain lending institutions for housing purposes. The participating lending institutions in this scheme are the Housing Development Finance Corporation, the National Housing Development Authority, the State Mortgage and Investment Bank, the People's Bank, the Bank of Ceylon, the National Savings Bank and the Multipurpose Co-operative Societies spread out in the country.

As at December 31, 1993, the E.P.F. Department processed and dispatched a total of 51,289 applications for certification of balances to the respective Labour Offices.

The comparative data for 1992 and 1993 on the operations of the Fund are given in Table 2.14.

TABLE 2.14
EPF Statistics 1992 - 1993

	(Rs. Million)	
	1992	1993
1. Contributions received (a)	5,294.5	6,568.0
2. Investments (b)	26,742.4	30,430.5
3. Income received from investments	6,905.5	9,159.6
4. Refund payments	2,265.1	2,377.3
5. Number of refunds	49,864	51,343
6. Rate of interest (per cent)	11.5	13.5
7. Interest provision on members' balances	5,990.9	8,427.3

Source : Central Bank of Sri Lanka

(a) Excludes contributions credited to Suspense Accounts.

(b) Includes maturity proceeds re-invested in Government Securities, Short Term & Primary Market Treasury Bills and Call Money Market.

EXCHANGE CONTROL

Several steps were taken in 1993 to carry forward the on-going process of exchange control liberalisation. On 15th January, 1993, the limit in respect of the foreign exchange granted to Sri Lankan residents for the following, was increased by 50 per cent - travel abroad for holidays, education, medical treatment and employment, export of gifts and trade samples, export of personal jewellery and personal effects on a bring back basis and capital transfers by emigrants. During the latter part of March 1993, further steps were taken to relax controls in keeping with the Government policy of removing all restrictions on current account (non-capital) transactions.

The changes effected by the Central Bank were;

Travel

Foreign exchange can now be obtained, without restriction, for the following purposes - travel abroad for holidays and pilgrimages, business including conferences, seminars and workshops, education and medical, including living expenses, and miscellaneous remittances of a bona-fide nature. Authorised Dealers were instructed to issue foreign exchange for those purposes without restriction, at their judgement and discretion, and were informed that endorsement of passports on the release of foreign exchange was not compulsory. The restrictions which prevailed in respect of the quantum of foreign exchange, frequency of travel and the selection of airline were removed. To facilitate foreign travel further, the issue of a reasonable amount of foreign exchange in currency notes was permitted. Moreover, Authorised Dealers were informed on 5th April, 1993, that they could issue International Credit Cards freely, subject to their rules and regulations. Instructions were issued to Authorised Dealers to permit Sri Lankan nationals and foreign technical personnel to remit freely their monthly earnings for the maintenance of their families.

Exports

The repatriation and surrender requirements imposed on exporters in terms of Sections 22(4) and 6(2) (a) of the Exchange Control Act No.17 of 1971, were removed by Gazette Extraordinary dated 26th March, 1993, and by Operating Instructions dated 29th March, 1993, respectively. Accordingly, exporters may now either repatriate export proceeds and have these in rupee or foreign currency accounts in Sri Lanka or retain them in foreign currency accounts in a commercial bank abroad. The facility granted to exporting companies to credit 5 per cent of the incremental value of their exports to Resident Foreign Currency Accounts was withdrawn. Shipping agents and freight forwarders were permitted to open and operate foreign currency accounts with the commission and profits received from their foreign principals for services rendered, subject to certain conditions. The facility of maintaining foreign currency accounts with payments received from travel agents/charter operators was granted to hoteliers on 4th October 1993, subject to certain conditions. Authorised Dealers were permitted to remit a reasonable percentage of the F.O.B. value of export earnings as commission to agents abroad, provided the export proceeds had been repatriated to Sri Lanka by the exporter. Provision was made to deduct the commission due to the buyer at source, if the buyer was also the agent.

Authorised Dealers were informed that, with effect from 15th January 1993, foreign currency loans to direct and indirect exporters for the purpose of financing the import of foreign inputs required to execute export orders, should be made available only from funds in NRFC, RFC and RNNFC Accounts in their domestic unit.

The Director General of Customs was informed that the Customs could permit, at its discretion, the export of jewellery, trade samples, gifts and personal effects without a permit from the Exchange Control Department.

Imports

Procedures associated with foreign exchange transactions in respect of imports were simplified. Importers may now import any item, with the exception of a few items which require prior licensing, on deferred payment terms subject to the establishment of usance Letters of Credit for such imports. The exemption granted for the import of raw material for industry and books upto the value of US\$ 3,000 without the requirement to establish Letters of Credit, was further amended on 11th June 1993, to permit the import of labels, lace trimmings *etc.* on a commercial basis. In addition to this facility, importers were also permitted to import goods in commercial quantities upto US\$ 7,500 on Documents on Payment (D/P) terms without the establishment of Letters of Credit. Commercial banks were permitted to extend Letters of Credit for a period of 6 months beyond the normal validity, provided there was no enhancement in the value.

The requirement of settlement of bills in terms of ACU arrangements in respect of merchandise imports and invisible import transactions with India was re-introduced on 28th April, 1993.

Authorised Dealers may permit owners of duty free shops at the Colombo International Airport who import goods for sale at their shops, the facility of importing goods on Documents on Acceptance (D/A) terms without Letters of Credit being established. The period of usance allowed may be extended upto 180 days from the date of the Bill of Lading. Import of goods on D/P sight terms was also permitted.

Entrepot Trade

Authorised Dealers were permitted to approve applications for the import of goods for entrepot trade on D/P terms and D/A terms without Letters of Credit being established, subject to

certain conditions. The import of textile fabric, garments, clothes, narcotics, and arms and ammunition for re-export under entrepot trade was strictly prohibited.

Forward Sales

Commercial banks were permitted to enter into contracts for the sale of foreign exchange forward for a period upto 360 days, irrespective of the purpose.

Emigration

Authorised Dealers were permitted to release reasonable amounts of foreign exchange to Sri Lankans who are emigrating. The value of the capital transfers was enhanced to Rs.750,000 per individual, subject to a ceiling of Rs.1.0 million per family unit. The export of personal jewellery by emigrants was enhanced to Rs.150,000 for a married female and Rs.37,500 for a male. Export of personal effects upto a reasonable value could be permitted by Authorised Dealers. Effective from 24th December 1993, the full value of the incomes derived from investments in Sri Lanka, including interest and rents, was permitted to be remitted out without reference to the Exchange Control Department.

Pensions

Sri Lankans living abroad either temporarily or permanently are free to remit their full pensions without any restrictions.

Investment

Authorised Dealers were permitted to approve the export of share certificates issued by companies listed on the Colombo Stock Exchange to non-resident investors, provided such shares were purchased out of funds in Share Investment External Rupee Accounts (SIERA).

Guidelines relating to the maintenance of Special Rupee Current Accounts opened and operated by Branch Offices registered in Sri Lanka and repatriation of profits of Branch Offices/Liaison Offices were issued to Authorised Dealers on 25th June, 1993.

Non-Resident Rupee Account

The Non-Resident Rupee Account Scheme was revised to permit local credits and outward remittances excluding funds derived from capital transactions, without the prior approval of the Controller of Exchange. However, in the case of emigrants, debits in respect of outward remittances of funds derived from both capital and current account transactions are subject to the prior approval of the Department of Exchange Control.

PUBLIC DEBT

The Bank continued to manage the Public Debt on behalf of the Government in terms of Section 113 of the Monetary Law Act. As in previous years, this function was carried out by the Public Debt Department. The main debt instruments used by the Public Debt Department were Government Securities/Loans, Treasury bills, Debentures and Treasury Certificates of Deposit. In addition, the issue of Central Bank securities was also undertaken by the Department. The Department also handled the management and servicing of foreign debt of the Government. Further, maintenance and development of a data base on both foreign debt and domestic debt has been a

significant part of the work of the Department. Studies were also undertaken to assist in the formulation of policies relating to different aspects of Public Debt.

The total outstanding gross Government debt as at end of 1993, which included Government Guaranteed General Service Manual (GSM) Loans serviced by Bank of Ceylon was Rs.498,255.2 million. This was an increase of Rs.78,216.9 million, when compared with the debt at the end of 1992. The outstanding external debt liabilities as at end of 1993 amounted to Rs.274,216.6 million indicating an increase of Rs.34,072.4 million of which Rs.23,134.5 million was on account of exchange rate depreciation. Of the total outstanding Government debt, foreign debt accounted for 55.0 per cent while the balance 45.0 per cent represented domestic debt. Government Rupee Loans amounting to Rs.28,204.6 million were floated during 1993. Total repayments of Rupee Loans and interest payments during the year amounted to Rs.20,230.9 and Rs.11,739.4 million, respectively. The amount outstanding of Rupee Loans as at end of 1993 was Rs.105,707.1 million and this included Rs.24,088.0 million of long term bonds issued by the Government in connection with the restructuring of the two State banks. The Employees' Provident Fund was the major subscriber to the Rupee Loan Programme in 1993 and held 60.9 per cent of the total Rupee Loans outstanding as at end of 1993. The National Savings Bank, the second largest subscriber, held 12.5 per cent of the Rupee Loan outstanding.

The authorised limit on Treasury bills (TBs) which was increased from Rs.90,000 million to Rs.125,000 million on 16th December 1992 remained unchanged during 1993. The Bank continued to operate the Primary Dealer System introduced on 24th July, 1992 in order to activate and develop the secondary market for Treasury bills. Accordingly, only Accredited Primary Dealers (APDs) were allowed to bid at weekly tenders and the public had to purchase Treasury bills from these dealers. However, non-competitive bids from captive sources that included National Savings Bank (NSB), approved provident funds, Employees' Trust Fund (ETF) and other funds were also accepted at the weighted average rates for respective maturity periods. At the end of 1993, there was no change in the number of initially appointed Accredited Primary Dealers (APDs), who included thirteen commercial banks, four money broking firms and one management company of a Unit Trust.

During the second quarter of 1993, tenders for Treasury bills of 24 months, 36 months and 48 months were suspended due to poor response received for investment in such longer term maturities. The Department continued to issue Treasury bills with maturity periods of 3, 6 and 12 months. In addition, short dated bills, which were less than 3 months maturities were also issued to the Central Bank to sell in the secondary market. As a part of monetary management strategy, the Monetary Operations Unit (MOU) continued to make decisions with regard to auctions of Treasury bills on such matters as amounts to be offered and maturity structure of Central Bank allocations etc. on a weekly basis.

A significant development of Treasury bill operations during 1993 was the sharp decline in the amount of Treasury bills held by the Central Bank from Rs.25,997.5 million or 29.9 per cent of total outstanding at the end of 1992 to Rs.5,978.0 million or 6.2 per cent of total outstanding at the end of 1993. The non Central Bank sector holdings increased from Rs.61,098.1 million or 70.1 per cent of total outstanding at the end of 1992 to Rs.91,217.7 million or 93.8 per cent of total outstanding as at the end of 1993. Meanwhile, total Treasury bills outstanding as at end 1993 was Rs.97,195.7 million compared with Rs.87,095.7 million at the end of the previous year. This increase resulted from the new issues of Treasury bills amounting to Rs.13,600 million and retirements of treasury bills worth Rs.3,500 million. The total interest paid during the year in respect of Treasury bills was Rs.12,957.7 million.

The weighted average yield rates for 3, 6 and 12 months Treasury bills ranged from 16.94-21.91, 17.44-21.06 and 17.82-21.98 per cent per annum respectively, during the year under review.

The Bank continued to issue Government Treasury Certificates of Deposit (TCDs), which commenced during 1990. The Certificates were issued for 6, 12 and 24 months maturity periods at per annum rates of interest of 17.15 per cent, 18.06 per cent and 19.83 per cent, respectively. The face value of the TCDs sold by the NSB and the Currency Department of the Central Bank amounted to Rs.62,922,000 and Rs.44,006,000 respectively. The corresponding repayments in respect of these two sources were Rs.64,129,000 and Rs.31,006,000 respectively, while these repayments included Rs.17,864,719 of interest payments. The amount outstanding of TCDs as at end 1993 was Rs.113.8 million.

The Department commenced the issue of Central Bank Securities (CBS) on 19th October, 1993 in order to absorb excess liquidity in the market. The CBS, amounting to Rs.884 million and Rs.1,271 million for maturity periods of 3 months and 6 months, respectively (with a coupon rate of 18 per cent per annum), were issued to the APDs during the year 1993. The weighted per annum average yield rates of these issues ranged from 18.56 per cent to 20.04 per cent and from 19.23 per cent to 21.44 per cent for maturities of 3 months and 6 months, respectively.

The total disbursements on medium and long term external Government debt during 1993 amounted to Rs.17,891.6 million. Project loans accounted for 68.0 per cent of the total amount utilised while the balance was in respect of non-project loans. The total interest payment and other charges on external Government debt in 1993 was Rs.5,182.5 million.

REGIONAL OFFICES - MATARA, ANURADHAPURA AND MATALE

During 1993, the three Regional Offices of the Central Bank at Matara, Anuradhapura and Matale continued to carry out their development activities in addition to pursuing the traditional central banking functions assigned to them. The main activities of the Regional Offices included currency operations, cheque clearing activities, data collection activities, conducting beneficiary training programmes, inspection of the activities of the RRDBs and co-ordination with Government departments, agencies and organisations involved in development work in the respective regions.

The Matara Regional Office handled activities relating to the implementation of the Small Holder Tea Development (SHTD) Project, Inland Bill Scheme, the Southern Province Rural Development (SPRD) Project and the New Comprehensive Rural Credit Scheme (NCRCS). In addition to conducting seminars on these credit schemes, the post-supervision activities in connection with these credit projects was continued. The Regional Office also carried out an inspection of three bank branches of the Matara and Hambantota RRDBs.

The Anuradhapura Regional Office, in association with other Government institutions, conducted 51 beneficiary training programmes for over 2000 prospective borrowers on a variety of subjects including dairy development and rice processing. The Regional Office co-ordinated work in connection with the Village Development Project sponsored by the Central Bank at Negampaha and was associated with two dairy development projects in Thirappane and Kekirawa. The Regional Office also conducted the inspection of six branches of the Kurunegala, Anuradhapura and Polonnaruwa RRDBs.

In 1993, the Matale Regional Office conducted several training programmes for Janasaviya recipients, dairy farmers, unemployed youth and farmers, bankers and school children. In addition, a number of "Janahamuwa" meetings was organised among potential borrowers in remote areas in order to create an awareness of credit schemes. The Regional Office continued its activities in respect of the Small Holder Tea Development (SHTD) Project Credit Scheme and the Perennial Crop Development Credit Scheme. This office also carried out the inspection of eight branches of the Mahanuware, Matale, Nuwara Eliya and Kegalle RRDBs.

In carrying out the traditional central banking functions, the Regional Offices at Matara and Anuradhapura continued to provide currency exchange facilities. Further, the Regional Offices provided regional cheque clearing facilities. A total of 161,462 cheques with a total value of Rs.2,112 million was cleared through the Regional Cheque Clearing House at Matara, 135,440 cheques amounting to Rs.1,559 million were cleared through the Anuradhapura Cheque Clearing House and 575,720 cheques valued at Rs.13,775 million were cleared through the Cheque Clearing Houses of the Matale Regional Office in Kandy and Matale.

SECRETARIAT

The Secretariat Department continued to provide all administrative services of the Bank in the fields of finance, legal services, supplies, travel and other services.

The Legal Division was actively engaged in examining the recommendations of the Presidential Commission on Finance and Banking and the recommendations of the Financial Sector Reform committee, relating to the activities of the Central Bank, and consequently co-ordinated with the Legal Draftsman's Department to prepare the amendments to the Banking Act No. 30 of 1988 to introduce further provisions to strengthen the Central Bank's powers in relation to the supervision of commercial banks, and to introduce amendments to incorporate provisions of the Banking (Special Provisions) Regulation No. 2 of 1990, which enable the Central Bank to vest the business of an insolvent commercial bank or part of its business in another commercial bank.

The Legal Division was also engaged in the preparation of legislation for the amendments of the Monetary Law Act, Treasury Bills Ordinance and the Registered Stocks and Securities Ordinance to provide legal provision for the issue of scripless Government Securities and to facilitate the smooth functioning of the work of the primary dealers who are authorised to deal in the retailing of government securities.

The preparation of the Bill to amend the Debt Recovery (Special Provisions) Law No. 2 of 1990 to streamline the legal procedure governing the debt recovery of financial institutions was also a matter with which the Legal Division actively associated itself.

INFORMATION AND PUBLICATIONS

The Information Department continued to play a major role in the Central Bank's functions as a collector and disseminator of information. In the process of information collection it made every effort to cover socio-economic development domestically and worldwide, and provided both published and unpublished material to students, teachers, bankers, researchers and others who were interested in studying economic development. The following Central Bank publications released through the Information Department were the main sources of information dissemination:

1. Annual Report 1992 (Sinhala, Tamil & English)
2. Economic Survey – First Half of 1993 (Sinhala, Tamil & English)
3. Bi-monthly Economic Bulletins in English
4. Monthly Bulletins (Sinhala, English & Tamil)
5. Socio-Economic Data Folder 1993 (Sinhala, English & Tamil)
6. Economic and Social Statistics – 1992 (English)
7. Satahana composite volume 4, 5 & 6 (Sinhala)

8. Occasional Paper No. 22
9. Price & Wage Statistics 1990-91 (English)
10. Thesis : Niyangaya Saha Goviya (Sinhala)
11. Staff Studies Vol. 22
12. Small Holder Tea Estate Development Project Credit Scheme
13. Southern Province Rural Development Credit Scheme – a Brochure
14. APRACA – Seminar on Rural Finance – a Brochure
– Brochure for the closing ceremony and information booklet
15. Posters in respect of Small Holders' Tea Estate Credit Scheme

In addition, the Department continued to publish its own journals *Satahana*, *News Survey* and *Banku Puvath*.

The Department also continued to use audio-visual media, press releases, seminars and book exhibitions for disseminating information to the public.

The Library further strengthened its information base with the addition of new books, journals, pamphlets *etc.* During the year, the Library added 320 books and pamphlets and subscribed to 236 periodical titles. It also received 150 books and pamphlets as gifts and exchange from banks, other libraries and institutions.

The Department continued to maintain its good relations with the mass media, particularly with the Sri Lanka Broadcasting Corporation, *Rupavahini* and the newspapers. This enabled the Department to give adequate publicity to the Central Bank's activities and innovative policy measures introduced during the year.

The Video Unit of the Department produced three documentaries covering Central Bank's functions and activities, the Automated Clearing House and the activities of the Employees' Provident Fund. It also covered 19 seminars and important events of the Central Bank. The Art Work Visual Section designed 16 cover pages, brochures and posters.

The Department organised a workshop for Parliamentarians and Policy Makers. The workshop discussed in detail the movements of macro-economic variables.

As in previous years the Department's educational programmes continued to attract a large number of students and teachers. This has become extremely popular in the periphery. The programmes during the year recorded an attendance of over 10,000 students and teachers in the Anuradhapura, Kalutara, Polonnaruwa, Galle, Matara, Nuwara Eliya and Hambantota districts.

Over 90 per cent of the printing work of the Central Bank was handled by the Central Bank Press. During the year the Press successfully completed 278 printing assignments, enabling the Central Bank to save a sum of approximately Rs.2 million.

RESEARCH ACTIVITIES

The officers of the Bank undertook a number of research studies both on their own initiative and also to meet the demands made by other organisations. They included policy oriented research as well as studies which were largely of academic interest. Eight of these studies have been published in the Central Bank's Staff Studies, Volume 22.

SURVEYS AND DATA COLLECTION

Survey of Credit Needs with Special Emphasis on the Poor – 1992/1993

The field work of the Survey of Credit Needs with Special Emphasis on the Poor, which commenced in May 1992, was completed in October, 1993. The main objective of this Survey was to ascertain the credit needs of the economically disadvantaged sectors with a view to formulating a national credit policy for formal lending. Obtaining information on the extent to which institutional credit had reached different income groups and the manner in which such credit had been utilized for income generating activities was the other major objective of the survey.

With these objectives in view, information relating to sources of credit, credit usage, entrepreneurship, income generating activities, and loan repayment was collected from sampled households by means of field visits. In order to afford an in-depth analysis of credit needs, information on socio-economic conditions such as demographic characteristics, housing conditions, land use, labour force, employment and manpower use, household income, savings, and indebtedness were also collected from the households.

In this Survey, approximately 33,000 households, sampled from 43 urban wards representing the Urban sector, 216 villages representing the Rural sector and 10 estates representing the Estate sector were enumerated. Data collection continued for over a period of one year in order to capture seasonal variations.

Processing of data collected in this Survey is in progress.

Country-wide Data Collection Scheme

The Country-wide Data Collection Scheme which was launched in 1978, continued in 1993, thereby completing its fifteenth year of operation. Data on retail prices of consumer goods, producer prices of a large number of commodities, costs of major agricultural inputs and daily wage rates for activities in paddy cultivation, tea, rubber, coconut cultivation in the non-formal sector and in small scale construction continued to be collected from selected centres on a regular basis. The information under this scheme is collected by selected government school teachers.

National Accounts

The essential activities in connection with the estimation of National Income Accounts continued. These included the collection and compilation of primary and secondary data. Wherever possible, data were collected on a half yearly or quarterly basis. More comprehensive data from a variety of sources are being obtained to assist in the efforts of the Bank to improve the estimation of national income. Preliminary work has been commenced to institute a revision of the estimation procedures, which will include the move to a national income accounts series with a more current base year. Substantial progress has been achieved in the preparation of a new Manual on the principles, policies and methodology of National Income Accounting adopted by the Central Bank.

Monitoring of Imports

The Statistics Department continued to monitor imports through data collected from commercial banks on Letters of Credit (LCs), for the purpose of import forecasting.

Employment Statistics

The annual survey of Employment in the Public Sector continued in 1993. The objective of this Survey is to ascertain the trends in employment in Government Departments, Ministries,

Provincial Councils, Local Authorities and in the Corporation Sector. In addition, data were also collected from administrative records such as the Employees' Provident Fund and other Provident Funds to ascertain the trends in employment in the Formal Private Sector.

DATA PROCESSING

During the year under review the Data Processing Department (DPD) continued to maintain the existing computerised applications in the bank with necessary improvements as requested by the user departments. Among the major applications handled by the DPD were the Employees' Provident Fund and the Survey of Credit Needs with Special Emphasis on the Poor. Further, the DPD undertook to develop and successfully completed a number of personal computer based applications in a stand alone environment in the user departments.

The Sri Lanka Automated Clearing House which comes under the DPD, saw a growth of 12 per cent over last year in the number of cheques cleared. The total number of items cleared in 1993 was 22 million.

A new system to carry out interbank payments within the country, named "Sri Lanka Interbank Payment System" (SLIPS) was implemented this year. This is an off-line interbank funds transfer system. Initially, SLIPS will cater to direct interbank payments such as call-money market transactions, foreign exchange settlements and settlement of refinance facilities. With the expansion of the SLIPS, institutions will be able to make use of this system to pay the salaries of their employees without writing cheques. Banks can also make use of this system for executing standing orders, insurance payments *etc.* This system is also capable of handling utility bill payments. The inbuilt security features of this system are similar to ones used for such payments in other parts of the world and ensure a reliable service to the customer. Billing can be effected promptly and accurately. SLIPS is a typical system used all over the world for carrying out low value but high volume transactions.

TRAINING

Training of officers in academic and non-academic fields continued in 1993. Academic training was related to post-graduate studies in Economics and allied fields at recognised Universities. Officers were enrolled for Masters and Ph.D. degrees. During the year, sixteen officers proceeded abroad to follow Masters Courses and two officers entered Ph.D. programmes. One officer was granted study leave to follow a course in Computer Technology in Sri Lanka which is of one year's duration.

Non-academic training comprising short-term courses, seminars and workshops, both local and foreign, was related to specific fields relevant to the Bank. During 1993, a total of 119 officers proceeded abroad on short term training, while 137 officers participated in training courses, seminars *etc.* held at local institutions and 231 officers participated in courses conducted by the Rural Banking & Staff Training College.

The Department continued its function of holding promotional examinations for certain categories of employees and the Scholarship Examination for the Staff Class.

MANAGEMENT AUDIT

During the year 1993, the Management Audit Department, in accordance with its programme of work, carried out the audit of various Departments in the Bank, including a comprehensive Audit of the activities of the Regional Office at Matara. In the course of these audits, emphasis was laid on highlighting shortcomings relating to compliance with the procedures laid down in the Bank's Rules and Regulations.

In addition to audit functions, the Management Services Division of the Department conducted several important studies and surveys on subjects pertaining to the management of the Bank. These studies included the following:

1. Cost benefit analysis of the Seminar Programmes conducted by the Information Department;
2. Staff requirements in the Currency Department;
3. Review of the cadre of Non-Staff Class Grade I;
4. Estimate of operational cost of the Currency Museum;
5. Shift duty hours and grant of subsistence allowance and overtime payments to Central Bank drivers;
6. Audit of some financial transactions at the Institute of Bankers of Sri Lanka;
7. Staff Requirements in the Data Processing Department;
8. Review of the Organisational Structure of the Information Department;
9. Review of criteria for recruitment to Staff Class Grade I;
10. Grant of permanent status to Casual and Contractual employees in the Central Bank;
11. Audit of RRDB Sales Outlets housed in the Head Office building.

PREMISES

In addition to customary maintenance work and up-keep of the Central Bank premises, the Department handled the following construction projects during the year 1993 :

1. Nuwara Eliya

The Holiday Home, consisting of 15 apartments which was under construction during 1993 is expected to be ready for use by April, 1994.

2. Rajagiriya

The construction of a new two-storeyed building adjacent to the garage, which was deferred earlier commenced in October, 1993. The construction work is expected to be completed by the end of 1994.

3. Kataragama

At the end of 1993, the construction work on the 3 bedroom Circuit Bungalow had been completed. Work on the Pilgrims' Rest and the branch office of the Moneragala district RRDB

which are to be on the same premises, is expected to be completed in the first quarter of 1993. The Pilgrims' Rest will have 3 units with 2 double rooms per unit, while the RRDB branch office will have a floor area of 1,900 sq.ft.

WELFARE

The following welfare facilities continued to be extended by the Bank to its employees.

1. Housing Loan Scheme
2. Staff Benefit Scheme
3. Vehicle Loan Scheme
4. Medical Benefit Scheme
5. Provident Fund Loan Scheme
6. Central Bank Canteen
7. Central Bank Medical Clinic

Welfare facilities including housing loans were enhanced to a considerable extent in 1993.

The Central Bank Canteen has continued to make breakfast and lunch available to employees at cost price. Tea is served in the morning and evening to all the officers in all Departments of the Bank. The Canteen has also provided catering services at official functions.

The Bank Clinic has a Doctor in attendance during office hours on all working days. The pharmacy is stocked with essential drugs. The Clinic was provided with some modern diagnostic equipment in 1993 to enlarge the scope of services provided to Bank employees.

SECURITY SERVICES

The Security Services Division, which functioned under the Director of Premises, was upgraded to the status of a Department and named the "Security Services Department" on 13.05.1992.

During the year 1993, in accordance with the Department's programme of work, the Department provided security for the Central Bank building including car parks, the Rajagiriya Rural Banking & Staff Training College, the Matara, Anuradhapura and Matale Regional Offices and the Kandy site, and some departments which are housed outside the main Central Bank building. It also provided security for the residence of the Governor. In addition, the Department undertook to provide security for the transport of cash and gold from the Bank and was responsible for the provision of security to senior officials of the Bank, the World Bank, IMF *etc.* during their travels. Several training programmes were conducted to enhance the efficiency and the knowledge of the security personnel attached to the Department.

PERSONNEL

The Governor, Mr. H.B. Disanayaka, attended the following Conferences and Meetings during the year 1993.

- (1) Meetings with senior officials of the International Monetary Fund and World Bank in Washington D.C.

- (2) 28th Conference of the SEACEN Governors held in Seoul, South Korea.
- (3) As Chairman of APRACA, visited the APRACA Secretariat in Bangkok, Thailand for discussions with the Secretary-General.
- (4) Discussions with the President and senior officials of the Asian Development Bank, Manila.
- (5) The 29th Executive Committee Meeting of APRACA in Bangkok.
- (6) The 21st Board meeting of the Asian Clearing Union held in Dhaka, Bangladesh.
- (7) The Annual Meetings of the Board of Governors of the International Monetary Fund/ World Bank held in Washington, D.C.
- (8) The 20th SEACEN Council of Governors' Meeting held in Karachi.

Mr. A.S. Jayawardena, Senior Deputy Governor acted as Chief Executive Officer of the Bank and Chairman of the Monetary Board in the absence from Sri Lanka of the Governor while Dr. S.T.G. Fernando, Deputy Governor was designated as Senior Deputy Governor and acted as Chief Executive Officer of the Bank and Chairman of the Monetary Board during the absence from Sri Lanka of the Governor in respect of the meeting at (1) above.

Appointments

- (1) Mr. A.S. Jayawardena reverted to the Central Bank as Senior Deputy Governor w.e.f. 1st April, 1993.
- (2) Mr. T.S.N. Fernando, Director of Banking Development, was appointed Superintendent of Public Debt and Registrar of Public Debt w.e.f. 26th January, 1993.
- (3) Mr. W.A.Wijewardana, Superintendent of Currency, was appointed Director of Rural Credit w.e.f. 10th February, 1993.
- (4) Mr. R.G. Jayaratne, Additional Chief Accountant, was appointed Superintendent of Currency w.e.f. 10th February, 1993.
- (5) Miss. C. Abeynayake, Director of Rural Credit, was appointed Director of Banking Development w.e.f. 10th February, 1993.
- (6) Mr. J.E.D. Karunaratne, Additional Director of Supervision of Non-Bank Financial Institutions, was appointed Additional Chief Accountant w.e.f. 10th February, 1993.
- (7) Mrs. Z. Lokuge, Deputy Secretary, was appointed Acting Additional Superintendent of Employees Provident Fund w.e.f. 15th February, 1993.
- (8) Mr. P.M. Lakdawalla, Deputy Director of Welfare, was appointed Acting Additional Director of Establishments w.e.f. 15th February, 1993.
- (9) Mr. T.H.D. Peiris, Director of Welfare, was appointed Director of Premises w.e.f. 20th May, 1993.
- (10) Mr. S. Rupasinghe, Director of Premises, was appointed Director of Welfare w.e.f. 20th May, 1993.

- (11) Dr. A.J.M. Zuhair was designated as Special Officer (Capital Market Development) at Head of Department level and was attached to the Department of Public Debt w.e.f. 07th September, 1993.
- (12) Dr. M.U.A. Tennekoon, Director of Rural Banking and Staff Training College, was appointed Executive Director w.e.f. 01st October, 1993.
- (13) Dr. W. Hettiarachchi, Director of Economic Research, was appointed Executive Director w.e.f. 01st October, 1993.
- (14) Mr. S. Pattavidana, Director of Training, was appointed Director of Rural Banking and Staff Training College w.e.f. 14th October, 1993.
- (15) Dr. A.J.M. Zuhair, Special Officer, was appointed Director of Training w.e.f. 14th October, 1993.

Officers on Release (as at 31st December, 1993)

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.

Dr. L.E.N. Fernando to the International Monetary Fund to function as Alternative Executive Director for Bangladesh, Bhutan, India and Sri Lanka.

Mr. Y.M.W.B. Weerasekera to the SEACEN Research and Training Centre as Research Economist.

Dr. A.G. Karunasena to the World Bank's Resident Mission in Sri Lanka.

Mr. R.A. Jayatissa to the International Monetary Fund.

Dr. (Mrs.) R. Jayamaha to the Ministry of Finance.

Messrs. C. Liyanage, W.A.D.E. Weerasinghe, N.M. Dayaratne, L.A. Mahendran, K.M. Abeykoon and T.W. Ariyaratne to the Ministry of Finance.

Mr. S.M.A. Siriwardena to the Small Farmers and Landless Credit Project, Puttalam District, to function as Project District Co-ordinator.

Mr. D.B. Jayasuriya to the Prime Minister's Office.

Retirements / Resignations

Mr. D.L. Jayamanne, Additional Director of Rural Credit retired from the Central Bank service w.e.f. 30th January, 1993.

Dr. N.E.H. Sanderatne, Adviser Research & Training, retired from the Central Bank service w.e.f. 16th October, 1993.