

## **PART II**

## Recovery of the Bank after the January 31 Incident

In the morning of 31 January 1996, there was a terrorist attack on the main Central Bank building at Janadhipathi Mawatha and other buildings in the vicinity. The explosion and the fire that followed caused extensive damage to the Central Bank and other buildings where some departments of the Bank were located. Forty one employees were killed, twenty one permanently disabled and several hundreds were injured. The Bank's furniture and equipment were damaged extensively. The Central Bank library, a major repository for works on the social sciences, was also gutted by the fire. The cost of repairing the building is estimated at approximately Rs.1,800 million and the value of furniture and equipment destroyed is estimated at Rs. 50 million.

The immediate priority facing the Bank after the incident was the recommencement of its operations. Urgent action was also required in a number of areas. These included the health and welfare of employees, resuming the Bank's day to day functions such as cheque clearing, currency issue and settlement of domestic and international payments, and most important, reassuring the general public that this was only a temporary setback which could be overcome very soon. Most of the Bank's departments were relocated at the Rural Banking and Staff Training College (RB&STC), Rajagiriya immediately. Alternative accommodation was quickly found in other locations.

From the next day, employees were summoned to work and the Bank's operations re-commenced. Most employees, some injured and some still suffering from the effects of the blast, reported for duty. The work was fully interrupted only for a day. On the following day, the work of the Bank recommenced on a skeletal basis. The Governor reassured the public that the currency vaults of the Bank and most of its important records were safe and that the Bank's main functions would commence almost immediately.

The welfare of Bank employees, particularly those injured in the blast, and the families of employees who died in the blast were not forgotten. A Task Force was set up from among officers in the Bank to attend to the needs of these employees and their dependants. Assistance was rendered through the Task Force to the injured employees to enable them to get the best medical treatment in clinics and hospitals where necessary. Several others were provided with financial assistance to seek medical treatment in hospitals overseas. A compensation scheme was also implemented which provided benefits to the dependants of employees who died, as well as to employees who were permanently or partially disabled.

The dependants of the employees who died in the blast are paid the salaries and benefits such employees would have received upto their (hypothetical) age of retirement while permanently disabled employees are also

paid somewhat similar benefits upto their retirement age. In the alternative, an option was given to receive a lump sum benefit equivalent to the 5 years gross salary. Partially disabled employees are paid compensation based on the percentage loss of earning capacity as recommended by a Medical Board. The Bank continues to look after the health and welfare of employees who were affected by the bomb blast.

The RB&STC functioned as the temporary headquarters of the Bank for nine months. Some departments which could be conveniently shifted, were relocated elsewhere. The majority of departments however remained at the RB&STC until end-October. Because of restrictions of space in many departments, some employees were made to report for work on a roster basis.

The problems facing the Bank on the days immediately following the bomb blast were rendered even greater due to the destruction of computers and other equipment and the loss of records which affected the Bank's database. However, with dedicated hard work by the employees, many of these problems were overcome and it was possible to restore the Bank's operations.

Within days, key departments of the Bank, such as its Banking, Currency and the EPF Departments, were made fully operational. International settlements were made on the value dates, through tested telex messages. The SWIFT and Reuters systems were quickly re-connected. All functions of the Bank became fully operational over the next two months. These included, the domestic and international payments and settlements system, the currency issue function, the Bank operations in the money and forex markets and public debt management. Operations in these areas were soon restored to levels which prevailed prior to the explosion. Statutory publications of the Bank such as the monthly Balance Sheet and the Annual Report were published, while all other activities continued as normal.

The efforts of the Central Bank were supported by the financial community at home and abroad. The two state banks and some private commercial banks provided facilities to enable the Central Bank to conduct some of its essential day to day operations such as currency issue and the work of the EPF. The strong support of the financial community helped to ensure stability and confidence in the market.

In November 1996, the Bank shifted its head office to rented space at the World Trade Centre (WTC), at Echelon Square, Colombo 1. Most departments of the Bank that had been temporarily located at the RB&STC were relocated on 10 floors of the West Tower of the WTC, while a few other departments continued to operate from the RB&STC.

## PART II

### ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

	<i>Page</i>
ACCOUNTS AND BANKING OPERATIONS ...	(I)
CURRENCY ISSUE ...	(V)
BANKING DEVELOPMENT ...	(VI)
BANK SUPERVISION ...	(VII)
NON- BANK FINANCIAL INSTITUTIONS ...	(VIII)
DEVELOPMENT FINANCE ...	(X)
RURAL CREDIT ...	(XV)
REGIONAL RURAL DEVELOPMENT BANKS ...	(XVIII)
RURAL BANKING AND STAFF TRAINING COLLEGE ...	(XIX)
EMPLOYEES' PROVIDENT FUND ...	(XX)
EXCHANGE CONTROL ...	(XX)
PUBLIC DEBT ...	(XXI)
REGIONAL OFFICES ...	(XXIV)
SECRETARIAT ...	(XXV)
INFORMATION AND PUBLICATIONS ...	(XXV)
RESEARCH ACTIVITIES ...	(XXVI)
SURVEYS AND DATA COLLECTION ...	(XXVII)
DATA PROCESSING ...	(XXVII)
TRAINING ...	(XXVIII)
MANAGEMENT AUDIT ...	(XXVIII)
PREMISES ...	(XXVIII)
WELFARE ...	(XXIX)
SECURITY ...	(XXIX)
PERSONNEL ...	(XXIX)

## ACCOUNTS AND BANKING OPERATIONS

The Banking Department suffered extensive damage as a result of the bomb blast at the Bank's head office premises on 31 January 1996. However, the Department resumed most of its operations within 2-3 days. The Forex division started its operations on the following day and all commitments relating to foreign public debt repayments, forex dealings and investments were settled on due dates without any defaults. The Current Accounts division operated from a temporary office at the Bank of Ceylon head office building in the Fort, while the other divisions resumed operations at the Rural Banking and Staff Training College, Rajagiriya. Based on the data retrieved from the computer hard disk salvaged from the Banking Department, the monthly Balance Sheet as at 25 January 1996 was prepared and published. Since the mainframe computer which produced the General Ledger was completely destroyed, software programs using personal computers were developed in the Department to update the ledgers of the Bank, facilitating the timely preparation of the monthly Balance Sheet.

Total assets/liabilities of the Central Bank as at end 1996, stood at Rs.181,564 million registering an increase of 4.6 per cent over the previous year. The Balance Sheet of the Central Bank as at 31 December 1996, together with the Profit and Loss Account of the Bank for the year ended 31 December 1996 are presented in Table II -1.

On the assets side, international reserves of the Bank decreased by 2.4 per cent, from Rs.105,647 million to Rs.103,080 million. As in the previous years, the volume of international reserves was the largest single asset category accounting for 56.8 per cent of total assets at end 1996, compared to 60.9 per cent at end 1995. Meanwhile, domestic assets increased by 20.1 per cent, from Rs.39,950 million to Rs.47,965 million.

Among the domestic assets, loans and advances to government and government and government guaranteed securities rose by 16.6 per cent and 36.5 per cent, respectively. Medium and long-term credit facilities to commercial banks and other credit institutions declined by 19.7 per cent mainly due to net repayments and provisions on account of non-performing loans. Similarly, short-term advances to commercial banks declined by 14.9 per cent in 1996.

On the liabilities side, currency in circulation increased by 6.0 per cent from Rs.46,685 million to Rs.49,480 million. Deposits, which increased by 2.0 per cent from Rs.73,320 million to Rs.74,758 million, constituted the largest category of liabilities and accounted for 41.2 per cent of total liabilities. Within this category, deposits of commercial banks maintained with the Central Bank against their deposit liabilities under statutory reserve requirements increased by 12.7 per cent, mainly due to an increase in their rupee deposit liabilities. Deposits of international organisations, foreign governments and foreign banking institutions declined by 6 per cent. A comparison of the major components of assets and liabilities of the Bank is shown in Table II-2.

The total gross income of the Bank for 1996 was

Rs.18,711.3 million compared with Rs.22,502.4 million in 1995, while the total gross expenditure in 1996 was Rs.17,211.3 million compared with Rs.20,802.4 million during the previous year. Around 70 per cent of the income of the Bank was generated from investment of foreign reserves, while the interest earned from domestic transactions accounted for about 14.5 per cent. After making allowances for expenditure and necessary allocations to reserves and provisions for depreciation and other charges, the balance net profit of the Bank, amounting to Rs.1,500 million, was earmarked to be paid to the Consolidated Fund of the Government in terms of Section 39 (c) of the Monetary Law Act.

### Accounting Policies

#### General

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

#### 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.

#### Investments

All investments are valued at cost.

#### Advances

Advances shown in the Balance Sheet are net of provisions for non-performing loans due from finance companies.

#### Fixed Assets

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

Item	Percentage
Buildings	2
Fixtures and Fittings	10
Office Furniture and Equipment	10
Motor Vehicles	10
Personal Computers	25

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 of.

#### Stocks

The total cost incurred during the year on stationery and engineering stores has been charged to the Profit and Loss Account and no adjustments has been made in respect of closing stocks.

#### Income Recognition

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

#### Net Profit

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

## CENTRAL BANK BALANCE SHEETAS AT

31 December, 1995		LIABILITIES	31 December, 1996	
15,000,000	1,000,000,000	<b>Capital Accounts</b>	15,000,000	1,000,000,000
985,000,000		Capital	985,000,000	
		Surplus		
	46,684,502,439	<b>Currency in Circulation</b>		49,479,989,893
44,886,101,205		Notes	47,566,904,953	
1,798,401,234		Coins	1,913,084,940	
	73,319,699,789	<b>Deposits</b>		74,758,260,048
3,039,394,202		Government	3,509,584,531	
48,879,581		Government Agencies and Institutions	121,661,615	
31,852,685,006		Commercial Banks	35,906,962,913	
36,742,536,986		International Organisations, Foreign Government and Foreign Banking Institutions	34,546,267,006	
739,368		Compulsory Savings Fund excluding Rs. 43,479,700/= invested in Treasury Bills	1,025,595	
1,635,464,646		Others	672,758,388	
		Medium and Long Term Credit Fund		
		Capital Contribution Account		
		Other Liabilities and Accounts		
	4,925,000,000			4,925,000,000
	560,190,000			560,157,500
	47,016,155,976			50,840,266,330
	173,505,548,204			181,563,673,771

**Note:-**

Due to the damage caused to the Bank premises on 31st January, 1996 the Balance Sheet as at 31st December, 1996 was prepared on the basis of the balances indicated in the Balance Sheet as at 25th January, 1996 which was prepared using the data retrieved from the Computer Hard Disk salvaged from the Banking Department and the transactions that took place thereafter. The value of unidentified transactions of the Bank between the period 26th January, 1996 and 1st February, 1996 have been shown under the Suspense Accounts.

## PROFIT AND LOSS ACCOUNT FOR THE

1995		1996
20,802,418,205	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings, Office Furniture etc.) and Allocations made in terms of Section 38 of the Monetary Law Act.	17,211,291,355
	<b>Net Profit for the Year</b>	
1,700,000,000	To Part Liquidation of Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.	1,500,000,000
22,502,418,205		18,711,291,355

**Note of the Auditor-General**

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1996, 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.

17 April 1997.

**S. M. Sabry**  
Auditor-General

Table II-1

**OF SRI LANKA**  
**31ST DECEMBER, 1996.**

Rs.

31 December, 1995		ASSETS		31 December, 1996	
39,681,917,863	105,646,858,323	International Reserve			103,080,269,337
65,916,311,198 *		Cash and Balances Abroad	35,078,617,381		
48,629,262		Foreign Securities and Treasury Bills	67,896,066,443 *		
		Holdings of Special Drawing Rights	105,585,513		
24,053,099,947	39,949,998,922 27,908,690,959	Domestic Assets			47,965,478,369 30,517,926,065
2,750,193,526		Loans and Advances to Government	28,045,799,947		
61,326,176		Others – Medium and Long Term	2,207,066,200 **		
		Short Term	52,162,093		
12,525,189,273		Government and Government Guaranteed Securities	17,100,292,629		
560,190,000		Contributions to Financial and Other Institutions	560,157,500		
		Other Assets and Accounts			
		* Including Securities acquired from Government Institutions on 1st 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 the amount outstanding on the special loan of Rs. 100.0 Mn. The amount outstanding is net of Rs. 1,252,596,137/= being provisions for loan losses.			
		173,505,548,204			

**YEAR ENDED 31ST DECEMBER, 1996**

Rs.

1995		1996
22,502,418,205	By Interest, etc. earned	18,711,291,355
22,502,418,205		18,711,291,355

**A. S. Jayawardena**  
 Governor

**M. B. Dissanayake**  
 Chief Accountant

**TABLE II-2**  
**Comparison of the Major Components of Assets and Liabilities of the Central Bank**

L I A B I L I T I E S					A S S E T S				
I T E M	At end 1995 Rs. Mn. %		At end 1996 Rs. Mn. %		I T E M	At end 1995 Rs. Mn. %		At end 1996 Rs. Mn. %	
Capital and Surplus	1,000	0.6	1,000	0.6	International Reserve	105,647	60.9	103,080	56.8
Currency in Circulation	46,685	26.9	49,480	27.2	Domestic Assets	39,950	23.0	47,966	26.4
Deposits	73,320	42.3	74,758	41.2	Other Assets	27,909	16.1	30,518	16.8
Medium & Long Term Credit Fund	4,925	2.8	4,925	2.7	Liability of Constituents for Guarantees Issued	16,255	9.4	14,152	7.8
Capital Contribution Account	560	0.3	560	0.3	Foreign Currency Deposit A/cs of Commercial Banks	3,040	1.8	3,669	2.0
Other Liabilities	47,016	27.1	50,841	28.0	Adjusting Account - Amounts Receivable	2,146	1.2	3,022	1.7
Guarantees Issued on account of Constituents	16,254	9.4	14,152	7.8	Cash Items in process of Collection	646	0.4	2,419	1.3
Control Accounts Reserves	11,623	6.7	14,829	8.2	Other	5,822	3.3	7,256	4.0
Allocation of Special Drawing Rights	5,547	3.2	5,572	3.1					
International Reserve Revaluation Account	2,583	1.5	3,957	2.2					
Profit & Loss Account	4,444	2.6	4,461	2.5					
Asian Clearing Union Account	1,511	0.9	4,634	2.6					
Other	5,054	2.8	3,236	1.6					
Total	173,506	100.0	181,564	100.0	Total	173,506	100.0	181,564	100.0

Source : Central Bank of Sri Lanka

- (a) Provision for non-performing loans
- (b) Provision for depreciation of fixed assets, and
- (c) Other necessary provisions and allocations to reserves in terms of Section 38 of the Monetary Law Act

### Bank Rate

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

### Short-Term Credit

Refinance facilities extended to commercial banks under the New Comprehensive Rural Credit Scheme (NCRCS) and the Export Credit Refinance Scheme (ECRS) were terminated from April and May 1994, respectively. However, banks which provided the roll over facility to farmer borrowers prior to the termination of the NCRCS were granted a refinance facility on the roll over amount. The outstanding amount under this facility as at end 1996 amounted to Rs.52.2 million, as compared with Rs.61.3 million in 1995.

### Medium and Long-Term Credit

The Medium and Long Term Credit Fund (MLCF) remained unchanged at Rs.4,925 million during 1996. The amount repaid, net of disbursements, during the year amounted to Rs.168.5 million.

### Accommodation to Finance Companies

The Central Bank continued to grant financial accommodation to finance companies 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 1996 amounted

to Rs.104 million and the total amount outstanding was Rs.2,573 million at the end of 1996 (before provisions for bad debts).

### Reserve Requirements

The Statutory Reserve Requirement on commercial banks remained constant throughout the year. The Statutory Reserve Requirement on rupee deposits remained at 15 per cent, that on foreign currency deposits invested outside Sri Lanka remained at 5 per cent, while for all other foreign currency deposits it remained at 15 per cent throughout the year.

### Open Market Operations

#### Secondary Market for Treasury Bills

The sale of Treasury bills in the secondary market decreased slightly from Rs.17 billion in 1995 to Rs.16.5 billion in 1996. The purchases also decreased from Rs.35.3 billion to Rs.17 billion during the same period. The decline in sales was mainly due to the shifting of short-term investments from the secondary market to the repurchase market for Treasury bills. The decrease in purchases of Treasury bills in 1996 was a result of the excess liquidity condition in the market.

The yield rates applicable on investments in 3-months Treasury bills in the secondary market varied between 10.98 and 19.02 per cent per annum during the year.

#### Repurchase Market for Treasury Bills

The total value of Treasury bills sold under Repurchase Agreements (Repos) during the year amounted to Rs.403.8 billion, recording a 100 per cent increase when compared with sales in 1995. The overnight Repo yield rate of 16.5 per cent prevailing at the beginning of the year was gradually reduced to 9.5 per cent by end April reflecting the higher liquidity position that prevailed in the banking system. However, with a

gradual tightening of rupee liquidity, the overnight Repo yield rate was increased to 12.75 per cent by end December 1996.

### Reverse Repurchase Agreements

The Reverse Repo facility, which was introduced in November 1995 with the objective of injecting liquidity into the market, was not operated in 1996. This was due to the higher rupee liquidity position that prevailed in the market, which made it unnecessary for the Central Bank to operate the Reverse Repo facility during the year.

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

Total subsidy payments made to repatriated estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964, on behalf of the Government, amounted to Rs.125,953 in 1996 compared to Rs.323,232 in 1995. Ex-gratia payments amounted to Rs.7,475 in 1996, compared to Rs.39,600 in 1995.

### Import Duty Rebate to Exporters

The Bank reimbursed a total sum of Rs.1,042.7 million in 1996 to commercial banks in respect of import duty rebates paid to exporters on behalf of the Government, compared with Rs.922.9 million in 1995.

### Foreign Exchange Operations

The Central Bank continued to engage in foreign exchange operations by way of spot purchases and sales and forward purchases of US dollars against Sri Lanka rupees. It also continued to invest the Bank's foreign exchange reserves in international money and capital markets.

The total rupee value of foreign currency purchases by the Central Bank from commercial banks in Sri Lanka amounted to Rs.5,222 million, while foreign currency sales to commercial banks amounted to Rs.10,881 million in 1996 (Table II-3). This compares with purchases of Rs.19,187 million and sales of Rs.439 million in 1995.

TABLE II-3  
Foreign Exchange Transactions with  
Commercial Banks in 1996

Month	Spot Purchases	Spot Sales	Forward Purchases	Rs. Mn.
January	1,068	-	-	
February	2,918	-	-	
March	880	-	-	
April	-	-	-	
May	-	4,309	-	
June	-	4,826	-	
July	245	-	-	
August	111	-	-	
September	-	-	-	
October	-	888	-	
November	-	858	-	
December	-	-	-	
<b>Total</b>	<b>5,222</b>	<b>10,881</b>	<b>-</b>	

Source : Central Bank of Sri Lanka

### Asian Clearing Union

A new settlement procedure pertaining to the transactions among Asian Clearing Union (ACU) member countries came into operation with effect from 1 January 1996. Under the new procedure, all transactions among member countries of the ACU are accounted for in US dollars. The accounts maintained at the ACU Secretariat relating to transactions among the member countries are kept in a common unit of account designated as the Asian Monetary Unit (AMU). The value of one AMU is equivalent to one US dollar. Under this arrangement, commercial banks are authorised to open Nostro Accounts with the correspondent banks in member countries. The involvement of member Central Banks is limited to receipt or repatriation of surplus funds in Nostro Accounts and replenishment of balances in such accounts. The settlement of net positions among member countries continues to be made once in two months using hard currencies.

The total rupee value of the transactions routed through the ACU in 1996 amounted to Rs.33,828 million compared with Rs.37,030 million during the previous year. The rupee value of the net settlement made in foreign currency in 1996 amounted to Rs.28,271 million, compared with Rs.18,028 million in 1995. Sri Lanka's contribution to the swap facility provided under the ACU arrangement during the period under review was Rs.1,319 million.

### 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 and Compulsory Savings Law No. 15 of 1972 and continued to administer the Compulsory Savings Fund on behalf of the Government. No transactions took place during the year under review.

### 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 end December 1996 remained at 164 as in the previous year.

### 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 and interest thereon were effected on behalf of the Government.

### CURRENCY ISSUE

The Central Bank as the sole currency issuing authority continued to perform the functions of issuing legal tender in Sri Lanka for the use of domestic transactions during the year 1996. The volume of currency in circulation as at end 1996 stood at Rs. 49,480 million as against Rs.46,685 million at the end of 1995.

After the bomb attack in front of the Central Bank building on 31 January 1996, the Currency Department immediately set up two currency issuing counters at People's Bank Lake Side



Branch, Colombo 10 and Bank of Ceylon Tower building, Fort, Colombo 1, in order to ensure and maintain an undisrupted issue of currency to the general public.

In keeping with the Bank's policy of continuously improving the security features of currency notes, two enhanced security features were incorporated in the latest issue of currency notes. The new series notes were issued for circulation in September 1996.

The Central Bank issues special coins to commemorate events of national and international significance. During 1996, a circulation standard coin in the denomination of Rs.5 was issued to commemorate the 50th anniversary of the United Nations Organisation. A limited number of proof coins were also issued as collectors' items. Arrangements have also been made to issue another commemorative coin in the denomination of Re.1 to commemorate the 50th anniversary of the United Nations Children's Fund (UNICEF).

The Central Bank changed the metal composition of the lower denomination coins of Re.1, Cents 50 and Cents 25 from cupro nickel to nickel plated steel, while retaining the present designs, diameters and weights. The new coins are slightly

thicker (0.2 mm) than the existing coins in circulation, but in other aspects are identical to the existing coins. The change of metal has been adopted because of its significant cost advantage. Nickel plated steel coins of Cents 25 denomination were issued for circulation in November 1996.

## BANKING DEVELOPMENT

The principal functions of the Banking Development Department include policy formulation relating to banking, implementation of the Banking Act in relation to the establishment of commercial banks, branches of commercial banks and specialised banks, and evaluation of proposals for the introduction of financial instruments. Further, the Department monitors the performance of Regional Rural Development Banks (RRDBs) and attends to policy formulation for the RRDBs. The Department also co-ordinates the work of the Regional Offices of the Central Bank and monitors their performance.

Some particulars relating to commercial banks, RRDBs and specialised banks as at end 1996 are given in Table II-4. In December 1996, a licence was issued for the establishment of

**TABLE II-4**  
**Composition of Banking Institutions and Distribution of Bank Branches**

Category	1991	1992	1993	1994	1995	1996(a)
<b>1. No. of Institutions</b>	<b>42</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>47</b>	<b>48</b>
1.1 Commercial Banks	23	23	23	23	26	27
1.1.1 Domestic Commercial Banks	6	6	6	6	8	8
1.1.2 Foreign Banks	17	17	17	17	18	19
1.2 RRDBs (b)	15	16	17	17	17	17
1.3 Specialised Banks (c)	4	4	4	4	4	4
Savings Banks	1	1	1	1	1	1
Development Banks	3	3	3	3	3	3
<b>2. No. of Bank Branches (d)</b>	<b>977</b>	<b>1,065</b>	<b>1,107</b>	<b>1,158</b>	<b>1,211</b>	<b>1,344</b>
2.1 Commercial Bank Branches (e)	765	818	853	892	938	1,063
Branches of Domestic Banks	739	788	819	855	899	1,023
Main Branches	656	699	733	763	797	828
ASC Branches	36	34	29	28	19	17
Kachcheri Branches	24	24	24	23	23	23
Extension/Pay Offices (f)	17	25	27	32	41	49
Pawning Centres	4	4	4	7	15	101
Overseas Branches (g)	2	2	2	2	4	4
Overseas Extension Offices	-	-	-	-	-	1
Foreign Bank Branches	26	30	34	37	39	40
Main Branches	25	29	33	36	37	38
Extension Offices	1	1	1	1	2	2
2.2 RRDB Branches	124	156	163	169	171	175
2.3 No. of Specialised Bank Branches (h)	88	91	91	97	102	106
Development Finance Corporation of Ceylon (DFCC)	3	3	3	4	4	5
State Mortgage & Investment Bank (SMIB)	3	3	2	2	2	2
National Development Bank (NDB)	1	1	1	1	1	2
National Savings Bank (NSB)	81	84	85	90	95	97

Source : Central Bank of Sri Lanka

(a) Provisional.

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

(c) Banks requiring a licence as Specialised Banks in terms of the Banking Act as amended.

(d) Excluding Co-operative Rural Banks.

(e) Excluding the branch of the Societe Generale as it did not commence banking operations in 1996.

(f) Revised. Pawning Centres are given separately.

(g) Overseas branches of the Bank of Ceylon.

(h) Including Head Offices.

a branch of a foreign commercial bank, namely Societe Generale. (This bank commenced operations in March 1997.) Another development which took place towards the end of 1996 was the acquisition of the business of the Colombo branch of the Banque Indosuez by the Hatton National Bank Ltd. The number of commercial banks, RRDBs and specialised banks comprised 27 commercial banks (8 domestic commercial banks and 19 foreign commercial banks), 17 RRDBs and 4 specialised banks.

### Branch Expansion

During 1996, approvals were granted for the opening of 152 new branches of commercial banks. Approval was also granted for the amalgamation of the Hasalaka branch with the Mahiyangana branch of Bank of Ceylon (BOC). Further, one branch of a foreign bank was closed during the year. The total number of new commercial bank branches that were opened during the year by both domestic and foreign commercial banks was 127, of which domestic commercial banks opened 125 branches and foreign commercial banks opened 2 branches. RRDBs also opened 4 new branches during the year. Among the specialised banks, the Development Finance Corporation of Ceylon Ltd. and the National Development Bank Ltd. opened one branch each, and the National Savings Bank opened 2 branches. The bank branch network expanded by 133 or 11 per cent to number 1,344 branches at end 1996.

### Joint Venture

The BOC expanded its activities overseas by establishing a joint venture company in Nepal named the Nepal Bank of Ceylon Ltd. in collaboration with the NB Group of Nepal.

### Establishment of Regional Development Banks

A proposal has been put forward by the Government to establish Regional Development Banks (RDBs) in specified areas to take over and expand the functions of the present Regional Rural Development Banks (RRDBs). Accordingly, a draft Bill for the establishment of RDBs was gazetted on 13 December 1996.

The RDBs will develop the economy of the region in which they are established by providing credit for the growth of agriculture, industry, trade, commerce and other development activities. They would also assist the development projects undertaken by the local authorities in the region.

The establishment of RDBs was considered on account of several reasons. The operations of the existing banking and credit network in the regions are limited and the existing institutions cannot undertake the wide ranging activities expected of a development bank. Although the RRDBs established since 1985 have played a useful role in providing credit to the poorer segments of the rural economy, they have been unable to undertake the overall economic activities of the regions due both to structural and resource constraints. Furthermore, several proposals have been made for the establishment of separate banks to serve different sectors of the economy which could lead to a proliferation of banks and a waste of resources. Therefore, the establishment of RDBs has been considered to

be the most feasible and viable means by which an improvement in the overall economic development of the regions in which they operate could be achieved.

## BANK SUPERVISION

The Bank Supervision Department, which is responsible for the regulatory and supervisory functions of the Central Bank, recovered quickly from the disruption of its operations in January 1996 and continued to perform its functions to safeguard the financial soundness of the banking system and the interests of the depositors.

The Department discharges its functions and responsibilities through periodic on-site examinations and continuous off-site surveillance. In on-site examinations, the Department, on the basis of information gathered at site, undertakes an appraisal of the quality of the assets of the bank under examination. The scope of such on-site examinations includes an analysis of the bank's financial performance, management quality, capital adequacy and liquidity and an examination of the systems and controls.

The Department commenced 13 such on-site examinations during the year under review and concluded 7 such examinations, including examination of 3 licensed commercial banks and one Regional Rural Development Bank (RRDB), which commenced in the previous year. Spot examinations of two RRDBs covering certain specific aspects of their operations were also carried out in 1996.

Under the off-site surveillance system, the Department continued to monitor the financial condition of commercial banks and RRDBs on the basis of monthly statements of assets and liabilities, and liquid assets and quarterly statements on non-performing advances, income and expenses and capital adequacy. The information furnished by commercial banks and RRDBs is reviewed to ascertain the financial condition, the trends in the quality and volume of the advances portfolio of each bank in relation to its own peer groups and the industry as a whole.

Monitoring of Foreign Currency Banking Units of commercial banks is also undertaken on the basis of periodic statements relating to assets and liabilities, income and expenses, and maturity profile of the assets and liabilities submitted to the Department. Consequent on the amendments made to the Banking Act, offshore banking units of licensed commercial banks, which were hitherto exempted from certain provisions of the Act, would now be subject to prudential requirements as well.

The Department continued to ensure compliance by the banks with the regulatory requirements, under the provisions of the Banking Act No. 30 of 1988 and Banking (Amendment) Act No. 33 of 1995 and other guidelines issued relating to prudential requirements. These included the maintenance of the minimum Capital Adequacy Ratio in relation to risk-weighted assets and minimum required level of liquid assets; adherence to the single borrower limits; restrictions on accommodation to directors and their interests; submission of annual audited financial accounts within the statutory period; adherence to guidelines on non-

performing advances and the adequacy of provisions for bad and doubtful debts. On all the above matters, the Department has adopted standards that are in conformity with norms specified by the Banking Regulations and Supervisory Practices Committee (Basle Committee). The overall capital standard that a bank is required to maintain under these directions is 8 per cent of its total risk weighted assets, while the minimum liquidity ratio is 20 per cent of total specified liabilities.

During the year under review, the Department administered the Deposit Insurance Scheme which commenced operations in 1987. The institutions registered under the scheme consist of 3 RRDBs and 5 Multi Purpose Co-operative Societies and the premium payable is 3.75 cents per quarter for every Rs.100. The amount collected to the fund during the year 1996 by way of premia was Rs.1,061,660. The total fund as at 31 December was Rs.15,571,710.

During the year, Banque Indosuez, which established a branch office in 1979, obtained Monetary Board approval to wind up its operations in Sri Lanka. The Hatton National Bank Limited entered into an agreement with Banque Indosuez to take over certain specified assets and all of its liabilities. In terms of the provisions of the Banking Act, the Department ensured that all obligations and liabilities were properly discharged by Banque Indosuez.

### Amendments to the Banking Act

Consequent on the amendments made to the Banking Act No.30 of 1988 by Act No. 33 of 1995, the Department drafted directions to be issued under relevant sections of the Act of 1988 to licensed commercial banks. These directions are intended to provide a level playing field for all Licensed Commercial Banks in Sri Lanka and also to strengthen the role of the Central Bank in regard to regulation and supervision.

The Directions framed relate to -

Investment in shares by a Licensed Commercial Bank in terms of Section 17A which restricts the acquisition or holding of shares in any company other than a listed public company. The proposed Directions specify that such shareholding in a public company shall not be in excess of 10 per cent of a bank's capital funds and the aggregate amount of such investment shall not exceed 30 per cent of a bank's capital funds provided that such acquisition or holding of shares shall not exceed 20 per cent of the paid up capital of a listed public company.

The purchase and acquisition of immovable property by a Licensed Commercial Bank in terms of Section 48A which imposes a limit on the acquisition of any immovable property or any right therein to be determined by the Monetary Board. The proposed Direction specifies that such limit shall not exceed in the aggregate 15 per cent of a bank's capital funds.

The above limitations imposed would ensure that the bank's funds would not be diverted from the bank's principal business.

The Capital Adequacy Requirement, which had been

hitherto enforced in terms of Section 102 of the Monetary Law Act, shall be enforced under Section 19(7) of the Banking Act, No 30 of 1988 as amended by the Act No. 33 of 1995.

The maintenance of general and specific provisions relating to bad and doubtful debts specifying the minimum provisions for certain losses that may arise from bad debts. The provisioning requirements which were issued to the Licensed Commercial Banks in the form of guidelines have now become mandatory under Section 46A of the Banking Act, No 30 of 1988 as amended by the Act No. 33 of 1995.

Inclusion in the definition of the single borrower limit the aggregate of maximum accommodation extended to an individual, his close relations and related institutions in terms of Section 46(1)(c). Previously the single borrower limit was applicable to individuals and close relations only.

The operations of Licensed Specialised Banking Institutions such as the National Development Bank, Development Finance Corporation of Ceylon, National Savings Bank and State Mortgage and Investment Bank came under the regulatory authority of the Central Bank in terms of Part IX (A) of the Banking (Amendment) Act No. 33 of 1995. Consequently, these banks too will come under the direct supervision of the Bank Supervision Department. The required regulations and directions that are to be issued under the provisions of this part of the Banking (Amendment) Act are under preparation by the Department.

### NON- BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, which is responsible for the implementation of the provisions of the Finance Companies Act, continued with its functions of regulating and supervising the activities of deposit taking finance companies with the objective of promoting financial soundness in this sector and safeguarding the interests of depositors.

The Department continued the supervision and regulation of the 24 registered finance companies mainly through off-site monitoring based on analysis of weekly liquid assets statements, monthly statements of assets and liabilities, quarterly statements of non-performing advances and annual audited balance sheets to ensure compliance with the directions and rules issued under the Finance Companies Act. The Department also conducted periodic on-site examinations, which included comprehensive appraisal of a company's assets, capital adequacy, liquidity, profitability, management and the efficacy of internal systems and controls.

Table II - 5 presents the consolidated balance sheets of 24 registered finance companies as at 31 March 1995 and 31 March 1996. A growth of 26.4 per cent has been recorded in total assets. This growth has been achieved with only marginal changes in the distribution of assets and liabilities. The deposit base has increased from Rs. 7.2 billion to Rs.8.8 billion while advances have increased from Rs. 7.8 billion to Rs.10.5 billion. The growth in investments in shares was low while advances

**TABLE II-5**  
**Consolidated Balance Sheet of Operational Finance Companies**

Rs. '000

Category	At end March 1995		At end March 1996		Change
	Rs. '000	%	Rs. '000	%	%
<b>LIABILITIES</b>					
<b>1. Capital Funds</b>					
Issued Share Capital	382,586		385,776		
Share Premium	223,043		204,951		
Capital Reserve	488,948		491,302		
General Reserve	453,099		612,309		
Reserve Fund	245,588		308,103		
Other Reserves	165,219		116,508		
Profit & Loss A/c.	65,351		109,841		
<b>Gross Capital Funds</b>	<b>2,023,834</b>		<b>2,228,790</b>		
Less: Deferred Expenditure	28,445		8,885		
<b>Net Capital Funds</b>	<b>1,995,389</b>	<b>16.1</b>	<b>2,219,905</b>	<b>14.2</b>	<b>11.2</b>
<b>2. Provision for Bad Debts</b>	<b>855,155</b>	<b>6.9</b>	<b>1,026,748</b>	<b>6.6</b>	<b>20.1</b>
<b>3. Public Deposits</b>	<b>7,185,813</b>	<b>58.1</b>	<b>8,792,970</b>	<b>56.3</b>	<b>22.3</b>
<b>4. Borrowings</b>					
Bank Overdrafts	823,067		375,306		
Others	152,073		867,230		
<b>Total Borrowings</b>	<b>975,140</b>	<b>7.9</b>	<b>1,242,536</b>	<b>8.0</b>	<b>27.4</b>
<b>5. Other Liabilities</b>	<b>1,347,041</b>	<b>10.9</b>	<b>2,345,566</b>	<b>15.0</b>	<b>74.1</b>
<b>Grand Total</b>	<b>12,358,538</b>	<b>100.0</b>	<b>15,627,725</b>	<b>100.0</b>	<b>26.4</b>
<b>ASSETS</b>					
<b>1. Liquid Assets</b>					
Cash and Due from Banks	194,052		241,077		
Fixed Deposits	367,748		408,723		
Treasury Bills	790,727		950,781		
<b>Total Liquid Assets</b>	<b>1,352,527</b>	<b>10.9</b>	<b>1,600,581</b>	<b>10.2</b>	<b>18.3</b>
<b>2. Investments</b>					
Shares in Subsidiaries & Associated Companies	124,114		236,442		
Shares in Related Companies	632,385		451,845		
Long term investment in Shares	156,863		145,903		
Trading Investment in Shares	112,660		210,454		
Debentures	200		500		
<b>Total Investments</b>	<b>1,026,222</b>	<b>8.3</b>	<b>1,045,144</b>	<b>6.7</b>	<b>1.8</b>
<b>3. Advances</b>					
Loans	606,773		1,004,995		
Hire Purchase	2,197,391		2,682,908		
Leasing	4,022,397		5,878,933		
Real Estate	395,965		644,567		
Other Advances	626,186		262,204		
<b>Total Advances</b>	<b>7,848,712</b>	<b>63.5</b>	<b>10,473,605</b>	<b>67.0</b>	<b>33.4</b>
<b>4. Fixed Assets</b>					
Freehold Land & Buildings	818,695		860,711		
Furniture and Fittings	84,870		48,916		
Other Equipment	39,234		108,210		
Motor Vehicles	102,286		117,177		
Machinery	44,130		19,230		
Leased Assets	7,138		9,788		
Others	8,800		25,610		
<b>Total Fixed Assets</b>	<b>1,105,153</b>	<b>8.9</b>	<b>1,189,622</b>	<b>7.6</b>	<b>7.6</b>
<b>5. Other Assets</b>	<b>1,025,924</b>	<b>8.3</b>	<b>1,318,773</b>	<b>8.4</b>	<b>28.5</b>
<b>Grand Total</b>	<b>12,358,538</b>	<b>100.0</b>	<b>15,627,725</b>	<b>100.0</b>	<b>26.4</b>

No. of Reporting Companies

24

24

Source: Central Bank of Sri Lanka

have recorded an increase of 33.4 per cent. The increase in capital funds was 11.2 per cent and other liabilities 74.1 per cent.

The Monetary Board, after taking into account the developments in the banking and the financial sector,

administratively determined that from the year 1996 the minimum paid up capital required for a company to be eligible for registration as a finance company under the Finance Company Act should be Rs.25 million. The Cabinet has approved the proposed amendment to the Finance Companies

Act raising the minimum level of paid up capital required from Rs. 5 million to Rs.25 million. This provision will also allow flexibility to the Monetary Board to change this capital requirement from time to time.

Registration was granted to one more finance company in October 1996, thus increasing the number of registered finance companies to 25.

The administration and management of five finance companies vested in the Monetary Board under the provisions of the Finance Companies Act continued to be performed by the Department. Relief payments to depositors of two such companies under the Relief Scheme for Depositors of Registered Finance Companies in Distress amounted to Rs.12 million during 1996. The total paid under this scheme upto end 1996 was Rs.572.8 million. Rs.9.9 million was also repaid to depositors of another finance company vested in the Monetary Board in settlement of matured deposits with interest during the year. An audit firm was appointed as the liquidator of four other vested finance companies where relief payments had been completed.

With the approval of the Monetary Board, the Department ensured the compliance by a finance company of a direction to divest its immovable properties and to utilise the sales proceeds to create a trust for the payment of the deposit liabilities of the company in an equitable manner.

The Department continued to co-ordinate with the Attorney General's Department and the Police Department to institute legal action against directors and other officers who had contravened the provisions of the Finance Companies Act and directions issued by the Monetary Board and in some instances the misappropriation of funds of companies. The Department obtained a conviction against the directors and officers of one failed finance company during the year and they were sentenced to imprisonment and substantial fines. This is the severest penalty imposed by a Court on directors of finance companies upto now and is expected to have a deterrent effect on the committing of similar offences.

In regard to financial leasing, the Department is expected to be made responsible for the registration and supervision of financial leasing companies. Legislation for the development of an institutional and regulatory framework for the financial leasing business in Sri Lanka is now under consideration.

## DEVELOPMENT FINANCE

The main responsibilities of the Development Finance Department in the first half of 1996 continued to be the operation of the Credit Guarantee Schemes for Small and Medium Scale Industries (SMI), the Bus Purchase Loan (BPL) scheme, the Entrepreneur Development Programme (EDP) and the refinancing of loans granted for low income housing under the Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV of the United States Agency for International Development (USAID). In the second half of the year, the Department also commenced implementing a new credit scheme for the reform of the plantation sector. Under this credit scheme, which channels funds made available by the Asian Development Bank (ADB) for the Plantation Reform

Project (PRP), fifteen loan applications amounting to Rs.428.6 million were approved. The Department also continued project inspections and follow-up of the performance of projects for which credit guarantees have been provided by the Central Bank.

## Credit Guarantee Operations

A summary of credit guarantee operations under the Small Scale Industries (SSI) Scheme, SMI-I, II, III and IV Schemes administered by the Central Bank as at 31 December 1996 is given in Table II-6. Table II-7 gives an industry-wise classification of projects financed under the SMI -II, III and IV Schemes. Credit guarantee operations under the BPL Scheme are summarised in Table II-8.

## Small Scale Industries Scheme

During the years 1978 to 1979, a total of 767 loans had been granted under this scheme. At the end of 1996, only eight loans amounting to Rs.0.4 million and involving a total guarantee commitment of Rs.0.3 million were outstanding.

## Small and Medium Scale Industries Schemes

The SMI-I, II and III Schemes were in operation during 1979 - 1981, 1982 - 1989 and 1988 - 1991, respectively.

The SMI-IV Scheme which commenced in March 1992, is currently operational. During the year 1996, the Central Bank guaranteed 1,029 loans amounting to Rs. 973.9 million, and the Central Bank's credit guarantee liability in respect of these loans amounted to Rs. 676.4 million. During the year, 72 loans amounting to Rs. 18 million were fully settled. At the end of 1996, credit guarantees of 238 loans were withdrawn due to non-compliance with the Central Bank's Operating Instructions by the Participatory Credit Instructions (PCIs). A total of 7,536 loans granted for Rs. 5,433.6 million were operational at the end of the year under the SMI-IV Credit Guarantee Scheme. Total guarantee liability on these loans amounted to Rs. 2,540.6 million. At the end of December 1996, 120 claims amounting to Rs. 70.3 million were received by the Central Bank, of which 30 claims amounting to Rs. 8.4 million were settled. The total guarantee premia collected at the end of 1996, was Rs. 104.9 million, while the total post-claim recoveries amounted to Rs. 2.1 million.

## Bus Purchase Loan Scheme

This scheme was inaugurated in November 1990 to assist PCIs to grant loans to private bus operators to purchase buses for public transport. Loans were refinanced by the National Development Bank (NDB) while the loan guarantees were issued by the Central Bank. The scheme ceased to be in operation by the end of 1992 as the funds available to the NDB to provide refinance were fully committed. Under the BPL scheme, 1,932 loans amounting to Rs.1,098.6 million and involving a guarantee liability of Rs.871.2 million were granted.

Under the BPL scheme, 1,911 new buses were introduced to the country's transport fleet. A feature noted in this scheme was the financing of a high proportion of owner operated bus transport.

At the end of 1996, 1,040 BPL loans amounting to Rs.579.1 million had been fully repaid, while guarantees of 117

loans amounting to Rs.69.2 million were withdrawn due to failure to comply with the Operating Instructions of the Central Bank. The total liability of the Central Bank under the BPL Credit Guarantee Scheme at end December 1996 was Rs.107.5 million.

During 1996, under the BPL Credit Guarantee Scheme, 18 claims with a guarantee liability of Rs. 6.9 million had been received by the Central Bank. Of these claims, 11 were paid a sum of Rs. 2.5 million being the eligible interim settlement of 50 per cent. At the end of 1996, 3 claims amounting to Rs. 2.5 million were pending completion of investigations, while 2 claims for Rs. 1 million were rejected by the Central Bank during the year. The total premia collected under the credit scheme upto the end of 1996 amounted to Rs.21.8 million, while the post-claim recoveries amounted to Rs.1.3 million. Table II-8 summarises the performance of the scheme.

### **Housing Guarantee Low Income Shelter Programme - Phase IV**

The refinance scheme for the Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV, which was commenced in July 1992, continued to operate in 1996. As the apex lender under this scheme, the Central Bank provides the refinance facilities 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 PCIs designated as sub apex lenders (SALs) which have entered into agreements with the Central Bank under the HGLISP Programme. At present, Bank of Ceylon, People's Bank, Hatton National Bank Ltd., State Mortgage and Investment Bank, Seylan Bank Ltd., Commercial Bank of Ceylon Ltd., the Housing Development Finance Corporation (HDFC) and the Regional Rural Development Banks of Kurunegala, Kandy, Kegalle, Puttalam, Galle, Badulla, Gampaha, Matale and Matara participate as SALs under this scheme. In October 1995, four other RRDBs, namely Hambantota, Kalutara, Ratnapura and Nuwara Eliya, signed agreements to participate in this programme. The National Housing Development Authority (NHDA) participates in this scheme through the Bank of Ceylon.

Loans are granted under the HGLISP scheme for house construction, including acquisition of land for house construction, additions, improvements and renovations to existing houses. Households whose monthly income is Rs.5,700 or less, are eligible to obtain loans under this scheme.

Upto 1994, the HGLISP scheme was implemented using an advance of Rs.150 million provided by the Ministry of Finance. In October 1994, a loan of US dollars 10 million (Rs.487 million), being the first tranche of a loan of US dollars 25 million under the USAID Housing Guarantee Agreement, was made available to the scheme. Further, in June 1995, another advance of Rs.150 million was provided by the Ministry of Finance for the project.

A statistical profile of the performance of the HGLISP IV is given in Tables II-9, II-10, II-11 and II-12.

In 1996, loans amounting to Rs.106 million have been approved under this programme. The cumulative figures of loan

approvals and disbursements from 1992 to 1996 show that Rs.995 million had been approved, while Rs.637 million had been disbursed.

The largest proportion of borrowers under this scheme has come from the rural sector. Thus, 89 per cent of approvals in 1995 and 88 per cent of approvals in 1996 were for the rural sector. The breakdown of borrowers by gender shows that in 1996, 25 per cent of borrowers were rural sector females, while 21 per cent were urban sector females. The purpose-wise classification of loans shows that about 8 per cent of loans in 1996 were granted for construction of new houses, 28 per cent for improvements or extensions to existing houses and 63 per cent for land acquisition for housing purposes. The loans granted for land acquisition showed a 60 per cent increase in 1996 compared with 40 per cent in 1995.

The proportion of loans approved by the HDFC, People's Bank and the RRDBs under the HGLISP showed a substantial increase in 1996 compared with the previous year. NHDA did not approve any loans during 1996. The maturity pattern of loans under this scheme indicated that 36 per cent of loans have been granted for upto 5 years, a further 7 per cent have been granted for periods of 5 to 10 years, while 57 per cent have been granted for periods of 10 to 15 years.

### **Investment of SMI and BPL Guarantee Fund Resources**

The investment of SMI and BPL guarantee funds in Treasury bills, which commenced in July 1988, continued during 1996. The total value of investments of guarantee funds and premia collections as at end 1996 amounted to Rs.1,042 million. Interest income from investments during the year was Rs.142.3 million.

### **Entrepreneurship Development Programme**

The Entrepreneurship Development Programme (EDP), which aims at upgrading technical and management skills of existing small industries, continued to be implemented in 1996 at district level.

The programme on management and skill upgrading for existing entrepreneurs which was held in Polonnaruwa, from 28 November to 1 December 1996, focussed on the clothing sector. The 35 participants who attended the programme are small scale entrepreneurs and self-employed persons. Some of these participants have already obtained credit facilities from the Regional Rural Development Banks (RRDBs), while others are potential borrowers of RRDBs and commercial banks. The funds necessary for conducting the programme were made available by the World Bank, under its Technical Assistance Programme covering the SMI schemes.

### **Plantation Reform Project**

The Government of Sri Lanka signed a loan agreement with the Asian Development Bank (ADB) on 12 January 1996 to obtain SDR 40.8 million for the Plantation Reform Project (PRP) and the loan became effective from 29 May 1996.

On 31 July 1996, the Central Bank, as the apex lender of the credit scheme, issued Operating Instructions, CB/DF/PSRP-96, outlining the procedure for the loan scheme. Under the PRP,

**TABLE**  
**Summary of Performance of the Central Bank**

ITEMS	SCHEMES AND YEARS	SMALL SCALE INDUSTRIES		SMALL AND	
		SSI		SMI – I	
		1996		1996	
		No.	Value	No.	Value
1.1 Loans granted (b)		767	31.2	1,670	286.1
1.2 Loans guaranteed (b)		767	23.4 (d)	1,670	157.5 (e)
2.1 Loans fully repaid (b)		598	23.1	1,230	183.9
2.2 Guarantees withdrawn or lapsed (b)		90	4.9	113	31.4
3.1 Total claims received (b)		88	4.3 (i)	338	75.9 (i)
3.2 Central Bank Liability on claims received (b)			2.4		33.9
3.3 Settlement of claims					
Fully settled		63	1.7	231	19.2
Partly settled		1	0.0 (j)	27	2.1
Claims rejected		7	0.2	32	6.9
Loans fully paid after submission of claims		16	0.2	37	2.0
Claims deferred (l)		1	0.3	8	2.1
Claims pending (l)		-	-	3	0.5
Claims withdrawn (l)		-	-	-	-
4.1 Loans outstanding (m)		8	0.4	40	4.6
4.2 Loans in arrears (b)		8	0.4	40	4.6
4.3 Central Bank liability on guarantees outstanding		8	0.3 (d)	40	2.9 (e)
5. Premia collected (b)			1.0		12.2
6. Post claim recoveries (b)		-	0.6	-	10.4

(a) Provisional

(b) Upto date

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

(d) 75 % of loans outstanding

(e) 60% of loans outstanding subject to maximum of Rs.0.4 Mn. per project.

(f) 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. and Rs.4.0 Mn.

(g) 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 a maximum of Rs. 1.6 Mn. per project.

(h) 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 a maximum of Rs.1.6 Mn. per project.

(i) Amount in default including interest accrued therein.

(j) Amount of Rs.4,505.75 has been settled.

(k) Included under 2.1

(l) Included under 4.1

(m) Excluding instalments recovered.

(n) Revised.

**TABLE II-7**  
**SMI-II, SMI-III and SMI-IV Credit Guarantee Schemes**  
**Industry-wise Classification as at end December 1996**

Industry	SMI – II & III						SMI – IV (1996)					
	Loans Granted		Loan Amount		Guaranteed Amount		Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Rs. Mn.	%	Rs. Mn.	%	No.	%	Rs. Mn.	%	Rs. Mn.	%
Food Processing	2,927	20.8	1,985.5	19.1	1,275.9	18.6	191	18.6	160.5	16.3	111.7	16.5
Other Agro-Industries	277	2.0	129.0	1.2	87.8	1.3	11	1.1	4.1	0.4	3.3	0.5
Rubber Products	270	1.9	289.6	2.8	177.7	2.3	17	1.7	20.1	2.0	13.4	2.0
Metal Products	1,217	8.6	650.4	6.3	441.5	6.4	144	13.9	66.9	6.8	50.2	7.4
Construction Materials	842	6.0	518.3	5.0	361.2	5.3	54	5.3	46.6	4.8	33.5	4.9
Construction Contracting	233	1.7	411.1	3.9	260.5	3.8	45	4.4	111.5	11.4	68.9	10.2
Wood Products	815	5.8	409.9	3.9	286.6	4.2	50	4.9	32.2	3.3	23.8	3.5
Garments	805	5.7	716.8	6.9	459.0	6.7	26	2.5	23.7	2.4	16.1	2.4
Textiles	292	2.1	296.7	2.9	189.3	2.8	9	0.9	8.5	0.9	5.4	0.8
Repair Workshop	505	3.6	285.2	2.8	199.7	2.9	41	3.9	41.7	4.2	28.4	4.2
Others (a)	5,889	41.9	4,695.3	45.2	3,140.1	45.7	441	42.8	467.1	47.5	321.7	47.6
<b>Total</b>	<b>14,072</b>	<b>100.0</b>	<b>10,387.8</b>	<b>100.0</b>	<b>6,879.3</b>	<b>100.0</b>	<b>1,029</b>	<b>100.0</b>	<b>982.9</b>	<b>100.0</b>	<b>676.4</b>	<b>100.0</b>

(a) Includes Passenger &amp; Commercial Transport, Leather, Animal Husbandry, Chemical, Fishing, Restaurants, Fibre Glass, Electronic, Ceramics and Polythene.

Source : Central Bank of Sri Lanka

## II-6

## Credit Guarantee Schemes as at end December 1996

Rs. Mn.

## MEDIUM SCALE INDUSTRIES

SMI - II				SMI - III				SMI - IV			
1995		1996		1995		1996		1995		1996 (a)	
No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
2,531	1,392.5	2,531	1,392.5	3,130	1,955.6 (c)	3,130	1,955.6	7,382	6,056.8	8,411	7,030.7
2,531	713.6 (f)	2,531	713.6 (f)	3,130	1,312.6 (g)	3,130	1,312.6	7,382	4,176.7 (h)	8,411	4,853.1 (h)
1,564	702.2	1,584	709.4	1,339	607.8	1,356	611.3	542	264.3	614	282.3
353	168.0	353	168.0	280	212.6	280	212.6	238	145.0	238	145.0
226	70.0	226	70.0	146	50.7	157	62.3	87	53.0 (i)	120	70.3
	58.6		58.6		35.5		42.5		42.4		56.0
125	30.6	126	31.7	83	22.9	85	23.2	26	7.0	30	8.4
4	0.7	4	0.7								
45	11.7	45	11.7	41	12.1	41	12.1	23	10.6	29	12.9
5	1.1	5	1.1	1	1.6	1	1.6	1	0.5	1	0.5
26	8.2	26	8.2	4	4.6	5	4.8	2	1.6	2	1.6
14	4.4	13	3.5	13	3.7	21	9.3	34	28.9	57	35.6
7	3.6	7	3.6	4	2.5	4	2.5	1	1.6	1	1.6
440	110.7	420	107.9	1,387	433.7	1,370	430.2	6,553	3,747.7	7,536	5,433.6
326	86.7	162	43.2	621	143.2	374	119.7	1,339	43.7	1,339	43.7
440	66.4 (f)	420	64.7	1,387	280.7 (g)	1,370	278.7	6,553	2,588.3 (h)	7,536	2,540.6 (h)
	29.4		29.6		42.5		43.4		84.9		104.9
	16.2 (n)		16.3		10.1 (n)		12.2		1.1 (n)		2.1

Source : Central Bank of Sri Lanka

TABLE II-8

## Summary of Performance of the Bus Purchase Loan Scheme

Values in Rs. Mn.

Item	As at end year			
	1995		1996 (a)	
	No.	Value	No.	Value
1.1 Loans granted	1,932	1098.6	1,932	1,098.6
1.2 Loans guaranteed	1,932	871.2 (b)	1,932	871.2 (b)
2.1 Loans fully repaid	596	325.1	1,040	579.1
2.2 Guarantees withdrawn or lapsed	117	69.2	117	69.2
3.1 Total claims received	18	9.8 (c)	18	9.8 (c)
3.2 Central Bank liability	-	6.9	-	6.9
3.3 Settlement of claims				
Partly settled (d)	9	2.1	11	2.5
Claims rejected	2	1.0	2	1.0
Claims deferred (e)	-	-	-	-
Claims pending (e)	5	2.8	3	2.5
Claims withdrawn	1	0.2	1	0.2
Loans fully paid after submission of claims (f)	1	0.4	1	0.4
4.1 Loans outstanding	1,208	218.4 (g)	745	164.4
4.2 Central Bank liability on guarantees outstanding	1,208	171.8 (b)	745	107.5
5. Premia collected	-	21.2	-	21.8
6. Post claim recoveries	-	0.7 (h)	-	1.3

Source : Central Bank of Sri Lanka

- (a) Provisional  
 (b) 80%, 60% and 40%, respectively, for upto Rs. 2 Mn., Rs. 2 Mn.-Rs. 3 Mn. and Rs. 3 Mn.-Rs. 4 Mn., subject to maximum of Rs. 1.6 Mn., per project.  
 (c) Amount in default including interest accrued therein.  
 (d) 2 cases amounting to Rs. 0.4 million indicated against fully settled have since been classified as partly settled.  
 (e) Included under 4.1.  
 (f) Included under 2.1.  
 (g) Excluding instalments recovered.  
 (h) Revised

the privatised Regional Plantation Companies (RPCs) and their subsidiaries are the eligible borrowers. The PRP loan, which made available SDR 40.8 million, allocated a sum of SDR 27.6 million to RPCs on a loan basis, while the balance is to be given as a grant to promote reforestation, improvement of

TABLE II-9

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

Rs. 'Mn.

Sub-Apex Lender	1992-1996	
	Approvals	Disbursements
Bank of Ceylon	350.0	312.5
Commercial Bank of Ceylon Ltd.	1.8	1.1
Hatton National Bank Ltd.	5.3	4.7
Housing Dev. Finance Corporation	223.6	85.3
People's Bank	262.3	179.3
Regional Rural Development Banks	80.1	33.0
Seylan Bank Ltd.	4.5	2.4
State Mortgage & Investment Bank	67.9	19.0
<b>Total</b>	<b>995.5</b>	<b>637.3</b>

Source : Central Bank of Sri Lanka



**TABLE II-10**  
**Housing Guarantee Low Income Shelter Programme - Phase IV**  
**Loan Approvals by Purpose, Maturity and Size**

Rs. '000

Category	1996			1992 - 1996		
	Urban	Rural	Total	Urban	Rural	Total
<b>Purpose</b>						
Construction	404	8,570	8,974	55,332	350,825	406,157
Improvements	2,665	26,614	29,279	50,432	237,424	287,856
Land Acquisition	9,496	57,420	66,916	53,926	241,591	295,517
Infrastructure Development	35	965	1,000	582	5,385	5,967
<b>Total</b>						
<b>Maturity</b>						
Less than 5 years	3,277	34,576	37,853	49,395	350,898	400,293
6 to 10 years	1,667	5,521	7,188	45,100	219,063	264,163
11 to 15 years	7,656	53,472	61,128	65,478	264,105	329,583
16 to 20 years	-	-	-	299	1,159	1,458
<b>Total</b>						
<b>Size (Rs.)</b>						
< 2,500	-	-	-	122	9,496	9,618
2,501 - 5,000	-	25	25	3,231	32,873	36,104
5,001 - 7,500	6	73	79	5,164	60,734	65,898
7,501 - 10,000	298	885	1,183	13,957	156,968	170,925
10,001 - 15,000	639	2,046	2,685	46,795	60,817	107,612
15,001 - 20,000	816	2,289	3,105	11,360	42,970	54,330
20,001 - 25,000	894	7,921	8,815	14,783	70,932	85,715
25,001 - 30,000	239	1,859	2,098	3,043	24,944	27,987
30,001 - 35,000	136	1,977	2,113	2,735	18,421	21,156
35,001 - 40,000	310	2,340	2,650	4,005	24,209	28,214
40,001 - 45,000	210	952	1,162	3,345	12,163	15,508
45,001 - 50,000	548	19,354	19,902	10,728	111,956	122,684
50,001 - 100,000	5,546	27,779	33,325	35,071	153,526	188,597
> 100,000	2,958	26,069	29,027	5,933	55,216	61,149
<b>Total</b>	12,600	93,569	106,169	160,272	835,225	995,497

Source : Central Bank of Sri Lanka

workers' living environment, institutional strengthening and training of the plantation sector. The amortisation period of the loan is 40 years including a 10 year grace period. The Central Bank, through the Development Finance Department, functions as the Executing Agency for the loan component of the project, while the Ministry of Plantation Industries through its Project Implementation Unit (PIU), functions as the Executing Agency for the grant component.

**TABLE II-11**  
**Housing Guarantee Low Income**  
**Shelter Programme - Phase IV**  
**Loan Approvals by Province**

Rs. Mn.

Province	1996		1992 - 1996	
	Amount	%	Amount	%
Central	18.5	17.5	152.8	15.3
Eastern	0.7	0.7	21.3	2.1
North Central	3.0	2.9	160.2	16.1
North Western	22.0	20.7	111.7	11.2
Northern	-	-	4.4	0.4
Sabarakamuwa	13.5	12.7	91.8	9.2
Southern	16.7	15.7	132.0	13.3
Uva	0.7	0.6	22.0	2.2
Western	31.0	29.2	299.2	30.2
<b>Total</b>	<b>106.2</b>	<b>100.0</b>	<b>995.5</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

The Participating Financial Institutions (PFIs) of this project are the Development Finance Corporation of Ceylon (DFCC), National Development Bank (NDB), Bank of Ceylon (BOC), Commercial Bank of Ceylon (CBC), Hatton National Bank (HNB), Sampath Bank and Seylan Bank. Loans under the PRP to PFIs will be upto 15 years maturity with a maximum grace period of 5 years. During the year, approval of loans and disbursements were Rs. 428.6 million and Rs.57.8 million, respectively (Table II-13). The Central Bank also provides the credit guarantee for the PRP loans. The extent of the credit guarantees which are to be issued by the Central Bank under this scheme will be 70 per cent in respect of tree crop plantation development and 50 per cent in respect of processing, improvement and pollution control, and service vehicles and equipment.

### Follow-up and Inspection of Projects

The programme of project inspection of the Department, covering SMI loan defaults and guarantee claims, continued in 1996. A total of 65 projects were inspected during 1996 in order to recommend corrective action, where necessary, and to settle the guarantee claims lodged by the PCIs.

Tables II-14 and II-15 give a profile of project inspections carried out during 1996.

As Table II-14 shows, a total of 25 projects covering Rs.31 million were inspected with a view to recommending corrective

**TABLE II-12**  
**Housing Guarantee Low Income Shelter Programme - Phase IV**  
**Loan Approvals by Sector and Gender**

Rs. '000

Year	Total		Rural Sector				Urban Sector			
			Male		Female		Male		Female	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1992	4,273	27,381	2,977	19,205	1,244	7,445	39	523	13	208
1993	23,718	218,762	13,865	123,027	6,193	51,397	2,321	28,841	1,339	15,497
1994	22,733	338,291	13,317	195,544	5,669	73,466	2,600	50,223	1,147	19,057
1995	11,960	304,894	7,511	201,022	3,154	70,548	906	24,665	389	8,659
1996	2,136	106,169	1,397	72,121	455	21,448	224	10,068	60	2,532
<b>Total</b>	<b>64,820</b>	<b>995,497</b>	<b>39,067</b>	<b>610,919</b>	<b>16,715</b>	<b>224,304</b>	<b>6,090</b>	<b>114,320</b>	<b>2,948</b>	<b>45,953</b>

Source : Central Bank of Sri Lanka.

action. After project inspections, the credit guarantee cover issued to one project had to be withdrawn due to non-compliance with the Central Bank Operating Instructions for the guarantee scheme. Close monitoring by the PCIs concerned was recommended in respect of 12 projects, while rescheduling of the repayment period was recommended in respect of five projects. Three project inspections helped PCIs to reach agreements with the borrowers with regard to the settlement of the defaulted loans in full.

**TABLE II-13**  
**Plantation Reform Project Loan Approvals**  
**by Purpose - 1996**

Rs.Mn.

Purpose	No.	Amount
Tree Crop Development	5	164.5
Processing, Improvement and Pollution Control	5	152.0
Service Vehicles and Equipment	5	112.0
<b>Total Approvals (a)</b>	<b>15</b>	<b>428.5</b>
of which:		
<b>Total Disbursements (a)</b>		<b>57.8</b>

Source: Central Bank of Sri Lanka.

(a) Refinance approvals and disbursements reported above are in respect of the NDB.

During 1996, 40 claims covering loans amounting to Rs.27.5 million were made by the PCIs and were inspected by the Central Bank prior to considering their approvals. Of these claims, seven were rejected, due to the fact that PCIs had either not followed the Operating Instructions of the credit guarantee schemes or had lent without following prudent lending practices. Further, four claims were under consideration for rejection, while four claims were deferred since defaulted loans were regularised by the borrowers after submission of such claims. Three loans were repaid by the borrowers after submission of guarantee claims by the PCIs to the Central Bank. In 1996, nine claims lodged by the PCIs were fully settled, while five claims were under consideration for settlement, and eight claims were pending either for rejection or settlement.

The majority of projects refinanced under the SMI schemes are located in the districts of Colombo, Gampaha, Kurunegala, Puttalam, Kandy, Badulla, Ratnapura, Galle and Matara.

**TABLE II-14**  
**Follow-up Inspection of Loans in Default - 1996**

Recommendation/ Outcome	No. of Projects	Loan Amount Rs.Mn.
1. Explore possibilities to reschedule the loan	5	12.2
2. Regularise the loan account	2	2.4
3. Guarantee to be withdrawn	1	0.6
4. Debtor agrees to settle the loan in full	3	0.9
5. Call for observations from PCIs	2	4.5
6. Close monitoring suggested	12	10.5
<b>Total</b>	<b>25</b>	<b>31.1</b>

Source: Central Bank of Sri Lanka.

**TABLE II-15**  
**Inspection of Guarantee Claims Received - 1996**

Recommendation /Outcome	No. of Claims	Loan Amount Rs.Mn.
1. Guarantee claims rejected	7	5.0
2. Guarantee claim rejections under consideration	4	1.6
3. Guarantee claims deferred	4	1.0
4. Loans settled after submission of guarantee claims to the Central Bank	3	1.6
5. Guarantee claims fully settled	9	2.5
6. Guarantee payment under consideration	5	6.4
7. Claims pending	8	9.4
<b>Total</b>	<b>40</b>	<b>27.5</b>

Source: Central Bank of Sri Lanka.

## RURAL CREDIT

During the year under review, the Central Bank continued to function as the Executing Agency for a number of donor-funded rural credit schemes in addition to implementing its own credit schemes. The functions of the Bank as an executing agency involved the following: admission of Participating Credit

Institutions (PCIs); issue of Operating Instructions to PCIs; disbursement of refinance to PCIs in respect of loans eligible under projects; monitoring and co-ordination of loan schemes; maintenance of loan records and promotion of loan schemes in collaboration with other local agencies.

The Projects implemented by the Bank during 1996 were as follows :

- (a) ADB<sup>1</sup> Funded Projects :
  - (i) Agriculture Rehabilitation Project
  - (ii) Small Holder Tea Development Project
  - (iii) Perennial Crops Development Project
  - (iv) Southern Province Rural Development Project
  - (v) North Western Province Water Resources Development Project
- (b) IFAD<sup>2</sup> /CIDA<sup>3</sup> /SIDA<sup>4</sup> Funded Projects :
  - (vi) Small Farmers and Landless Credit Project
  - (vii) North Central Province Participatory Rural Development Project
- (c) Government Funded Projects :
  - (viii) Kegalle District Integrated Rural Development Project - Revolving Fund Project
  - (ix) Surathura Diriya Programme - Self-employment Promotion through Micro- Enterprise Credit
- (d) Special Projects :
  - (x) Relief Scheme for Shrimp Farmers.

#### (i) Agriculture Rehabilitation Project (ARP)

The ARP, a project funded by the ADB, was designed to rehabilitate the persons and property affected by the on-going civil strife in the Northern and Eastern Provinces. The foreign funding for the Project was closed on 30 June 1996, but the Central Bank continued to administer the credit guarantee scheme, monitor recovery and re-cycle the loan recoveries by way of new loans for the purposes approved under the Project.

During the year under review, no credit guarantee claims were paid by the Bank under the ARP. Although the recovery rates fell due to the non-performance of some of the projects in the affected areas, the PCIs managed to maintain recovery rates between 65 per cent and 72 per cent in 1996.

#### (ii) Small Holder Tea Development Project (SHTDP)

The SHTDP, also funded by the ADB, commenced operations in 1989 and is scheduled to be completed in December 1997. The project aims at increasing the production and export of tea by smallholders, raising the producer margins through improved productivity, improving the quality and productivity of private tea factories, generating rural employment opportunities and strengthening governmental support services to smallholders. The project is envisaged to achieve these objectives through an infrastructure development component implemented by the Tea Small Holdings Development Authority (TSHDA) and a credit component implemented by the Bank.

The credit component, amounting to US dollars 12.6 million, covers a loan programme for field development (re-planting and new planting), nursery development and factory rehabilitation. By end 1996, the entirety of the credit component had been committed by way of approving loans for the above purposes.

The loan approvals and disbursements by PCIs, which had reached a very high level in 1995, continued to record the same momentum during the year under review, possibly in response to the higher demand for loans arising from the improved tea prices in 1996.

The cumulative loan approvals and disbursements by the PCIs as at end 1996 amounted to Rs.751 million and Rs.540 million, respectively. The total loan approvals and disbursements during the year under review stood at Rs.280 million and Rs.201 million, respectively. Loans granted for field development (new planting and re-planting) in 1996 amounted to Rs.86 million, while loans for nursery development and factory development amounted to Rs.6 million and Rs.109 million, respectively. The release of refinance by the Bank against loans disbursed by PCIs amounted to Rs.379 million as at end 1996.

In view of the satisfactory performance of the Project as a whole, the ADB has expressed its willingness to consider providing a new line of credit to the tea smallholder sector. A technical evaluation team was fielded by the ADB during 1996 to prepare a preliminary report on this second project. The TSHDA in collaboration with the Bank, launched a benefit monitoring survey and introduced a new savings scheme for tea small holders to make them self reliant.

#### (iii) Perennial Crops Development Project (PCDP)

The PCDP, funded by the ADB, completed the eighth year of its operations in 1996. The credit scheme was designed to provide medium-term credit facilities to farmers at concessionary rates for promoting the production and the commercialisation of perennial crops, particularly minor export crops and fruit crops. The Project also lays emphasis on the promotion of modern technology concerning on-farm post-harvest handling and processing in the perennial crops sector in the country. The Project is scheduled to be completed in December 1997.

The disbursement of loans under the PCDP accelerated in 1996 mainly due to the re-formulations effected to the Project in 1995 such as the extension of the project area and inclusion of new PCIs under the Project. The cumulative loan approvals and disbursements upto end 1996 amounted to Rs.701.4 million and Rs. 527 million, respectively. The total refinance granted by the Bank to PCIs in respect of the above loans amounted to Rs.427 million. The strong demand for loans by farmers necessitated additional fund allocations. The ADB responded positively to this demand by re-allocating a sum of SDR 0.7 million to the credit component from other unused expenditure heads of the Project.

In view of the satisfactory progress made by the Project, a second project on perennial crops covering the seed sector as well is being considered by the ADB. The work on the

1. Asian Development Bank  
 2. International Fund for Agricultural Development  
 3. Canadian International Development Agency  
 4. Swedish International Development Agency

preparation of the field study reports in respect of this second project was in progress in December 1996.

#### **(iv) Southern Province Rural Development Project (SPRDP)**

The SPRDP, funded by the ADB, began operations in 1992 with the objective of raising the income and quality of life of people in the Province by providing credit facilities for creating income and employment in the project area. The Bank functions as the Executing Agency for the credit component of the Project which has a total credit allocation of SDR 6.4 million (approximately Rs.450 million). The Development Finance Corporation of Ceylon (DFCC) and the three RRDBs at Galle, Matara and Hambantota function as PCIs and are assisted by a project office set under the purview of the Southern Province Provincial Council. 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. The on-lending rate and the refinance rate under the Project remained unchanged at 14 per cent and 6 per cent per annum, respectively, during 1996.

During the year under review, PCIs granted 958 loans amounting to Rs.65.9 million recording a cumulative disbursement of Rs.144.3 million at the end of the year. A sum of Rs.57.4 million in respect of 958 loans was granted by the Bank by way of refinance to PCIs during 1996. Accordingly, the cumulative refinance as at end 1996 amounted to Rs.127.2 million in respect of 4,382 loans.

#### **(v) North Western Province Water Resources Development Project (NWP-WRDP)**

This ADB funded credit scheme completed its third year in 1996. The credit component amounting to SDR 1.6 million (Rs.90 million) consists of three main sub-components, viz., Agro-wells Construction, Lift Irrigation Sub-Projects and Income Generating Self-employment Projects for Rural Women in the North Western Province. Since the inception of the Project, the Puttalam and Kurunegala RRDBs and the Hatton National Bank Ltd. have been admitted as PCIs. This list was subsequently enlarged by the addition of the People's Bank and the Bank of Ceylon.

At the end of 1996, PCIs had disbursed Rs.15.1 million for the construction of 461 agro-wells and Rs.10.4 million for 819 self-employment sub-projects for women in the North Western Province. The lift irrigation projects, which were activated in 1996, funded 24 schemes at a cost of Rs.0.7 million. The Bank had granted Rs.19 million as refinance to all PCIs under this project upto end 1996.

#### **(vi) Small Farmers and Landless Credit Project (SFLCP)**

The SFLCP, inaugurated in 1990 and jointly funded by IFAD (a loan of US dollars 6.7 million), CIDA (a grant of US dollars 6.6 million) and the Government of Sri Lanka (a contribution amounting to US dollars 4.1 million), aims at establishing a cost effective credit delivery system for the

alleviation of poverty among the poorest of the poor in the Galle, Matara, Kandy and Puttalam districts. The Project relies on the linkage banking system strengthened by the group lending strategy to achieve its objectives. The Central Bank functions as the Executing Agency of the Project on behalf of the Government.

During 1996, 5,453 new families in the four relevant districts were enrolled to receive assistance under the Project, bringing the total number of families serviced by the Project to 45,843 by the end of the year. All the beneficiaries have been formed into 7,519 groups consisting of 5 - 6 members in each of the groups. During 1996, 5,115 loans amounting to a total of Rs.52 million were disbursed to beneficiaries, raising the total number of loans to 35,480 and the value of loans to Rs.304 million, at end 1996. The project design requires beneficiaries to participate in a compulsory savings programme so as to inculcate thrift and savings habits in them. The total of such savings by beneficiaries amounted to Rs.43 million at end 1996. The Project has maintained an average recovery rate of 91 per cent continuously.

The Project continued its normal training programmes under which beneficiaries were provided with training on entrepreneurship, marketing, basic book keeping and vocational skills such as livestock farming, agriculture and technical training. During the year under review, 225 such training programmes were conducted for 6,102 beneficiaries. Accordingly, the total number of trained beneficiaries stood at 36,000 at end 1996.

A salient development in the SFLCP in 1996 was the upward revision in interest rates so as to make the rates compatible with the prevailing market rates. Accordingly, in April 1996, interest rates on loans for agriculture were raised from 12 per cent to 16 per cent per annum, while those on non-agricultural loans were revised upward from 16 per cent to 20 per cent per annum. Further, a rapid assessment survey on the progress of the Project was conducted during the year under review so as to ascertain the impact of the Project on the beneficiaries. The survey showed that about 70 per cent of the beneficiaries had crossed the poverty line by undertaking various income generating activities with the assistance given by the Project. However, the survey also revealed that, despite the high number of successes, about half of them were still in a vulnerable situation, warranting project assistance for a further period until they could be self-reliant.

#### **(vii) North Central Province Participatory Rural Development Project (NCP-PRDP)**

This Project was inaugurated in 1996 consequent on a loan agreement signed between the Government and the IFAD/SIDA. The project is an integrated rural development project with a credit component for the alleviation of poverty among the poorest of the poor in selected areas in the Anuradhapura District. The Bank is the Executing Agency for the credit component which is to be financed out of resources available with the National Development Trust Fund (NDTF).

The objectives of the Project are to assist target group families to undertake income generating activities so as to enable them to cross the poverty line; improve their food security and nutrition, and address the main causes of ill-health which reduce their productivity. These objectives are to be achieved through a micro-credit programme extended to target individuals with the assistance of selected NGOs operating in the area as Partner Organisations (POs).

#### **(viii) Kegalle District Integrated Rural Development Project - Revolving Fund Project**

The Kegalle District Integrated Rural Development Project, which was implemented with the financial assistance of IFAD, was terminated in December 1995 and the release of refinancing to PCIs was terminated in June 1996. Upto end 1995, a sum of Rs.147 million had been disbursed by PCIs for agricultural activities and small scale industries. As at end June 1996, a sum of Rs.78.3 million had been recovered by the Central Bank from PCIs. According to the loan agreement of the Project, a revolving fund out of the loan recoveries has to be established and maintained by the Central Bank for the continuation of credit under the scheme. The preliminary steps involved in the establishment of such a revolving fund was completed in 1996 with the objective of commencing its operations in early 1997.

#### **(xi) Surathura Diriya Programme - Self Employment Promotion Through Micro Enterprise Credit**

In September 1996, the Government inaugurated an island-wide special self-employment promotion scheme with the objective of alleviating high unemployment among the educated youth. The scheme, entitled 'Surathura Diriya,' is implemented by the Central Bank on behalf of the Government. The People's Bank, Bank of Ceylon and the Hatton National Bank function as Participating Credit Institutions (PCIs). A sum of Rs. 350 million was provided in the 1997 Budget by the Government to enable the Central Bank to provide credit facilities to eligible borrowers through PCIs.

Under the Surathura Diriya Scheme, the eligible borrowers are able to raise soft loans upto Rs. 50,000 when borrowing on an individual basis or upto Rs. 250,000 as a group of 5 individuals, to undertake a self-employment project of their choice. Loans are granted for a period of 3 years including a grace period of 1 year and carry an interest rate of 10 per cent per annum if loans are repaid regularly and 12 per cent per annum if repayments are irregular. The security required by PCIs is only a guarantee by a family member to exert peer pressure on borrowers regarding repayment. At end 1996, 2,400 loans, to the value of Rs.78 million had been granted to eligible individuals under the credit scheme thereby recording an average loan size of Rs.32,500.

#### **(x) Relief Scheme for Shrimp Farmers**

During the period under review, the Central Bank, at the request of the Ministry of Fisheries and Aquatic Resources Development, negotiated a relief scheme with lending banks in respect of loans granted by them to shrimp farmers whose farms were affected by the white spot disease. This epidemic, which

was present from early 1996, adversely affected the shrimp farm industry causing extensive damage to about 3,000 acres of shrimp farms in the coastal belt of the North Western Province. This sudden outbreak of the disease threatened the viability of the shrimp farming industry which had become an important non-traditional export earner bringing about Rs. 2 billion annually to the country by way of foreign exchange. The relief package, implemented on a case by case basis, included a rescheduling facility coupled with a moratorium at concessionary interest rates and a new credit facility to rehabilitate the affected ponds.

The relief package which became effective from June 1996 covered loans totalling Rs. 750 million that had been granted to this sector as at that date.

### **REGIONAL RURAL DEVELOPMENT BANKS**

The activities of Regional Rural Development Banks (RRDBs) continued to expand during the year 1996, thereby assisting the process of development of the rural economy. RRDBs provide finance for the development of agriculture, fisheries, cottage and small scale industry, commerce and other development activities. However, the smooth functioning of the RRDBs was affected by the trade union action carried out by RRDB employees during the first few months of the year.

#### **Branch Network of RRDBs**

The total number of RRDBs in operation remained unchanged at 17 at end 1996. Four new branches were opened during the year by the RRDBs of Kandy (at Hedeniya), Kalutara (at Matugama), Gampaha (at Negombo) and Matara (at Matara Town). The total number of branches of RRDBs rose from 171 in 1995 to 175 in 1996 (Table II -16).

#### **Deposit Mobilisation**

In order to mobilise savings, the RRDBs had introduced several attractive savings schemes and provided mobile banking services in rural areas in previous years. However, the total deposits of RRDBs, which amounted to Rs.1,851 million during the first half of the year, recorded a decline of 5 per cent from the level at the end of 1995 on account of the trade union action by the employees. Despite this set-back in the first half of the year, deposit mobilisation recovered gradually to register an increase of 5 per cent at the end of the year. At the end of 1996, the total deposits stood at Rs.2,035 million in respect of 993,627 accounts. Savings deposits amounting to Rs.1,595 million in respect of 979,626 accounts accounted for the bulk of these deposits. The average value of deposits in a savings account dropped from Rs.1,728 in 1995 to Rs.1,628 in 1996, whereas the average value of a fixed deposit rose from Rs.37,490 in 1995 to Rs.43,160 in 1996.

#### **Delivery of Credit**

During the period under review, RRDBs disbursed loans and advances amounting to Rs.2,294 million in respect of 345,028 loans, in comparison with Rs.2,055 million in respect of 341,732 loans during the previous year. The average size of a loan also increased from Rs.6,012 in 1995 to Rs.6,649 in

**TABLE II-16**  
**Branch Network of RRDBs**

Name	Date of Establish- ment	Location of Head Office	Number of Branches Opened							Total at end 1996	
			1985 -1989	1990	1991	1992	1993	1994	1995		1996
Kalutara	85.07.13	Bulathsinhala	12	-	1	2	-	-	-	1	16
Matara	85.07.28	Matara	8	-	-	4	-	-	-	1	13
Kurunegala	85.08.10	Kuliyapitiya	14	1	-	2	-	-	-	-	17
Anuradhapura	85.08.12	Anuradhapura	7	-	3	1	-	-	-	-	11
Hambantota	86.12.13	Ambalantota	6	1	-	1	-	-	-	-	8
Kegalle	87.02.08	Kegalle	11	1	(1)	1	1	1	-	-	14
Puttalam	87.07.11	Chilaw	6	2	1	1	-	-	-	-	10
Galle	87.08.17	Elpitiya	9	-	-	3	-	-	-	-	12
Kandy	87.10.13	Kandy	9	2	-	2	-	-	1	1	15
Nuwara Eliya	88.10.10	Nuwara Eliya	4	2	-	2	-	-	-	-	8
Moneragala	88.10.11	Buttala	3	1	2	-	-	-	-	-	6
Badulla	90.10.13	Badulla	-	4	2	3	-	4	-	-	13
Polonnaruwa	91.05.17	Polonnaruwa	-	-	4	2	1	-	-	-	7
Matale	91.06.21	Matale	-	-	5	1	-	-	-	-	6
Ratnapura	91.09.30	Ratnapura	-	-	4	2	1	-	-	-	7
Ampara	92.02.24	Ampara	-	-	-	5	2	-	-	-	7
Gampaha	93.06.07	Gampaha	-	-	-	-	2	1	1	1	5
Total			89	14	21	32	7	6	2	4	175

Source : Central Bank of Sri Lanka

1996. Loans and advances increased by approximately 12 per cent during a period in which deposits rose by only 5 per cent. It is likely that the RRDBs expanded credit in order to win back the confidence of customers and to rebuild their customer base subsequent to reaching agreement with the RRDB Employees' Union. Towards the end of the year, however, the RRDBs tended to follow a more cautious credit policy. RRDBs continued to grant financial assistance under various loan schemes introduced by them, such as the special credit schemes for teachers and for persons selected for employment in South Korea and self employment loans for Samurdhi recipients.

### Other Activities

The RRDBs provided a wide range of ancillary services to their customers in order to fulfill the developmental role assigned to RRDBs. They rendered advisory assistance by coordinating beneficiary training programmes for their customers, including Samurdhi recipients, so that effective programmes of education, imparting management techniques and new technology, would motivate customers. Such programmes, combined with financial facilities, assisted in improving productivity in rural areas.

The RRDBs continued to hold Janahamuwa meetings in villages both in order to create an awareness of banking facilities as well as to extend credit facilities. The RRDBs also continued to promote marketing and processing of agricultural products.

The RRDBs acted as participating credit institutions in several special credit schemes, namely, the Small Holder Tea Development Project, the Perennial Crop Development Project, the USAID Housing Guarantee Low Income Shelter Project, the Southern Province Rural Development Project, the North Western Province Water Resources Development Project, the Small and Medium Scale Industry Loan Project and the Isuru Project.

## RURAL BANKING AND STAFF TRAINING COLLEGE

Consequent on the tragedy that beset the Central Bank in January 1996, the College played host to the departments of the Central Bank which were housed in and operated from the College. Undeterred by this set-back, the College conducted 15 programmes, which included an International Training Course in Management Development for APRACA-CENTRAB<sup>5</sup> participants. Among them, 8 were training courses, 4 were seminars and 3 were entrepreneurship development programmes. In addition, 35 entrepreneurial development programmes were conducted at district level in Matara, Galle, Puttalam and Kandy under the aegis of the Small Farmers and Landless Credit Project. Further, the College provided its expertise to the Public Debt Department to conduct an International Workshop on Effective Domestic Debt Management which was co-hosted by the Central Bank of Sri Lanka and the Commonwealth Secretariat.

The Research and Development Division completed the following:

- Developed a data-base on training programmes conducted from 1994 to 1996, with details of resource persons, participants' evaluations and co-ordinators' observations;
- Conducted a Training Need Analysis Survey in order to assess the training needs of the Central Bank, commercial banks, development banks, investment and merchant banks and other non-bank financial institutions. Certain new programmes were proposed for the year 1997 on the basis of the findings of the survey.

The College library purchased 175 books and subscribed to 55 foreign and local periodical titles. It also received 150

<sup>5</sup> Asia Pacific Rural and Agricultural Credit Association - Centre for Training and Research in Agricultural Banking

publications by way of gifts. However, due to the occupancy of the library in 1996 by other departments, its smooth functioning was greatly hindered.

As the entire premises of the College were occupied by other departments of the Bank, the Self Access Centre was unable to function as envisaged, during 1996.

## **EMPLOYEES' PROVIDENT FUND**

### **Reconstruction of the Department following the Bomb Blast**

The bomb attack on the Central Bank head office building on 31 January 1996 was responsible for the disruption of the computer database and destruction of the bulk of documents. However, the archives of the Department containing the original files relating to member contributions were salvaged and transferred to the new office of the Department at No. 64, Main Street, Battaramulla. The work in the Department was resumed manually in the first instance, and later reverted to temporary computer facilities. The Department is now in the process of developing its computer software package on a new IBM AS 400 computer system donated by the United States Agency for International Development (USAID).

In terms of the Employees' Provident Fund (EPF) Act, 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 Fund, maintaining proper accounts of registered employers and the individual members of the Fund and also effecting refunds 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 EPF Act.

### **Contributions**

According to provisional data, the contributions received by the Fund during 1996 amounted to Rs.9.9 billion, as against Rs.8.2 billion in 1995. This represents an increase of 20.7 per cent over the level of contributions received during the previous year.

### **Members' Balances**

Members' balances as at 31 December 1996 before allocation of interest for the year under review have been estimated to stand at Rs.102 billion which is an increase of Rs.17 billion or 20 per cent over the level at end 1995.

### **Investment**

During the year under review, the Fund invested an estimated sum of Rs. 53 billion in government securities, Treasury bills, the inter bank call money market and government guaranteed debentures. This is an increase of Rs. 8 billion over the level of investments in 1995. The total investments held by the Fund as at 31 December 1996 have been estimated at Rs.116 billion, which is an increase of Rs. 20 billion over the level at end 1995.

### **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, with effect from 1 April 1989 all income earned on investments have been subject to a Withholding Tax of 10 per cent. The total Withholding Tax deducted from the investment income for the year 1996 and the arrears paid during the year amounted to Rs.1.5 billion.

In 1996, the estimated income received from investments amounted to Rs. 16 billion, as against Rs.14 billion in 1995.

### **Refunds**

The total sum paid out by way of refund of EPF benefits to members during 1996 amounted to Rs. 3 billion, as against Rs. 2.7 billion in 1995. This is an increase of 11 per cent. During the year under review, 66,236 claims for refunds of benefits were paid out, as against 52,258 claims disposed of in 1995.

With a view to expediting the payment of refunds and minimising the cost involved, the Department joined the Sri Lanka Inter-bank Payments System (SLIPS) through People's Bank from mid June 1996.

### **EPF Housing Loan Scheme**

The EPF Act was amended by Act No. 42 of 1988 to enable members to obtain loans 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, National Housing Development Authority, State Mortgage and Investment Bank, People's Bank, Bank of Ceylon, National Savings Bank and the Co-operative Rural Banks.

As at 31 December 1996, the EPF Department had processed and dispatched a total of 67,088 applications for certification of balances to the respective labour officers.

## **EXCHANGE CONTROL**

There were no major changes in the implementation of exchange control policy in 1996. The Department of Exchange Control continued to concentrate its activities in the areas of capital transactions, monitoring of current account transactions, and granting of licences to freight forwarders, renewing licences issued to money changers, hoteliers, jewellery shops and others who are permitted to accept foreign currency against the services provided by them to foreigners. The Department was also engaged in clearing import applications referred by the Sri Lanka Customs in terms of Government Gazette Notification No. 915/15 dated 21 March 1996 outlining the procedure relating to import of goods and services to Sri Lanka. During the year under review, several important investigations into violations of the provisions of the Exchange Control Act were also conducted by the Department.

### **Capital Transactions**

#### **Investments Abroad**

The Exchange Control Department continued to allow investment abroad by Sri Lankan companies on a case by case basis with the approval of the Hon. Minister of Finance.

#### **Foreign Currency Loans to Exporters**

Exporters continued to be permitted to borrow in foreign

currency, from the resources available in the domestic banking units of commercial banks, for the purpose of financing the import of foreign inputs required to execute export orders, without Exchange Control permission. Foreign currency loans for other needs, such as the import of machinery and equipment, purchase of local inputs, required the prior approval of the Exchange Control Department and these were approved on a case by case basis. During the year under review, 46 Sri Lankan companies have borrowed approximately US dollars 74 million for the purpose of financing local inputs required to produce exports in value added form.

### Foreign Loans

In 1996, the department continued to approve loans from international financial institutions and FCBUs of commercial banks, on a case by case basis.

### Other Capital Transactions

Applications received for the following transactions/businesses were approved by the Department:

- (a) Bank Guarantees for bid bonds, performance bonds and advance bonds for international contracts.
- (b) Issue of foreign currency denominated leases to BOI companies which are fully exempted from Exchange Control provisions.
- (c) Opening of special accounts, resident guest foreign currency accounts and special foreign currency accounts.
- (d) Borrowings by foreign controlled companies from commercial banks and other lending institutions in Sri Lanka.
- (e) Share issues to non-residents against value of machinery imported to Sri Lanka on no foreign exchange involved basis.
- (f) Share issues to non-residents against funds not channelled in terms of Government Gazette Notification No. 721/4 of 29 June 1992.
- (g) Debenture issues to foreigners by resident companies.

### Capital Transfers on Migration

During 1996, applications from 48 families who have obtained emigrant visas/permanent resident status in other countries for transfers of capital funds were handled by the Department. These applicants, with Exchange Control permission, have credited Rs. 63 million into Non-Resident Blocked Accounts, out of which Rs. 13 million were permitted to be remitted out. According to the data furnished by commercial banks, the total value of the balances of blocked accounts amounted to Rs. 196 million as at 31 December 1996.

### Monitoring of Current International Transactions

The Department continued to monitor inflows and outflows of foreign exchange pertaining to current international transactions on the basis of returns furnished by the commercial banks. The credits and debits to rupee current accounts maintained by shipping and airline agents as well as freight forwarders on behalf of approximately 200 foreign principals

were also monitored by examining cargo manifests, debit notes, inward remittance memos, etc. It is envisaged that the monitoring activities of the Department would be further strengthened by the use of electronic machinery.

### Investigations

The Department has conducted several investigations into violations of the provisions of the Exchange Control Act by some local and foreign companies and individuals. These investigations were mainly related to transfer/sale/purchase of shares, investments abroad and conducting foreign exchange transactions without the permission of the Exchange Control Department.

### PUBLIC DEBT

In terms of Section 113 of the Monetary Law Act (MLA), the Central Bank of Sri Lanka (CBSL) through the Public Debt Department continued to manage the debt of the Government of Sri Lanka (GOSL). In fulfilling its obligations, the Department continued to engage in the issuance and servicing of domestic debt and servicing of foreign debt of the GOSL. The main debt instruments used by the Department in domestic debt management were Rupee Loans, Treasury bills, and Treasury Certificates of Deposit (TCDs).

The introduction of amendments to the Registered Stock and Securities Ordinance, the Local Treasury Bill Ordinance and the Monetary Law Act which were passed by the Parliament in late 1995 has put in place the necessary legal framework for the development of a debt security market in Sri Lanka.

The Primary Dealer System was in operation throughout the year. With a view to strengthening the Primary Dealer system, Primary Dealers are allowed to open accounts with the CBSL to facilitate their securities trading activities.

### Reconstruction of Records

The activities of the Department during 1996 were mostly connected with the reconstruction of records lost due to the bomb blast and the subsequent fire on 31 January 1996. The Department was able to bring all its operations back to normal within a short period of time, largely as a result of the co-operation extended to it by the primary dealers (PDs), institutional investors and other investors.

Based on information available with PDs and institutional investors, records relating to Treasury bills were reconstructed, while the information furnished in response to the press notices published by the Department and the data available with the Treasury helped in reconstructing the records of Government Securities. Payments in respect of Treasury bills and Rupee Loans were made only on production of physical certificates which were cancelled and retained in the Department. The data base on foreign loans was rebuilt with the assistance of the External Debt Management Unit of the Ministry of Finance.

### Development Activities

As one of its development activities, a regional workshop on Effective Domestic Debt Management was conducted by the CBSL in collaboration with the Commonwealth Secretariat, London from 9 to 13 December 1996 in Colombo. Participants



from 11 countries in the South and South East Asian region participated in this workshop. The resource persons for the workshop included debt management experts from the Commonwealth Secretariat, the International Monetary Fund, the Bank of England and the CBSL. The Department also organised two other workshops, viz. a workshop on Treasury Bond Pricing for PDs on 2 November 1996 and a workshop on Treasury Bonds for Institutional Investors on 22 November 1996. The objective of both these workshops was to educate the PDs and institutional investors on the proposed issue of Treasury bonds. The staff of the Department also participated in several workshops organised by the PDs in Colombo and the outstations to enhance the awareness of investors on government debt securities.

The preparatory work connected with the issue of Treasury bonds, which included the development of computer software to facilitate the issue of bonds, and formulation of procedures, regulations and guidelines for the dealers and investors was undertaken by the Department during the year.

The Department conducted weekly meetings with PDs in order to develop a dialogue between the CBSL officials and the PDs. These meetings were useful in exchanging information about the market and in providing a forum for discussion of various issues and problems. At these meetings, an opportunity was also provided to review the performance of PDs in the Treasury bill market. The database established using primary auction information available in the Department and data obtained regularly from PDs on their secondary market activities enabled the generation of statistical information for the Review of Performance of Primary Dealers.

## Operational Activities

Total outstanding gross public debt at end 1996 amounted to Rs.690,665 million showing an increase of Rs.72,320 million or 11.7 per cent as compared with 1995. The outstanding external debt at end 1996 was Rs.359,475 million, indicating an increase of Rs.13,036 million over that of 1995. Foreign debt accounted for 52 per cent while the balance 48 per cent represented domestic debt. Table II -17 shows the composition of gross public debt.

## Treasury Bills

### Primary Market

TABLE II -17  
Composition of Gross Public Debt

Category	At end 1995 Rs. Mn.	%	At end 1996 Rs. Mn.	%
Domestic Debt	271,906	44.0	331,190	48.0
Treasury Bills	113,771		124,996	
Rupee Securities	157,928		205,975	
Treasury Certificates of Deposit	200		212	
Tax Reserve Certificates	7		7	
Foreign Debt	346,439	56.0	359,475	52.0
Total	618,345	100.0	690,665	100.0

(a) Provisional

Source: Central Bank of Sri Lanka

The total Treasury bills outstanding at end 1996 was Rs. 124,996 million compared with Rs.113,771 million in the previous year, showing a net increase of Rs.11,225 million. New issues amounted to Rs.13,225 million during the year and retirements amounted to Rs.2,000 million. The authorised limit of Treasury bills remained unchanged at Rs.125,000 million during 1996.

The weekly primary auctions of Treasury bills were suspended for two weeks, i.e. on 31 January and on 7 February 1996, due to the disruption caused by the bomb blast. The amounts that matured during these two weeks were re-issued in the subsequent week ending 16 February 1996. Special procedures were adopted by the CBSL with regard to the repayment of Treasury bills which matured during these two weeks and for the issue of duplicates in place of certificates lost in the fire. Additional interest was paid on the face value of Treasury bills that matured on 2 February and 9 February, 1996 for one week and two weeks, respectively, at the rate of 18.39 per cent per annum, the weighted average rate for Treasury bills in the week immediately preceding the suspension. Detailed guidelines approved by the Monetary Board were adopted for the issue of duplicate Treasury bills. These guidelines were formulated having regard to potential losses to the investors while safeguarding the interest of the issuer viz. the Government. The investors were issued with duplicate bills on submission of a bank guarantee or an Indemnity Bond.

The Monetary Operations Unit (MOU) serviced by the Public Debt, Banking and Economic Research departments continued to determine, as part of the monetary management strategy, the amounts to be offered in the primary market, Central Bank purchases, the maturity distribution of the amounts offered to the market and the maturity structure of the bills purchased by the CBSL.

Access to weekly primary auctions was confined to 22 PDs and institutional investors authorised by the CBSL. Table II-18 shows the distribution of bids accepted by source for the period February-December 1996. Major buyers of Treasury bills in the primary market were commercial bank PDs who purchased for their own portfolios and on behalf of their customers. Purchases by bank PDs accounted for 47.3 per cent of which 34.3 per cent were by state bank PDs and 13 per cent by private bank PDs. The other major buyers were the non-bank PDs who accounted for 14.8 per cent. Authorised public sector institutions such as the National Savings Bank (NSB), Employees' Trust Fund (ETF) and National Co-operative Council (NCC) were responsible for 8.8 per cent of the bids accepted during February-December 1996 as primary auctions data pertaining to the month of January are not available.

The total face value of Treasury bills issued to the CBSL during the year amounted Rs.24,401 million. Of this, Rs.8,125 million was directly allocated to the CBSL as special issues. Meanwhile, total issues made to non-CBSL investors amounted to Rs. 184,193 million in 1996.

Of the Treasury bills outstanding at end 1996, Rs.71,003 million (56.8 per cent) was in respect of 12 month maturities. The remaining 43.2 per cent or Rs.53,992 million constituted maturities of three months (23 per cent), six months (4.2 per cent) and other maturities held by the CBSL (16 per cent).

**TABLE II - 18**  
**Bids Accepted at Treasury Bill Auctions - 1996**

Rs. Million

Source	Maturity period (months)				Total	%
	3	6	12	Other		
1. Domestic Banks	63,170	3,782	31,707	0	98,659	47.3
State Banks	44,781	2,867	23,911	0	71,559	34.3
Private Banks	18,389	915	7,796	0	27,100	13.0
2. Foreign Banks	14,433	644	8,213	0	23,290	11.2
3. Non-banks	19,255	1,524	10,091	0	30,870	14.8
4. Direct Bids(a)	8,356	407	9,596	0	18,359	8.8
5. Captive Investors(b)	7,887	2,307	2,309	0	12,503	6.0
6. Central Bank Purchases(c)	0	0	0	24,401	24,401	11.7
7. Others	0	0	511	0	511	0.2
<b>Total</b>	<b>113,101</b>	<b>8,664</b>	<b>62,427</b>	<b>24,401</b>	<b>208,593</b>	<b>100.0</b>
<b>per cent</b>	<b>54.2</b>	<b>4.2</b>	<b>29.9</b>	<b>11.7</b>	<b>100</b>	

Source : Central Bank of Sri Lanka

(a) NSB, ETF and NCC

(b) Central Bank managed funds

(c) Including amounts directly allotted to the CBSL

The weighted average (WA) yield rates for 3, 6 and 12 month Treasury bills fluctuated between 11.98 - 19.27, 13.06 - 19.05 and 14.40 - 19.05 per cent, respectively during 1996. The annualised WA yield rates by maturity with the overall averages are given in Table II - 19. The total interest commitment on account of Treasury bill issues during 1996 amounted to Rs.18,516 million.

The minimum and maximum WA yield rates of bids received for 3 month maturities were 11.02 and 18.35 per cent per annum, respectively, in 1996. The comparable yield rates

**TABLE II-19**  
**Annualised Weighted Average Yield Rates**

Year	Maturity Period (Months)			Overall Average
	3	6	12	
1992	17.84	18.02	18.83	18.34
1993	19.18	19.09	20.53	20.15
1994	14.32	14.75	15.90	14.89
1995	16.31	17.43	17.63	16.84
1996	16.04	16.46	17.17	16.46

Source : Central Bank of Sri Lanka

for 6 month maturities for the same period ranged between 12.22 and 18.51 per cent per annum. Meanwhile, the WA yield rates for the 12 month category were in the range 12.74 - 18.13 per cent per annum.

### Rupee Loans

A total of twenty Rupee Loans to the value of Rs.72,373 million was floated during 1996. Total subscriptions to these loans during the year amounted to Rs.70,589 million. Of this, Rs.23,873 million was in respect of special loans floated to settle government obligations to the Bank of Ceylon, the People's Bank and the National Savings Bank. Major subscribers to the balance Rupee Loans were the Employees' Provident Fund (EPF) and the National Savings Bank (NSB).

A sum of Rs.43,479 million or 93.1 per cent of total subscriptions was received from these two institutional investors. All but two Rupee Loans floated during the year were fully subscribed.

The three special loans carried an interest rate of 14 per cent per annum. Two of these loans were floated with an optional maturity of 1-10 years while the other carried a fixed maturity of 10 years. Information relating to flotation of and subscriptions received for Rupee Loans are summarised in Table II -20.

Eleven Rupee Loans amounting to Rs.22,543 million were repaid during the period under review. Accordingly, net subscriptions to Rupee Loans were Rs.48,046 million. This figure includes special loans of Rs.23,873 million issued to the

**TABLE II-20**  
**Flotation of Rupee Loans - 1996**

Interest Rate % p.a.	Maturity Years	No. of Loans	Amount Floated Rs. Mn	Amount Subscribed Rs. Mn
14.0	5 - 7	2	19,000	19,000
14.0	4 - 6	6	11,000	10,316
13.0	7 - 8	2	6,500	5,400
15.0	2	7	12,000	12,000
14.0	1-10	2	19,393	19,393
14.0	10	1	4,480	4,480
<b>Total</b>		<b>20</b>	<b>72,373</b>	<b>70,589</b>

Source : Central Bank of Sri Lanka

two state banks and to the NSB. As a result, total outstanding Rupee Loans increased to Rs.205,975 million at end 1996. The maturity profile of total outstanding Rupee Loans is presented in Table II - 21.

The total interest payments of Rs. 23,201 million on Rupee Loans during 1996 recorded an increase of Rs. 2,213 million (10.5 per cent) as compared with payments in the previous year.

**TABLE II -21**  
**Maturity Profile of Rupee Loans as at end 1996**

Maturity Years	Amount Rs. Million	Percentage
2	12,000	5.8
3	5,000	2.4
4	17,000	8.3
4-5	16,000	7.8
5	12,204	5.9
5-6	14,878	7.2
4-6	10,317	5.0
6	5,500	2.7
5-7	52,215	25.4
6-7	5,000	2.4
7-8	5,400	2.6
8-10	1,000	0.5
1-10	19,393	9.4
10	5,980	2.9
30	24,088	11.7
<b>Total</b>	<b>205,975</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

### Treasury Certificates of Deposit

TCDs were issued for maturity periods of 6 and 12 months at yield rates of 17.15 per cent per annum and 18.06 per cent per annum, respectively. The face value of total sales during the year under review amounted to Rs.179.7 million, of which Rs.13 million and Rs.166.7 million were sold by the Currency Department of the CBSL and the NSB, respectively. Total repayments of TCDs during 1996 amounted to Rs.167.6 million. These repayments included Rs.141.5 million of principal and Rs.26.1 million of interest payments. The amount of TCDs outstanding increased from Rs.200.3 million at end 1995 to Rs.212.4 million at end 1996.

### Other Domestic Debt Instruments

During the year there were no issues or repayments in respect of debentures of the State Mortgage and Investment Bank (SMIB), National Housing Development Authority (NHDA) and Urban Development Authority (UDA). The outstanding amounts of these debentures were Rs.500 million, Rs.141 million and Rs.83 million, respectively, at end 1996. The amount of Tax Reserve Certificates outstanding was Rs.7 million at end 1996. There were no issues or repayments of Central Bank Securities during 1996.

### External Debt

The total outstanding external government debt at end 1996 amounted to Rs.359,475 million, showing an increase of Rs.13,036 million (3.8 per cent) as compared with that at end 1995. Of the total outstanding debt at end 1996, bilateral loans amounted to Rs.188,622 million (52.5 per cent) while multilateral and commercial loans amounted to Rs.160,399 million (44.6 per cent) and Rs.10,454 million (2.9 per cent), respectively. Major creditors in the bilateral category were Japan, USA and Germany. These sources accounted for 88.2 per cent of the total bilateral loans. The International Development Association (IDA), which is the largest creditor in the multilateral category, accounted for Rs.85,961 million or 53.6 per cent of the total multilateral debt.

When classified by the use of funds, project, programme and commodity loans amounted to Rs.263,853 million (73.4 per cent), Rs.38,618 million (10.7 per cent) and Rs.30,834 million (8.6 per cent), respectively, of the total government external debt. Table II - 22 shows the composition of government external debt by donor and use of funds. Total principal repayments and interest and other charges on external government debt in 1996 were Rs.8,964 million and Rs.6,828 million, respectively. Total disbursements amounted to Rs.23,934 million during 1996.

**TABLE II - 22**  
**Gross External Debt Outstanding as at end 1996**

Category	Rs. Million	%
1. Donor	359,475	100.0
Bilateral	188,622	52.5
Multilateral	160,399	44.6
Commercial	10,454	2.9
2. Use of Funds	359,475	100.0
Cash	1,481	0.4
Commodity	30,834	8.6
Food	24,528	6.9
Programme	38,618	10.7
Project	263,852	73.4
Tech. Assistance	156	...
Other	6	...

Source : Central Bank of Sri Lanka

## REGIONAL OFFICES

In 1996, the activities of the three Regional Offices of the Central Bank at Matara, Anuradhapura and Matale were carried out without interruption despite the bomb blast which damaged the head office of the Central Bank in Colombo. The main functions performed by the Regional Offices comprised both developmental activities and the traditional central banking functions assigned to them. These included currency operations, cheque clearing activities, data collection, participating in the Consumer Finance and Socio Economic Survey, conducting beneficiary training programmes, inspecting activities of the Regional Rural Development Banks (RRDBs), assisting in regional development projects and co-ordinating with government departments, agencies and organisations involved in development work in the regions.

The Regional Office, Matara, continued to handle activities relating to the implementation of the Small Holder Tea Development Project, the Inland Bill Scheme, the Southern Province Rural Development Project and the Small Farmers and Landless Credit Project. The Regional Office launched a programme with a view to promoting the full utilisation of funds provided by the Small Holder Tea Development Project Credit Scheme by conducting a number of credit camps in the districts of Galle and Matara. The Regional Office was assisted by the Tea Small Holder Development Authority and the Rural

Credit Department in doing so. Officers of the participating credit institutions and small holders participated in these credit camps. The Regional Office also assisted other development programmes implemented by government departments, commercial banks and other institutions in the region. Further, it carried out the inspection of a number of branches of RRDBs. The Currency Unit of the Regional Office continued to provide currency deposit and withdrawal facilities to commercial banks in the region. During the course of the year, 191,380 cheques amounting to Rs. 2,723 million were cleared at the Regional Cheque Clearing House at Matara.

The Regional Office, Anuradhapura, in association with government departments and agencies involved in development activities attempted to organise and motivate the rural poor to undertake economically viable ventures by conducting 23 training programmes, which were attended by more than 1,000 participants. These training programmes related to the fields of agriculture, animal husbandry, post harvesting techniques and entrepreneurship development. Special attention was focussed on the 'Samurdhi' and the Anuradhapura and Matale (AMA) agriculture programmes. Samurdhi managers and animators were trained in banking, rural credit and project identification. Samurdhi beneficiaries too received training in self employment projects with the co-operation of the Agriculture Development Authority and Department of Agrarian Services. Selected youth received training in project identification, accounting, storing, packaging etc. under the AMA programme. Four other training programmes conducted by the Regional Office were attended by over 700 participants and included educational seminars for Advanced Level students and seminars on legal aspects of projects for women, as well as for officers of banks. The Regional Office undertook the monitoring of the Participatory Rural Development Project in the district during 1996. Further, the Regional Office carried out the inspection of branches of RRDBs in the districts of Anuradhapura, Kurunegala, Polonnaruwa and Puttalam. The Regional Office also issued currency to commercial banks and accepted deposits from commercial banks. The Regional Clearing House cleared 190,563 cheques valued at Rs. 1,907 million during the year.

The Regional Office, Matale, intensified its developmental activities. The Regional Office placed special emphasis on providing assistance in the creation of employment opportunities. For instance, during the course of the year, the Regional Office identified both the resources as well as the unemployed persons of a selected area in this region (Deraniyagala) and the fields of employment selected by the identified group of unemployed persons. Training programmes were designed to develop the resources of the region and to train the unemployed in the fields of employment chosen by them such as dairy farming, rubber based industries, driving, masonry and carpentry. An important area of training identified by the Regional Office has been the gem industry. Training programmes have been conducted in the cutting and polishing of gems and jewellery craftsmanship, which would enhance income and sales of cut and polished gems as well as jewellery, as against the sale of raw gems mined in Matale. A gem and jewellery exhibition was organised with the help of the Gem and Jewellery Authority of Sri Lanka. The Regional Office also conducted a number of training

programmes for the staff of Co-operative Rural Banks as well as training programmes in dairy development and small scale rice processing. The Regional Office handled activities relating to the Small Holder Tea Development Project and the Perennial Crops Development Project. The Regional Office carried out the inspection of branches of the RRDB, Kandy, and examined the activities of RRDBs in the region. The two regional clearing houses at Matale and Kandy cleared 124,831 cheques amounting to Rs. 1,574 million and 632,624 cheques amounting to Rs. 19,709 million, respectively.

## SECRETARIAT

The year 1996 was a challenging period for the Secretariat Department. The bomb blast on 31 January 1996 severely damaged the Central Bank building and destroyed most of its furniture, equipment and documents. The replacement cost of the building is estimated at approximately Rs.2,000 million. Being the Department responsible for the general administration of the Bank, a major share of returning the Bank's functions to normality fell on the Secretariat Department.

Forty one employees lost their lives in the bomb blast, and twenty others were permanently disabled, compelling them to retire prematurely. The Bank implemented a scheme of financial relief for the dependants of the deceased and the disabled on lines broadly similar to those adopted by the Government in respect of government employees.

Most of the departments of the Bank housed in the Colombo Fort had to be relocated at the Rural Banking and Staff Training College, Rajagiriya on a temporary basis. Due to limited space, arrangements were made for some employees to work on a roster basis. Similarly, the application of certain administrative regulations such as those on attendance and the use of leave were relaxed for a limited period. In November 1996, the Bank relocated its headquarters in the World Trade Centre, Echelon Square, Colombo Fort.

The Department had to attend to the purchase of furniture and equipment required by departments on an urgent basis. For this purpose, the usual procurement procedures in the Bank were temporarily suspended. Executive Directors were permitted to approve purchases on the basis of calling for restricted quotations. Much needed items of capital expenditure, such as computers, printers, electronic typewriters and word processors were purchased expeditiously in this way. The Department also had to rent items of furniture to make up the shortfall.

In view of the heavy damage to property, furniture and equipment, considerable capital expenditure had to be incurred in 1996 and the following year. The Bank exercised strict economies on the purchase of these supplies by subjecting the requests for supplies to a carefully monitored Administrative and Capital Expenditure Budget.

## INFORMATION AND PUBLICATIONS

The Information Department was the worst affected by the bomb explosion of 31 January 1996. The Department lost ten of its staff members, while the Central Bank library, which was considered the best resource centre in Sri Lanka in the field of socio-economic development, and both the Sales Unit and Media

Unit of the Department were completely destroyed.

All efforts were taken by the Department to continue its role in collecting and disseminating information. The Central Bank received donations of books and publications from international organisations and institutions towards rebuilding its library. The Department also acquired current periodicals and basic reference materials for the library and was able to commence its services to the staff of the Bank during the latter part of the year.

The following Central Bank publications were released through the Information Department.

- (a) Annual Report 1995 (Sinhala, English and Tamil)
- (b) Economic Survey First Half of 1996 (Sinhala, English and Tamil)
- (c) Monthly Bulletin (Sinhala, English and Tamil)
- (d) Socio-economic Data Folder 1996 (Sinhala, English and Tamil)
- (e) Economic and Social Statistics of Sri Lanka 1996 (English)
- (f) Dharsana Vol. II (Sinhala)

The Department's own publications, namely, Satahana, News Survey and the Central Bank Newsletter, were issued monthly in a new format.

The Media Unit continued its role in releasing the daily exchange rates, food and vegetable prices and information on Treasury bill auctions and other advertisements of the Bank to the print and electronic media. The Unit also produced a documentary on the aftermath of the events of 31 January 1996 and another entitled "Pathikada" on the Sri Lanka economy during World War II. The latter film was telecast by Rupavahini.

The artwork visual section continued to design brochures, posters and cover pages of the Central Bank publications.

The Printing Press carried out almost all printing work of the Central Bank and completed 440 printing assignments during the year including the Central Bank Annual Report (Sinhala and English), Economic Survey First Half of 1996 (Sinhala, English and Tamil), Monthly Bulletin (English) and other statistical documents. The Printing Press also undertook, for the first time, the printing of the Central Bank pocket diary for 1997.

## RESEARCH ACTIVITIES

Following the terrorist attack of 31 January 1996, the Economic Research Department's immediate responsibility was to complete the preparatory work on the Annual Report of the Bank for 1995, for it to be ready for issue before the statutory deadline of 30 April 1996. The staff quickly retrieved the documents and records from the least damaged tower at the head office building and collected necessary information from outside sources. Limited availability of resources such as source documents and computers, as well as inadequate communication facilities, made the task challenging. However, the staff worked with dedication and team spirit and restored departmental functions, proving its resilience not only by preparing the

Annual Report in time, but also enhancing its quality by adding new features, including more information and introducing a more sophisticated presentation.

The Department continued to collect and analyse economic and financial statistics and conduct economic research for the guidance of the Governor and the Monetary Board in policy formulation, and provided information to the public. In addition to the Annual Report, the Department was responsible for the publication of the monthly Bulletin and the Economic Survey of the First Half of 1996 as well as provision of weekly financial statistics to the public through the print media. Monthly Selected Economic Indicators were produced for the information of policy makers. The Department prepared and submitted the "September 15th Report" to the Minister of Finance, a statutory requirement, to be used in the preparation of the Budget.

In addition, the Department compiled data on international commodity prices and monthly external trade statistics, prepared weekly and monthly reports on tea and rubber auctions in international markets and reports giving observations and recommendations on various economic issues for the information of the Monetary Board, as well as at the request of ministries and other institutions and organisations. Half yearly and annual surveys on industrial production were conducted during the year. In addition, in June - August 1996 the Department conducted a special sample survey on Industrial Relations and Labour Productivity in the Manufacturing Sector, covering the period 1991 to June 1996, to obtain the views of the employers with regard to recent trends in industrial relations and labour productivity of their firms. Information relating to strikes was collected from the Labour Department. Two reports on "Industrial relations and labour productivity in the manufacturing sector" and "Strikes in the private sector" were submitted to the Government in September 1996.

The Department continued to provide data to the International Monetary Fund (IMF) on a regular basis and co-ordinated the Government's consultations with the IMF mission in May 1996. Provision of data to other international organisations and coordination of work with such institutions were also continued as usual.

The Department conducted two workshops, for media personnel involved in reporting and analysing economic and financial news, on "Recent Economic Developments and Current Economic Issues" in English and Sinhala in Colombo in July 1996. In addition, the Department also co-ordinated a seminar on "Some Issues in Monetary Management in India with Special Reference to Financial Sector Reforms" conducted by Dr.A. Vasudevan, Executive Director, Reserve Bank of India, in December 1996.

The officers of the Department served on internal committees regarding policy matters such as the Monetary Operations Unit, the Treasury bills Tender Committee, Balance of Payments Committee, Exchange Rate Committee and Financial Sector Monitoring Unit. The officers also presented papers on economic issues at seminars held locally and abroad. A macroeconomic modelling unit was created in the Department in December 1996 to develop a macroeconomic model for Sri

Lanka. It is expected that, once developed, this model will be used for forecasting and policy simulation.

## **SURVEYS AND DATA COLLECTION**

The Statistics Department continued to carry out its functions of compilation, analysis and dissemination of socio economic data including national accounts, prices and wages and employment. Action was taken during the year to publish wholesale and retail prices of food items in the key market centres of the country through the print and electronic media on a daily basis. A major exercise undertaken by the Department was the conduct of the Consumer Finances and Socio Economic Survey 1996/97, which is a major source of statistical information on socio economic conditions of the country.

### **Consumer Finances and Socio Economic Survey**

The data collection work of the Consumer Finances and Socio Economic Survey 1996/97 was commenced by the Department in October 1996. This is the seventh in the series of Consumer Finances and Socio Economic Surveys conducted at regular intervals by the Central Bank of Sri Lanka since 1953. The last survey in the series was conducted in 1986/87. The primary objective of the survey is to collect comprehensive data on socio-economic conditions including demographic profiles, income, expenditure, consumption, employment, savings and investment of the households. The provincial data collected under this survey would be used to strengthen the socio economic database at the provincial level.

The survey consisting of 4 rounds covers a sample of 8,800 households drawn from the Urban, Rural and Estate sectors. The survey is being carried out in all areas other than the Northern province and some areas in the Eastern province. The data collection in Round 1 of the survey from approximately 2,000 households covering nearly 25 per cent of the sample has already been completed and the data collection in Round 2 is in progress. The field work of the survey is scheduled to be completed by October 1997.

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

The Country Wide Data Collection System, which was commenced by the Statistics Department in 1978, completed its eighteenth year of operation in 1996. Under this programme, information on retail prices of consumer items, wage rates and production indicators pertaining to the informal sector are collected regularly through an island wide network of school teachers who function as statistical investigators in this scheme. The System covers the sub-sectors of paddy, tea, rubber and coconut cultivation and the small scale construction sector. The data collected under this scheme are published through the print and electronic media regularly. Several seminars under this scheme were conducted by the Department in collaboration with the Regional Offices, at Kandy and Anuradhapura in January and July 1996, respectively.

The Department commenced a new scheme to collect wholesale prices of major food items mainly from the Pettah Market on a daily basis as well as from other major producing

centers with a view to (a) disseminating the information to farmers, traders and consumers and (b) monitoring the variations in wholesale and retail prices. These data which appear in the Central Bank publications are also used for the compilation of national accounts and price and real wage indices.

### **National Accounts**

The Department continued to compile the national accounts using production and expenditure approaches. The Department strengthened the database used for the compilation of national accounts estimates. In this regard, the Department initiated action to collect information at the field level to cover emerging economic activities in the country.

In addition, the Department is in the process of collecting data necessary for the revision of the estimation procedures based on the guidelines in the System of National Accounts published by the United Nations Statistical Office in 1993.

### **Employment Statistics**

The Annual Survey of Public Sector Employment was carried out in 1996 with the objective of ascertaining the trends in employment in government departments, ministries, provincial councils, local authorities and the corporation sector.

### **Publications**

The Department released its two annual publications entitled "Sri Lanka Socio Economic Data" and "Economic and Social Statistics of Sri Lanka" which provide comprehensive time-series and cross-sectional data on socio economic variables including demography, labour force and employment, national income and expenditure, agriculture, industry, external trade, prices and wages, money, banking, government finance, social and economic services and capital market. The data in these publications also include comparative statistics for regional economic communities.

## **DATA PROCESSING**

The Central Bank's IBM 4361 mainframe computer system, personal computers, the data entry system and all other equipment of the Department in the Central Bank head office building were completely destroyed on 31 January 1996. However, the programs and the processed data had been backed up on tapes and kept outside the head office building. The first task of the Data Processing Department was to locate a computer site similar to the Central Bank site in order to process the critical applications. The Central Bank acknowledges with gratitude the assistance given by the Department of Census and Statistics, which made available a similar computer configuration and assisted the Central Bank staff to install the application programs and run the critical applications within a very short time.

The Central Bank also went ahead to equip a site with equipment made available by IBM on rental at the Institute of Computer Technology (ICT), University of Colombo, in order to process the high volume databases. The Central Bank acknowledges with gratitude the assistance provided by the ICT.

The US Government, under the USAID program, offered a grant of US dollars 350,000 for the purchase of computer

equipment and related products. Accordingly, three AS 400 computer systems were purchased and installed at multiple locations, in keeping with the policy of distributed processing. The FAMAS 400 - IHRM, an Integrated Human Resource Management software package, was also purchased under the same grant. The customisation and implementation of this package is progressing satisfactorily.

The Data Processing Department was involved in planning and designing a new 'modern office' environment for the Central Bank with Integrated Local Area Networks, Wide Area Networks, internet access, e-mail and messaging facilities to be installed in 1997.

### **Sri Lanka Automated Clearing House**

During the year under review, the cheque volume increased by 1,734,557 items, thus making the total volume of cheques processed 27,527,822. As a result of upgrading the equipment and the introduction of a new tariff system (incorporating incentives and penalties) during the latter part of 1995, the Sri Lanka Automated Clearing House (SLACH) was able to reduce the cheque processing time by a further one hour. As inward cheques and reports are collected by couriers on the same night to be transported to distant areas, this reduction of an hour has helped the commercial banks to return their dishonoured cheques much earlier than the usual time.

Although during 1996 the Sri Lanka Interbank Payment System (SLIPS) was not expanded due to the prevailing situation, the SLACH was able to develop a SLIPS procedure manual for the benefit of the users. Presently, the SLIPS is widely used for payment of salaries and other interbank payments. During the latter part of the year, the Employees' Provident Fund also joined the SLIPS to pay provident fund refunds to employees.

### **TRAINING**

During the year under review, the Central Bank continued its policy of training officers in academic as well as non-academic fields. Academic training was related to post graduate studies in Economics and allied fields at recognised universities abroad. During the year, seven officers proceeded abroad to follow Masters Degree courses in Banking, Commerce, Financial Accountancy etc. In addition, one officer followed a Diploma Course in Statistics at the International Statistical Education Center, India.

Non-academic training consisting of short-term courses, seminars, workshops and study tours, both local and foreign, was related to specific fields relevant to the Bank. During 1996, a total of 46 officers proceeded abroad on short-term training. In the same period, 258 officers participated in computer training programmes and 98 officers participated in seminars and workshops held at local institutions, while 85 officers participated in courses conducted by the Rural Banking and Staff Training College.

The Department also conducted classes in Economics and Mathematics for those officers intending to proceed abroad on

post graduate studies. The Department continued its usual functions of holding promotional examinations for certain categories of employees and the post graduate scholarship qualifying examination for the staff officers.

### **MANAGEMENT AUDIT**

Amidst the difficulties created by the bomb blast, the Department of Management Audit carried out its work according to its set audit programme. In the course of audit, the Department pointed out the deficiencies and inaccuracies in the procedures that had been followed within the Bank and made its recommendations wherever possible. In carrying out its work during the year, the Department had to draw special attention to matters that arose as a consequence of the bomb blast and subsequent remedial measures taken. It had to work in close co-operation with the Secretariat and Welfare departments in solving matters pertaining to payment of compensation, medical benefits, etc.

In addition to the above, the following studies/surveys were undertaken. While some of them were initiated by the Department, others were assigned by the management.

- (a) A study on the Transport Division of the Premises Department.
- (b) Assessment of selected assets damaged by the bomb blast.
- (c) Verification of furniture available in the departments.
- (d) A study on reconstruction of leave records.

### **PREMISES**

During 1996, the Premises Department was engaged primarily in the relocation of various departments in temporary premises consequent to the bomb damage to its Head Office Building in Fort, Colombo 1. In addition, it was engaged in routine maintenance work and upkeep of the Bank premises at Rajagiriya, the Regional Offices and the holiday homes.

#### **Damaged Head Office Building**

The bomb blast caused extensive damage to the building. As the damaged columns were resting on debris, immediate restoration work was carried out to support the columns and remove debris from all the floors. Pumps were installed for removing water collected in the basement. In addition, the retaining wall at the front of the building was reconstructed and temporary roofing was provided for the damaged ground floor slab to prevent the accumulation of water in the basement.

#### **Extension to the Head Office Building**

The construction work on the extension to the head office building, which commenced in 1994, continued during 1996. The progress of work was affected by unforeseen ground conditions, such as the presence of a large number of boulders, the steep slope of the rock strata and stoppage of work due to security reasons. The extension building is now expected to be completed by December 1998. With the completion of the building, the Bank would be able to accommodate many of its departments which are now housed mainly in rented premises.

### New Two-Storeyed Building at Rajagiriya

This building with a total area of approximately 7,725 sq.ft., was completed during early 1996. It was constructed to provide accommodation for resident participants of training programmes conducted by the Rural Banking and Staff Training College. Consequent to the bomb blast, many departments were temporarily housed in this building.

### WELFARE

In addition to the provision of normal welfare facilities, the Welfare Department provided special facilities to the staff affected by the bomb explosion in 1996.

The Department administered concessional loan schemes for housing, vehicles and other requirements of the employees and reimbursements were made under the Staff Medical Benefit Scheme for the medical expenses of employees and their dependents within the normal quotas approved by the Bank. However, after the bomb explosion, such upper ceilings were made flexible to accommodate the medical requirements of the employees who were affected by the bomb blast and the subsequent fire. Apart from these, a free lunch service for a limited period and subsidised canteen facilities thereafter, were provided for the welfare of the employees. The subsidised railway and bus season ticket scheme and the railway warrant scheme were also continued during the year.

After the explosion, all departments of the Central Bank were relocated from the damaged head office building. The Welfare Department provided facilities according to the needs arising from where the employees were deployed for their work. The Central Bank medical clinic, however, could not function effectively for most of the year. The facilities provided by the medical clinic were restricted as most of the equipment had been destroyed in the fire following the bomb explosion. However, reimbursement of medical expenses of the employees who were injured in the bomb explosion received priority and a more flexible approach was adopted in view of the exceptional circumstances.

In addition, facilities were provided to reimburse the medical expenses of bomb victims upto Rs.250,000 for local medical treatment and upto Rs.250,000 for treatment abroad. Apart from these, a special fund was created to meet the medical requirements of the victims whose needs exceeded such ceilings.

A relief package was introduced for Central Bank employees whose vehicles were damaged in the bomb explosion.

The database and the accounting system of the Department relating to all staff benefit schemes were destroyed in the fire. However, the Department was able to reconstruct the accounting system within a very short period of time with the information available from other sources. By the end of the year, almost all the activities of the Department had been normalised.

### SECURITY

#### Refresher Training

Security Staff were given refresher training on the following:

- (a) Handling of fire appliances
- (b) Basic first aid
- (c) Weapon handling
- (d) Live firing
- (e) Duties and responsibilities of Security Officers

#### Deployment

After the bomb incident on 31 January 1996, Security Officers were deployed to provide security for the following premises, in addition to previous locations.

- (a) EPF Department at No. 64, Main Street, Battaramulla
- (b) Bank Supervision Department at Hemachandra Building, No. 20, R.A. de Mel Mawatha, Colombo 3
- (c) The New Building of the Rural Banking and Staff Training College at Rajagiriya
- (d) Currency Department at People's Bank Lake Side Branch, D.R. Wijewardane Mawatha, Colombo 1
- (e) Currency Department at Standard Chartered Bank building, Janadhipathi Mawatha, Colombo 1
- (f) World Trade Centre Building at Echelon Square, Colombo 1.

#### Escort Duties

The Department provided escorts for currency and gold transport with the assistance of the police. The Department also provided escorts to the Governor and foreign delegates who visited the Central Bank.

### PERSONNEL

The Establishments Department continued to perform its functions with regard to recruitment, appointments, promotions, retirements and other related personnel matters during 1996. The Department had to undertake a considerable amount of work in rebuilding personnel files and other documents which were destroyed due to the bomb explosion and the subsequent fire on 31 January 1996.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 1996:

- (a) IMF/World Bank Annual Meetings held in Washington D.C., U.S.A. from 14 to 28 April 1996.
- (b) 31st SEACEN Governors' Conference and Monetary Authority of Singapore 25th Anniversary Symposium held in Singapore from 6 to 12 May 1996.
- (c) Central Bank Governors' Symposium held at the Bank of England, London, U.K. from 6 to 7 June 1996



- (d) 66th Annual General Meeting of the Bank for International Settlements held in Basle, Switzerland from 8 to 10 June 1996.
- (e) IMF/World Bank Meetings held in Washington D.C. from 25 September to 8 October 1996.
- (f) 35th APRACA Executive Committee Meeting and APRACA Ordinary Annual General Meeting 1996 held in Bangalore, India from 28 October to 2 November 1996.
- (g) Sri Lanka Aid Group Meeting and official discussions with the Government of France held in Paris, France from 17 to 28 November 1996.

### Appointments

- (a) Mr. W.A. Wijewardena, Director, Rural Credit was appointed as Acting Superintendent of the Employees' Provident Fund, in addition to his duties, with effect from 28 February 1996.
- (b) Mr. Y.A. Piyatissa, Special Officer, Capital and Financial Market Development, was appointed as Director, Security Services, in addition to his duties, with effect from 1 March 1996.
- (c) Mr. G.A. Perera, Director, Security Services, was appointed as a Special Officer with effect from 1 March 1996.
- (d) Mr. D. Boyagoda, Director, Rural Banking and Staff Training College, was appointed as Acting Director, Training, in addition to his duties, with effect from 24 April 1996.
- (e) Mr. M.I.F. Hamid, Director, Management Audit, was appointed as Director, Premises with effect from 1 June 1996.
- (f) Mr. S. Rupasinghe, Director, Welfare, was appointed as Director, Management Audit with effect from 1 June 1996.
- (g) Dr. N.L. Sirisena, Director, Supervision of Non Bank Financial Institutions, was appointed as Director, Development Finance with effect from 1 June 1996.
- (h) Mr. J.E.D. Karunaratne, Director, Information, was appointed as Director, Supervision of Non Bank Financial Institutions with effect from 1 June 1996.
- (i) Mrs. M.N.R. Cooray, Additional Director, Banking Development, was appointed as Director, Information with effect from 1 June 1996.

- (j) Mr. W.S.L. Fernando, Additional Director, Rural Credit, was appointed as Director, Welfare with effect from 1 June 1996.
- (k) Mr. T. Savundranayagam, Director, Development Finance, was appointed as Secretary with effect from 1 June 1996.
- (l) Mr. T.H.D. Peiris, Director, Premises, was appointed as a Special Officer with effect from 1 June 1996.
- (m) Dr. A.J.M. Zuhair, Director, Training, was appointed as a Special Officer with effect from 1 June 1996.
- (n) Mr. K.C.M. Gunasekera, Superintendent, Employees' Provident Fund, was appointed as a Special Officer with effect from 1 June 1996.
- (o) Mr. C.E. Jayasuriya, Secretary, was appointed as a Special Officer with effect from 1 June 1996.
- (p) Mr. K.C.M. Gunasekera, Special Officer, was appointed as Director, Training with effect from 9 September 1996 and re-appointed as a Special Officer with effect from 11 November 1996.
- (q) Dr. L. L. Gunaratne, Special Officer, was appointed as Director, Training with effect from 11 November 1996.

### Retirements/Resignations

Dr. A.J.M. Zuhair, Head of Department, retired from Central Bank service with effect from 29 August 1996.

Mr. C.E. Jayasuriya, Head of Department, retired from Central Bank service with effect from 16 November 1996.

### Officers on Release / Leave

Dr. D.J.G. Fernando to the Ministry of Finance and Planning as the Chairman and Director of People's Bank.

Mr. C.de S. Jayawardena to the Ministry of Finance and Planning.

Mr. P.G. Jayasooriya to the National Savings Bank as Assistant General Manager, Investments.

Mrs. T.M. Abeyratne to the Presidential Secretariat.

Dr. P.B. Jayasundera on a part time basis to the Ministry of Finance and Planning as Deputy Secretary to the Treasury.

Dr. (Mrs.) Rane Jayamaha on leave abroad for an assignment with the Commonwealth Secretariat, London.

Mr. P. T. Sirisena on leave abroad for an assignment with the Maldives Monetary Authority.