

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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Golden Jubilee Celebrations

On 27 August, the Central Bank of Sri Lanka held the celebrations for its Golden Jubilee, having been established on 28 August 1950. Even though fifty years of service may have warranted greater jubilation, the celebrations were held on a relatively low key in view of the prevailing circumstances in the country.

Following religious ceremonies to mark the occasion, it was fitting that the centrepiece of the celebrations should be the formal opening of the Bank's new headquarters building, a symbol of the Bank's resurgence from the greatest tragedy it has faced and a tribute to those who had suffered in it. The opening of the building was by Her Excellency the President, who though unable to be present in person, made use of the marvels of modern technology to deliver her opening speech. The plaque commemorating the event was unveiled by the Honourable Professor G. L. Peiris, in his capacity as the Deputy Minister of Finance. A distinguished guest and speaker at the inauguration ceremony was the Right Honourable Sir Edward George, GBE, Governor of the Bank of England.

The opening ceremony was conducted in the presence of a large gathering of distinguished guests, both local and foreign. Among them were governors and representatives from the South East Asia, New Zealand and Australia (SEANZA)

grouping of central banks, members of the diplomatic corp., former senior officials of the Central Bank, members of the Monetary Board and employees of the Bank. A feature of the ceremony was the playing of an anthem composed for the Central Bank and the performance of a special musical composition 'Indrakeelaya' by Visharadha Pradeep Ratnayake, commissioned for the Golden Jubilee, which attracted much critical acclaim. In addition, a stamp and a special first day cover were issued by the Postal Department, while the Bank issued a commemorative anniversary coin and a publication 'History of Coins and Currency in Sri Lanka'.

The day's proceedings closed with the performance of excerpts from the stylised play 'Maname' originally composed and directed by the late Professor Ediriweera Sarathchandra at a dinner hosted by the Governor for SEANZA governors, members of the banking community, senior officers of the Central Bank and representatives of the employees.

As stated by several speakers at the opening ceremony, the Central Bank had served Sri Lanka and her people for fifty years. These Golden Jubilee celebrations were to be a reflection of this and the starting point of service for many more years.

Modernisation of the Bank

The Bank embarked on a programme to modernise itself with the objective of developing a more efficient, professional and compact organisation. The challenges posed by rising globalisation and new thinking on economic policy and the role of central banks in a changing world gave rise to the need for this change.

The reform process was initiated by organising a 'Retreat' to review current policies and work practices. The Retreat on 'The Central Bank – Entering the New Millennium' was held on 8 and 9 July 2000 at the Central Bank. The Retreat consisted of six sessions in which groups made presentations on the following subjects :

- Why the Central Bank should change
- A revision of the objectives of the Central Bank
- Process to be pursued to achieve the prioritised objectives
- New skills and incentives needed to achieve the objectives
- How the Central Bank should activate modernisation
- Strategic moves to be adopted to complete the modernisation process.

The Retreat was organised by a Steering Committee and attended by over sixty participants. This collective 'brain-storming' exercise provided an opportunity for a broad cross section of the staff to air their views and to facilitate a wider discussion with the senior management.

The Retreat emphasised the importance of change within the Central Bank and identified several key areas where change was necessary. These included the clarification and prioritisation of objectives, organisation structure, management processes and human resource management.

The work involved in the modernisation programme was entrusted to a permanent Steering Committee for the Modernisation of the Central Bank. The objective of the modernisation programme and the terms of reference of the Steering Committee are as follows:

1. Reorienting the Central Bank towards its identified primary objectives of price stability and financial system stability. This would involve reviewing the other objectives and re-evaluating the role of the Central Bank in these areas.
2. Developing an efficient functional organisation structure which focuses on the core functions of the Central Bank. The support functions are important to the extent that they serve the Bank

to perform its core functions effectively and efficiently.

3. Developing a management culture and processes that facilitate shorter and quicker reporting, promote employee creativity, greater participation in the work process, greater sense of ownership and accountability and the building of leadership skills.

4. Developing a human resource management system that recognises the importance of human resource skills. This involves redesigning all the human resource functions, viz. recruitment, compensation, performance evaluation, promotion and training.

The Steering Committee appointed five Focus Groups comprising staff from all levels of the Bank to make recommendations in the areas listed below:

- (a) Re-defining the Objectives of the Bank in the context of a central bank functioning in a modern era.
- (b) The determination of an appropriate Organisational Structure for the Central Bank of Sri Lanka that enables it to perform its functions more effectively.
- (c) Examination of the Management Processes of the Bank and re-designing the same to achieve efficiency and cost-effectiveness.
- (d) Developing a new system of Human Resource Management that is merit based and which continuously upgrades the skills of staff and promotes productivity.
- (e) Developing proper strategies for Consensus Building among the staff to carry through the modernisation programme.

The Focus Groups completed their reports in time as scheduled. The Steering Committee has formulated the first set of proposals and prepared an 'Action Plan' for the modernisation of the Bank. The first stage of the implementation process is currently underway. In order to determine the details of the various aspects of the Action Plan, several task forces were also appointed to examine and report on Cadre Requirements, Reorganisation of Departments, Information Technology, Public Debt Management, Records Management, Committee System and the Delegation of Authority.

The modernisation programme is being supported by the World Bank and the Swedish International Development Agency (SIDA).

Accounts and Banking Operations

1. Accounts and Accounting Policies

a. Accounts

(i) Assets

The total assets/liabilities of the Central Bank as at the end of 2000, stood at Rs.217,191 million recording an increase of 8.3 per cent over the previous year. The growth in assets is mainly due to an increase in the Bank's holdings of government and government guaranteed securities and loans and advances to government. The share of the international reserves in the total assets in the meantime, declined from 54.0 per cent in 1999 to 35.5 per cent in 2000. The main items contributing to the drop in international reserves were the repayment of foreign public debt, payments to the International Monetary Fund (IMF) and the net sales of foreign exchange to commercial banks.

The domestic assets of the Bank registered a substantial increase from Rs.62,598 million as at end of 1999 to Rs.107,914 million as at end of 2000 or by 72.4 per cent. This was mainly due to the increased holdings of government securities i.e. Treasury bills and Treasury bonds, as part of the Central Bank's Open Market Operations, particularly in the latter part of the year, to address the shortfall of rupee liquidity in the market. Meanwhile, the medium and long term credit facilities granted to commercial banks and other credit institutions continued to decline and recorded a 29 per cent drop in 2000 partly due to repayments of those loans and the provisions made for non-performing loans. No short-term advances were granted to commercial banks in 2000.

(ii) Liabilities

On the liabilities side, 'other liabilities and accounts' became the largest category, accounting for 36 per cent of the total liabilities of the Bank. A detailed breakdown of this item is given in Table II-2. Currency in circulation increased from Rs.70,210 million in 1999 to Rs.73,316 million in 2000 or by 4.4 per cent. Liabilities under deposits accounted for 27.2 per cent of the total liabilities of the Bank, of which, the deposits held by the government increased by 28.0 per cent. The deposits maintained by commercial banks under the Statutory Reserve Requirement (SRR), increased by 5.0 per cent. The total deposits of international organisations, foreign governments and foreign banking institutions declined by 17.0 per cent. A comparison of major components of assets and liabilities of the Bank is shown in Table II-2.

(iii) Income

The total gross income of the Bank for the year 2000 was Rs.26,495 million compared with Rs.18,675 million in 1999. Foreign income generated through the management of the international reserves of the Bank amounted to 53 per cent of the total net income, as against 71 per cent of the total net income, in 1999. Interest income from domestic sources accounted for 47.5 per cent in 2000 compared with 29.4 per cent in 1999, reflecting increased earnings from a higher volume of reverse repurchase transactions. The asset-turnover rate, i.e. total income as a percentage of average total assets, which reflects the operating efficiency of the Bank, increased from 9.6 per cent in 1999 to 12.7 per cent in 2000.

(iv) Expenditure

The gross expenditure of the Bank increased from Rs.15,475 million in 1999 to Rs.22,495 million in 2000. Of this, 10.6 per cent was on account of administrative expenditure, while 68.3 per cent consisted of interest payments. After making allowances for expenditure, allocation to reserves, provisions for depreciation, bad debts etc., the balance net profit of Rs.4,000 million was paid and credited to the Consolidated Fund of the Government in terms of Section 39(c) of the Monetary Law Act.

b. Accounting Policies

(i) General

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

(ii) 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.

(iii) Investments

All investments are valued at cost.

(iv) Advances

Advances shown in the Balance Sheet are net of provisions made on the following basis against non-performing loans due from finance companies:

<i>Period of Loans Overdue</i>	<i>Provision</i>
(Months)	(%)
6 – 12	20
12 – 18	50
Over 18	100

CENTRAL BANK BALANCE SHEET AS AT

31 December, 1999		LIABILITIES	31 December, 2000	
15,000,000	1,000,000,000	Capital Accounts	15,000,000	1,000,000,000
985,000,000		Capital	985,000,000	
		Surplus		
		Currency in Circulation		
67,642,019,005	70,209,856,953	Notes	70,427,916,466	73,315,890,843
2,567,837,948		Coins	2,887,974,377	
		Deposits		
2,462,875,895		Government	3,152,081,409	
14,693,408		Government Agencies and Institutions	42,422,726	
30,219,690,513		Commercial Banks	31,804,532,340	
28,464,527,121		International Organisations, Foreign Government and Foreign Banking Institutions	23,578,260,939	
1,245,562	61,665,676,201	Compulsory Savings Fund excluding Rs. 71,546,400/= invested in Treasury Bills	759,962	59,095,191,243
502,643,702		Others	517,133,867	
	4,925,000,000	Medium and Long Term Credit Fund		4,925,000,000
	561,822,500	Capital Contribution Account		576,108,601
	62,223,703,560	Other Liabilities and Accounts		78,278,569,259
	200,586,059,214			217,190,759,946

PROFIT AND LOSS ACCOUNT FOR THE

1999		2000
15,474,917,309	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.	22,494,774,788
	Net Profit for the Year	
3,200,000,000	To be paid and credited to the consolidated fund in terms of Section 39(c) of the Monetary Law Act.	4,000,000,000
18,674,917,309		26,494,774,788

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 2000, 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.

23 March 2001.

S. C. Mayadunne
Auditor-General

OF SRI LANKA

Table II-1

31ST DECEMBER, 2000

Rs.

31 December, 1999		ASSETS	31 December, 2000		
20,840,344,684 87,315,952,047* 66,259,739	108,222,556,470	International Reserve Cash and Balances Abroad Foreign Securities and Treasury Bills Holdings of Special Drawing Rights	23,426,978,023 53,736,757,405* 29,915,472	77,193,650,900	
35,665,869,959 736,673,603 11,318,501		Domestic Assets Loans and Advances to Government Others - Medium and Long Term Short Term	39,865,969,959 519,719,010** -		
25,622,731,925 561,822,500		Government and Government Guaranteed Securities Contributions to Financial and Other Institutions Other Assets and Accounts	66,951,926,120 578,108,601		107,913,723,690 32,083,385,356
		* 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).			
		** The amount outstanding is net of Rs. 2,343,338,893/= being provisions for loan losses.			
	200,586,059,214			217,190,759,946	

YEAR ENDED 31ST DECEMBER, 2000

Rs.

1999		2000
18,674,917,309	By Interest, etc. earned	26,494,774,788
18,674,917,309		26,494,774,788

A. S. Jayawardena
GovernorY.M.W.B. Weerasekera
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 1999 Rs. Mn.	%	At end 2000 Rs. Mn.	%	I T E M	At end 1999 Rs. Mn.	%	At end 2000 Rs. Mn.	%
Capital and Surplus	1,000	0.5	1,000	0.5	International Reserve	108,223	54.0	77,194	35.5
Currency in Circulation	70,210	35.0	73,316	33.7	Domestic Assets	62,598	31.2	107,914	49.7
Deposits	61,666	30.7	59,095	27.2	Other Assets	29,765	14.8	32,083	14.8
Medium & Long Term Credit Fund	4,925	2.5	4,925	2.3	Of which				
Capital Contribution Account	562	0.3	576	0.3	Liability of Constituents for Guarantees issued	8,790	4.4	13,622	6.3
Central Bank Securities	-	-	-	-	Foreign Currency Deposit A/cs of Commercial Banks	3,843	1.9	-	-
Other Liabilities	62,223	31.0	78,279	36.0	Adjusting Account (Amounts Receivable)	2,701	1.3	3,333	1.5
Of which					Other	14,431	7.2	15,128	7.0
Guarantees issued on account of Constituents	8,790	4.4	13,622	6.3					
Control Accounts Reserves	24,363	12.1	26,430	12.1					
Allocation of Special Drawing Rights	6,693	3.3	6,870	3.1					
International Reserve Revaluation Account	2,727	1.5	8,537	3.0					
Profit and Loss Account	5,480	2.7	8,416	3.9					
Asian Clearing Union Account	8,689	4.3	10,998	5.1					
Other	5,481	2.7	5,406	2.5					
Total	200,586	100.0	217,191	100.0		200,586	100.0	217,191	100.0

Source : Central Bank of Sri Lanka

(v) Fixed Assets

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

Item	% p.a.
Buildings	2
Fixtures & Fittings	10
Office Furniture & Equipment	10
Motor Vehicles	10
Automated Equipment	20
As/400 Main Frame Computer	20
Personal Computers	25
Library Books	33%

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

(vi) 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 have been made in respect of closing stocks.

(vii) Income Recognition

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

(viii) Net Profit

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

- non-performing loans,
- depreciation of fixed assets, and
- other necessary provisioning and allocations to reserves in terms of Section 38 of the Monetary Law Act.

2. Banking Operations**(a) General**

In line with the Central Bank's main objectives, namely, the stabilisation of the domestic and external value of the rupee, the Banking Department (BKD) continued to carry out its functions in the areas of foreign exchange operations, the management of international reserves of the country and implementation of monetary policy and also functioned as banker to the Government and commercial banks. Further it provided other special services as discussed herein.

(b) Foreign Exchange Operations and Management of International Reserves

In keeping with its main objective, the Central Bank was committed to maintaining the external value of rupee in line with market trends. Accordingly, the value of the rupee against other currencies was permitted to be determined in the market guided by the Central Bank by announcing daily its buying and

TABLE II – 3
Main Exchange Rate Changes – 2000

Date	Event	CBSL Buying US \$/Rs.	CBSL Selling US \$/Rs.
20-Jun-2000	Band widened to 5% of middle rate. Middle rate depreciated by 4%. Fixed Band	75.60	79.47
3-Nov-2000	Band widened to 6% of buying rate Crawling Band	75.60	80.14
11-Dec-2000	Band widened to 8% of buying rate Crawling Band.	76.87	83.02

Source : Central Bank of Sri Lanka

selling rates of the US dollar. With a view to allowing the commercial banks to operate more freely in the foreign exchange market in a dynamic manner, the spread between the buying and selling rates of the Central Bank for the US dollar was widened from 2 per cent to 5 per cent on 20 June 2000. The widening of the spread was expected to facilitate the determination of the market rates for the US dollar based on the supply and demand for it in the domestic foreign exchange market and also on developments in international markets. The spread was further expanded to 6 per cent on 3 November, and to 8 per cent on 11 December 2000.

In a bid to even out the temporary demand and supply mismatches in the relatively thin local forex market, and to promote its orderly development, the Central Bank of Sri Lanka continued to engage in foreign exchange operations with Licensed Commercial Banks (LCBs) by way of spot purchases and sales of US dollars against Sri Lanka rupees as and when it was considered necessary. Daily exchange rate management was done carefully with the objectives of developing the foreign exchange market and financial system stability. The Bank's intervention in the market was mainly to reduce speculative transactions and to keep the exchange rate at reasonable levels, especially in the face of increased energy and security related

TABLE II – 4
**Foreign Exchange Transactions with
Commercial Banks in Sri Lanka – 2000**

Month	Spot Purchases		Spot Sales	
	US \$	Rs.	US \$	Rs.
January	-	-	-	-
February	-	-	-	-
March	-	-	-	-
April	-	-	-	-
May	-	-	68,710	5,072,702
June	-	-	39,785	2,951,988
July	-	-	-	-
August	-	-	-	-
September	-	-	26,475	2,052,871
October	-	-	60,942	4,725,443
November	-	-	86,189	6,748,338
December	2,000	158,280	21,521	1,700,925
Total	2,000	158,280	303,622	23,252,267

Source : Central Bank of Sri Lanka

imports. The Central Bank's transactions in the foreign exchange market during 2000 resulted in net sales of US dollars 301.6 million. The Central Bank's buying and selling rates for the US dollar, which stood at Rs.71.3642 and Rs.72.8059 respectively, at the beginning of the year 2000, were Rs.76.9850 and Rs.83.1346 respectively at the end of the year.

In order to activate the local foreign exchange market, the Bank liaised closely with the Sri Lanka Forex Association and the Sri Lanka Banks' Association. Special emphasis was given to the need by local commercial banks to make two-way quotes for foreign exchange. The Central Bank played a key role in encouraging commercial banks, sometimes co-ordinating with the relevant institutions for the banks to obtain a Reuters screen updating facility for the purpose of making two-way quotes. As a result of this effort, the number of commercial banks having the facility increased from 03 at the beginning of the year to 15 at the end of the year. Measures were also taken to provide an alternative screen updating facility, on a temporary basis, for those commercial banks that were not yet ready to obtain the Reuters updating facility, by using the Wide Area Network (WAN) of the Central Bank. A further facility to provide market interest rate and exchange rate quotes at half hourly intervals to the senior management of the Bank was developed and implemented in the Banking Department. Foreign reserve management was done by the Central Bank with the objective of maximising its return through investments in foreign financial assets while maintaining a high level of liquidity and a low level of risk. Accordingly, the majority of investments were in fixed income securities designated in US dollars, Sterling pounds and euros. The total net foreign income generated through the management of foreign reserves amounted to Rs.6.6 billion in 2000 as against Rs.6.5 billion in 1999.

(c) Implementation of Monetary Policy

(i) Open Market Operations

The Central Bank of Sri Lanka (CBSL) continued to implement its monetary policy mainly through Open Market Operations (OMO). The OMO included outright buying or selling of government securities and repurchase and reverse repurchase transactions. The collateral used for repurchase transactions were Treasury bills, while for reverse repurchase transactions both Treasury bills and Treasury bonds were accepted.

1. Outright Transactions in the Secondary Window

The total outright sales (discounting) of Treasury bills to the participating institutions which include Licensed Commercial Banks (LCBs) and Primary Dealers (PDs), at the secondary window of the Central Bank amounted to Rs.15,675 million in 2000, recording more than a two fold increase when compared with Rs.6,982 million in 1999. The main contributory factor for this increase was the decision of the Central Bank to physically deliver the Treasury bills to the purchasers, providing them with an opportunity to use them for trading in the market.

In the past, the bills sold were held in CBSL custody, while only a receipt was given to the purchaser. Out of the total volume of Treasury bills sold, more than 50 per cent were sold during the first quarter of the year. There was a substantial drop in the Treasury bill sales during the balance part of the year, as market liquidity dried up during that period. Outright sales and purchases of Treasury bills by the CBSL are given in Chart I.

There was a gradual increase in the yield rates of government securities during the year. For instance, the Central Bank's discounting yield rates on 3-month, 6-month and

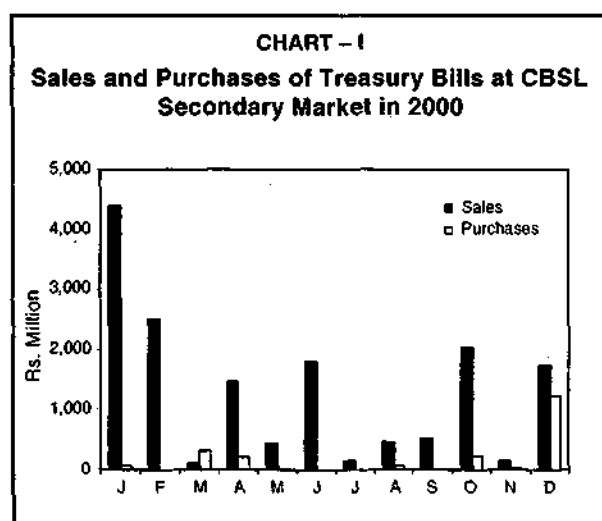
repurchase volume in 2000 was the result of the large liquidity shortage that prevailed in the money market particularly during the latter part of 2000.

The overnight repo rate, which was 9.25 per cent per annum at the beginning of the year, was gradually reduced during the first half of the year, for e.g. to 9.00 per cent by 6 April 2000. However, as the market liquidity tightened, the repo rate was increased to 9.25 per cent on 9 May 2000 and then increased to 9.50 per cent on 8 June 2000, to 11.0 per cent on 26 July 2000, to 11.75 per cent on 31 August 2000, to 12.50 per cent on 26 September 2000, to 13.0 per cent on 29 September 2000, to 15.0 per cent on 8 November 2000 and to 17.0 per cent on 21 November 2000. The increase in the repo rate was made along with the increases in reverse repo rate not only to reduce undue pressure on the exchange rate, but also keep these rates in line with the trend of increasing interest rates in the market.

3. Reverse Repurchase Transactions

In 2000, the reverse repurchase transactions played a major role in providing liquidity to the market, in addition to stabilising the upper end of the inter-bank call money market rate. Reflecting the large and continuous liquidity shortfall in the system, the volume of overnight reverse repo transactions of the Central Bank increased significantly during 2000 (Charts III and IV). The total value of reverse repo transactions of the Central Bank amounted to Rs.2,075,098 million, recording about a nine fold increase from Rs.213,349 million in 1999. The total value of the reverse repo transactions against Treasury bills increased from Rs.137,829 million in 1999 to Rs.252,581 million in 2000 recording an increase of 83 per cent. The total value of reverse-repo transactions against Treasury bonds also showed a substantial increase from Rs.75,520 million in 1999 to Rs.1,826,518 million in 2000. Monthly reverse repo volumes and rates are shown in Chart III.

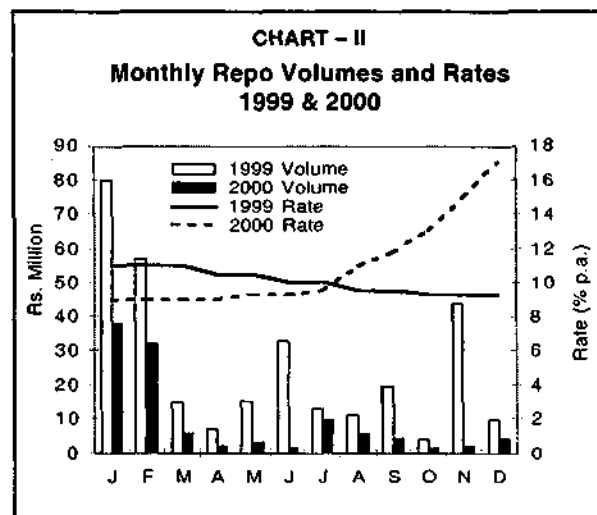
The overnight reverse repurchase rate decreased from 13.48 per cent at the beginning of the year to 13.00 per cent



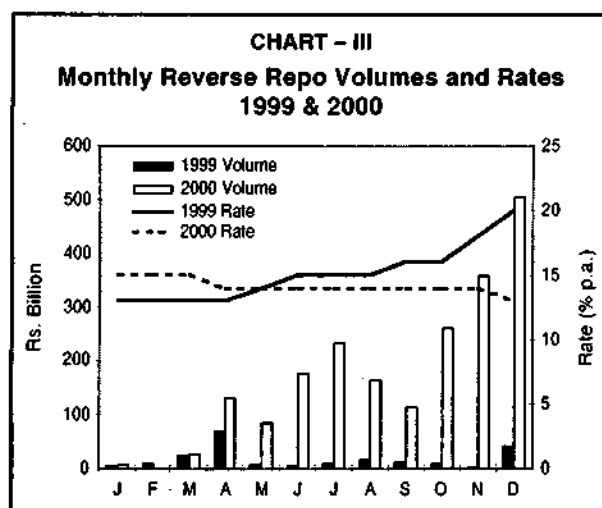
12-month maturities increased from 11.57 per cent, 12.09 per cent and 12.39 per cent per annum respectively, at the beginning of the year, to 17.86 per cent, 17.88 per cent and 18.96 per cent per annum respectively, at the end of the year. The total outright purchases (re-discounting) of Treasury bills by the Central Bank increased from Rs.1,443 million in 1999 to Rs.2,105 million in 2000, recording an increase of 46 per cent, as a result of a large and continuous liquidity shortage in the market, particularly during the latter part of the year. Some participating institutions preferred to re-discount Treasury bills rather than use the reverse repurchase facility to borrow from CBSL to meet their long-term liquidity shortages. The Central Bank's re-discounting yield rates, which are linked to the Primary Market's Yield Rates (PMYR), also increased sharply during the year. Re-discounting yield rates on Treasury bills of 3-month, 6-month and 12-month maturities increased from 14.29 per cent, 14.79 per cent and 15.27 per cent per annum respectively, at the beginning of the year, to 21.27 per cent, 21.40 per cent and 21.72 per cent per annum respectively at the end of the year.

2. Repurchase (Repo) Transactions

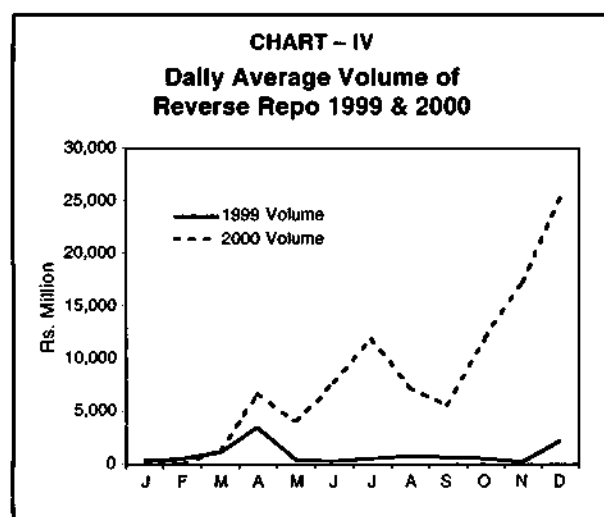
The total volume of Treasury bills sold under repurchase agreements during 2000 was Rs.110,476 million as against Rs.307,795 million sold in 1999. The drop in the total



per annum on 9 May 2000, but increased to 13.04 per cent per annum on 11 May 2000 and was thereafter gradually raised to 20.0 per cent per annum towards the end of the year in line with the tightening liquidity conditions in the market. The tenor



of reverse repurchase transactions with the CBSL, which was overnight at the beginning of the year, was increased up to thirty (30) days in the middle of the year with an intention of easing the liquidity conditions in the market, but was later reduced again to overnight maturity only.



(ii) Bank Rate

The Central Bank's rate of interest (Bank Rate) on short-term advances to Licensed Commercial Banks stipulated under Section 87 of the Monetary Law Act was increased on three occasions in 2000 i.e. from 16 per cent to 18 per cent per annum on 2 October 2000, from 18 per cent to 20 per cent on 8 November 2000 and from 20 per cent to 25 per cent on 21 November 2000.

(iii) Statutory Reserve Requirement (SRR)

The Statutory Reserve Requirement (SRR) against deposit liabilities denominated in Sri Lanka rupees remained at 11 per cent during the year 2000. The SRR on deposit liabilities denominated in foreign currencies was withdrawn with effect from 4 August 2000.

(iv) Short-term Credit

Licensed Commercial Banks which provided roll-over credit facilities to farmer borrowers prior to the termination of the New Comprehensive Rural Credit Scheme (NCRCS) were granted refinance facilities only to the extent of the rolled over amount with effect from April 1994. The total amount outstanding under this facility (i.e. Rs.12 million) was fully recovered during 2000.

(v) Medium and Long-term Credit

The Medium and Long-term Credit Fund (MLCF) remained unchanged at Rs.4,925 million during 2000. The amount repaid during the year was Rs.104.3 million, while there was a disbursement of Rs.50.0 million to Bank of Ceylon under the Finance Companies Act, No.78 of 1988. The total amount of outstanding credit released to finance companies from the MLCF before provision for bad debts was Rs.2,654 million as at the end of 2000.

(d) Functions as the Banker to the Government and Commercial Banks

(i) Financial Institutions Accounts

The Banking Department continued to provide current account facilities to commercial banks and selected other non - bank financial institutions to ensure an efficient payment and settlement system. With the initiative to automate the primary issue of government debt securities by setting up a central depository system for same, at the Central Bank, the Banking Department had to introduce an Electronic Fund Transfer System (EFTS) to facilitate the settlement of transactions among participants at the primary auctions for government securities as well as for settlement of transactions of commercial banks and of the government. As an initial step in this direction, the activities of the Current Accounts Division was fully automated, and test runs for the EFTS were commenced. The BKD was also associated in preliminary work relating to the establishment of a 'Real Time Gross Settlement System' (RTGS). See Box 11.

(ii) Government Accounts

As banker to the government, the Central Bank of Sri Lanka, continued to maintain accounts of government departments, government agencies and institutions and certain statutory boards, providing them with required banking facilities. The total number of government accounts maintained by the Bank stood at 140 as at the end of 2000.

(iii) Import Duty Rebate to Exporters

The Bank reimbursed, on behalf of the government, a total sum of Rs.241 million to Licensed Commercial Banks in 2000, in respect of import duty rebates paid by them to exporters, as against a total sum of Rs.349 million in 1999.

(iv) Subsidy and Ex-gratia Payments to Indian Repatriates

Total subsidy payments made on behalf of the government to repatriated estate workers of Indian origin under the Indo-Ceylon Agreement of 1964, amounted to Rs.187,259 in 2000, compared with Rs.73,750 in 1999. Ex-gratia payments amounted to Rs.18,975 in 2000 against Rs.3,300 in 1999.

(e) Other Special Services**(i) Foreign Finance**

The Banking Department continued to handle disbursements and repayments of various foreign loans and grants under foreign funded development projects, namely projects funded by the World Bank, the Asian Development Bank (ADB), the Japan Bank for International Co-operation (JBIC) and the International Fund for Agricultural Development (IFAD). Disbursement of funds under ten new project loans granted by international organisations and foreign governments was commenced during the year under review. The BKD also continued to collect Counterpart Funds under various foreign loans and grants on behalf of the government and invested such funds in Treasury bills on requests made by donor agencies. Further, the BKD continued to issue the guarantees to various institutions on behalf of the Government of Sri Lanka.

(ii) Refinance Facilities under Foreign Funded Projects

The BKD continued to provide refinance to Participatory Credit Institutions under the Plantation Sector Reform Project (PSRP) and Urban Development Low Income Housing Shelter Programme (UDLIHSP) which was introduced in the latter part of 1999. Disbursement of refinance under the Southern Province Rural Development Project (SPRDP) and the North Western Province Water Resource Development Project (NWP/WRDP) was completed during 2000.

(iii) 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. As at 31 December 2000, there was a balance of Rs.72 million in the Fund.

(iv) Asian Clearing Union**1. Trade with ACU Countries in 2000**

The total value of transactions routed through the ACU mechanism increased from Rs.42,724 million in 1999 to

Rs.66,111 million in 2000. This has widened the gap between the payment for imports and receipts from exports, under the scheme from Rs.36,685 million in 1999 to Rs.53,732 million in 2000. A significant increase in imports from India and Iran was observed in the trade data.

2. Meeting of the Board of Directors and Decisions Taken

The 29th meeting of the Board of Directors of the Asian Clearing Union was held in May 2000 in Dhaka, Bangladesh. At this meeting, the Royal Monetary Authority of Bhutan joined the ACU as its newest member. The membership of the Union now stands at eight. Instructions were issued in October 2000 to local commercial banks to commence settlements of trade with Bhutan through the ACU with effect from October 2000.

The Board of Directors of the ACU at the May 2000 meeting focused their attention on the recommendations of the Technical Committee to explore the possibilities of expanding the membership of the Union. The Board of Directors after deliberations on the report of the committee unanimously adopted most of the suggestions made by the committee, especially the expansion of the Union by persuading some selected countries to join the Union and to create a fund with contributions of member countries to facilitate the work of the ACU Secretariat in persuading new entrants to the Union. Among other matters agreed upon at the meeting were the introduction of 'tom' basis transactions in addition to existing 'spot' basis transactions and upgrading of financial communication technology to reduce delays in settlement.

Currency Issue

The Central Bank of Sri Lanka, as the sole currency issuing authority, continued to perform the functions of issuing legal tender for the use of domestic transactions during the year 2000. The volume of currency notes and coins in circulation by the end of 2000 stood at Rs.73,316 million, as against Rs.70,210 million as at the end of 1999. Notes in circulation comprised 96.1 per cent of the total currency in circulation.

To coincide with the 50th Anniversary of the Central Bank in August 2000, the Bank issued a crown size silver commemorative proof coin in the denomination of Rs.1,000. The obverse of the coin depicts the Central Bank building and the reverse depicts the symbol of the sun surrounded by eight auspicious symbols, referred to as the Astamangala.

The Bank also issued a commemorative coin in the denomination of one rupee to mark the 50th Anniversary of the Sri Lanka Navy celebrated in December 2000. The cupro-nickel coins have been minted in frosted proof condition and nickel plated steel coins in brilliant uncirculated condition.

Arrangements were also made towards the end of the year to mint a commemorative coin in the denomination of one rupee to mark the 50th Anniversary of the Sri Lanka Air Force which falls in March 2001. Details of all commemorative coins

and notes available for sale at the Central Bank of Sri Lanka, together with their selling prices, are given in Table II-5.

The Bank made arrangements to issue a new coin folder containing all coins from one cent to 10 rupees that are currently in circulation. The pyramid shaped folder has been designed as a table top and is sold as a collectors' item.

A limited edition of a book titled 'History of Coins and Currency in Sri Lanka' written by Mr. G. P. S. H. de Silva was published by the Bank on the occasion of its 50th Anniversary. The book, which is of benefit and value to students, numismatists and the general public, is the only source of information covering all periods of the country's history of coins i.e., from the 3rd Century BC, upto the dawn of the new millennium, complete with illustrations. The book, with improvements, will be published in the early part of 2001 to be sold to the public.

The Currency Department has made arrangements to upgrade the automated currency processing systems which were first commissioned in 1992. When upgraded, the systems will have the same capacity as a new CSI Currency Processing System machine which will facilitate the currency processing work of the Department.

The Department continued to conduct seminars on Identification of Counterfeit Notes for school children, government employees and the general public.

The Currency Department launched a coin collecting programme during the second half of 2000 in selected places of religious worship, where there had been a high accumulation of coins. The Department was able to collect 6.4 million coins under the above programme. If these were to be minted, they would cost around Rs.15.5 million. After allowing for the expenses of the project, the net saving to the Bank amounted to approximately Rs.15.3 million.

The currency operation sections of the Department, which were housed in the Treasury Building were shifted to the Central Bank New Building in March 2000. The Cash Exchange Counters continued function from the Moors Islamic

Cultural Home Building. The currency operation sections of the Anuradhapura and Matara Regional Offices continued their activities of issuing and receiving currency in the respective regions.

Bank Supervision

The Bank Supervision Department (BSD) discharges the regulatory and supervisory function of the Central Bank relating to banking institutions. The BSD carries out these activities under the Banking Act and the Monetary Law Act. Banking institutions that are currently under regulation and supervision of the BSD are Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). The objective of regulation and supervision is to ensure that banks are operated in a prudent manner in order to ensure the safety and soundness of the banking system, and to safeguard the interests of depositors. As in the previous years, regulatory and supervisory activities were carried out using periodic on-site examinations and off-site surveillance of banks. In addition, BSD has issued prudential directions and guidelines in respect of banking activities. The BSD also administers the voluntary Deposit Insurance Scheme. In July 2000, activities of the BSD were expanded by entrusting it with the activities of the Banking Development Department, consequent to a decision of the Monetary Board to amalgamate the activities of the Banking Development Department with the BSD. Accordingly, recommendations in respect of licensing and closure of banks, and the opening, closing, relocation of bank branches and other customer service offices of banks became part of the activities of the BSD in 2000.

Approvals for New Banks and Bank Branches

During 2000, a licence was issued under Section 76C of the Banking Act to Ceylinco Savings Bank Ltd., a locally incorporated banking institution, to operate as a LSB. Further,

TABLE II - 5
Commemorative Coins & Notes Available for Sale

Description	Year of Issue	Metal	Diameter (mm)	Weight (g)	Face Value (Rs.)	Selling Price (Rs.)
1. 40th Anniversary of Central Bank of Sri Lanka (Capsule)	1990	Silver	38.61	28.28	500	500
2. 5th South Asian Games (Pr. Box)	1991	Silver	22.00	10.20	100	200
3. President R Premadasa (Capsule)	1992	Cu-Ni	25.40	7.13	1	250
4. 2300 Mihindu Jayanthi (Pr. Box)	1993	Silver	38.61	28.28	500	700
5. - do - (Capsule)	1993	Silver	38.61	28.28	500	500
6. 50th Anniversary of the UNO (Capsule)	1995	Nickel Brass	23.50	9.50	5	200
7. 50th Anniversary of Independent Sri Lanka (Pr. Box)	1998	22 Kt. Gold	22.05	7.98	5,000	8,000
8. - do - (Pr. Box)	1998	Silver	38.61	28.28	1,000	1,200
9. - do - (Note Folder)	1998	Polymer			200	400
10. Cricket World Cup 1996 (Pr. Box)	1999	Silver	38.61	28.28	1,000	1,200
11. 50th Ann. of Sri Lanka Army - Proof (Pr. Box)	1999	Ni. Plated Steel	25.40	7.13	1	400
12. - do - Brilliant Uncirculated (Pr. Box)	1999	Ni. Plated Steel	25.40	7.13	1	150
13. 50th Anniversary CBSL (Pr. Box)	2000	Silver	38.61	28.28	1,000	1,200
14. 50th Anniversary of Sri Lanka Navy - Proof (Pr. Box)	2000	Cu-Ni	25.40	7.13	1	500
15. - do - Brilliant Uncirculated (Pr. Box)	2000	Ni. Plated Steel	25.40	7.13	1	200

approval was granted, in principle, to the NDB Housing Bank Ltd., another locally incorporated LSB, to engage in housing finance. ANZ Grindlays Bank Ltd., a branch of a foreign bank which has been operating in Sri Lanka since 1881, was renamed the Standard Chartered Grindlays Bank Ltd. as a result of the acquisition abroad of ANZ Grindlays Bank Ltd. by Standard Chartered Bank Ltd. National Mercantile Bank Ltd., which was issued with a license as a LCB in the previous year, commenced banking operations in May 2000. At the end of the year, 26 LCBs and 12 LSBs were in operation and came under the regulation and supervision of the BSD.

During the year, approvals were granted to commercial banks for the opening of a total of 24 branches, 22 extension offices, 49 student savings units locally and one representative office overseas. Changes of location of 53 branches of both LCBs and LSBs were also approved during the year.

Several requests made by commercial banks seeking approval for investment in subsidiaries, launching of new financial products, and alterations to their Memoranda and Articles of Association were also attended to by Bank Supervision Department.

Prudential Regulations and Directions

The BSD continued to monitor the compliance by banking institutions with regulatory requirements introduced under the provisions of the Banking Act, No. 30 of 1988 as amended by the Banking (Amendment) Act, No. 33 of 1995. These requirements relate to;

- i. The maintenance of minimum capital ratios,
- ii. The maintenance of minimum liquid assets ratio,
- iii. Adherence to the single borrower limit,
- iv. Limits on share ownership in banks,
- v. Limits on investment by banks in equity in public quoted companies and private companies,
- vi. Classification of non-performing advances, suspension of interest on non-performing advances and provisioning for bad and doubtful debts,
- vii. Limits on accommodation granted to directors of banks, their close relations and concerns in which they have a substantial interest,
- viii. Acquisition and purchase of immovable property by banks,
- ix. Publication of unaudited half yearly accounts and annual audited accounts in newspapers, and
- x. Submission of annual audited financial statements in time to the Central Bank.

Directions Issued under the Banking Act during the year 2000

During the year under review, the following directions/determinations of the Monetary Board were issued by the BSD:

- i. Determination made by the Monetary Board under Section

19(4) of the Banking Act, No. 30 of 1988 in respect of the maximum limit on foreign participation in share capital of a licensed bank: Accordingly, the foreign participation, in aggregate, in the share capital of a licensed bank incorporated in Sri Lanka was increased from a maximum of 49 per cent to 60 per cent of its total share capital with effect from 14 February 2000.

- ii. A direction relating to revision of the maintenance of capital adequacy ratios was issued to LCBs and LSBs on 29 November 2000. Accordingly, banks were required to maintain a minimum statutory capital ratio equivalent to 9 per cent of risk-weighted assets, with core capital constituting not less than 4.5 per cent, from 01 January 2001. The minimum capital ratio effective from 01 January 2002 will be 10 per cent for total capital, with core capital constituting not less than 5 per cent.
- iii. In exercise of the powers conferred by Section 23, 25 and 26 of the Banking Act, the Monetary Board, with the approval of the Hon. Minister of Finance, made an Order on 07 April 2000 relating to off-shore banking business carried on by licensed commercial banks. By this order, instructions were issued to off-shore units of Licensed Commercial Banks operating in Sri Lanka relating to their authorised businesses including business with residents, withdrawal from & deposits to an account maintained with an off-shore unit, maintenance of books & records and qualifications & banking experience of executive officers of off-shore units.

Off-site Surveillance System

Under the off-site surveillance system, the BSD continued to monitor the financial condition of the LCBs and LSBs on the basis of periodic information provided by banks relating to their operations. The main returns that banks are required to submit to BSD include the monthly statement of assets and liabilities and liquid assets, quarterly returns on capital adequacy, income and expenses, non-performing advances, lending to directors, investments and the annual audited financial accounts.

The information gathered is analysed to identify trends and variations. The position of each bank is compared with that of its peer group as well as the entire banking industry. The scrutiny of information helps in identifying significant and unusual changes, and serves as an early warning system to indicate particular banks or areas requiring further investigation and examination. On the basis of such observations, banks are also required to take prompt remedial action on any shortcomings in order to avoid an adverse impact on their operations.

The monitoring of Foreign Currency Banking Units is conducted on the basis of information provided to the BSD relating to their assets and liabilities, maturity profile of assets and liabilities and income and expenses. In addition, monitoring of the performance of the two state commercial banks was continued on a quarterly basis to ascertain their achievement

of targets under the Memoranda of Understanding (MOU) signed between the government and the two banks.

The BSD was actively involved in the process of upgrading its off-site surveillance system in a number of ways during 2000. These included enhancing staff strength, providing intensive training to upgrade the supervisory skills of the staff, and improving the quality of off-site analysis while speeding up the processing of information gathered. The training component of Phase II of the Technical Assistance Project funded by the Swedish Government (SIDA Project) was completed in the middle of 2000. The main focus of the project is to improve the supervisory techniques and skills of the BSD through the application of a risk based supervisory approach, supplemented with the currently used CAMEL (capital, asset quality, management, earnings, liquidity) standard. This method of supervision is useful to ascertain the risks that are associated with the operations of a particular bank and the resources available with a bank to meet such risks. Under the SIDA project, various techniques were proposed to upgrade the supervisory skills of the BSD staff in the off-site supervision process as well as in the on-site supervision system. During 2000, the BSD has taken steps for the implementation of the proposed techniques.

The Governor and staff of the Central Bank continued to meet the Chief Executive Officers of LCBs and LSBs monthly during the course of the year under review. These meetings constituted a forum for exchange of views and to discuss issues relating to banking operations and helped to build a close relationship between the banks and the Central Bank.

On-site Examinations

Under the provisions of the Monetary Law Act, all banking institutions are subject to periodic statutory examinations, i.e., on-site examinations, conducted by the BSD. At present, each bank is examined once in two years. Examiners of the BSD visit the Head Office and selected branches of each bank depending on the area coverage and volume of business.

The nature and scope of on-site examinations are mostly confined to an appraisal of the quality of assets of banks and to arriving at an overall assessment of their financial condition, on the information gathered from the books of accounts and records. The degree of a bank's exposure to varied banking risks, such as default risk (credit risk), market risk, liquidity risk and operational risks, and a bank's ability to contain such risks, if any, to minimum levels are also appraised in the overall assessment of a bank. As a part of the scope of on-site examinations, other key aspects such as capital adequacy, management quality, earnings and liquidity are also assessed. In addition, banks' compliance with statutory requirements, applicable laws and regulations and internal controls as well as their systems and procedures too are examined. During the year under review, the BSD commenced 14 on-site examinations, which included 10 LCBs and 4 LSBs. In addition, on-site examinations of 7 LCBs and 2 LSBs which commenced in the previous year were concluded in 2000.

Administration of the Deposit Insurance Scheme

The BSD continued to administer the Deposit Insurance Scheme which commenced operations in 1987. This is a voluntary deposit insurance scheme open to any deposit taking institution. At present, only four Multi-Purpose Co-operative Societies have obtained insurance cover under the scheme in respect of deposits of their rural banks. The premium payable is 3.75 cents per quarter for every Rs.100, and the amount paid to the Deposit Insurance Fund by way of *premium* in 2000 was Rs.1.1 million. The fund stood at Rs.102.9 million as at 31 December 2000, together with Rs.50 million allocated by the Central Bank in 1997. These funds have been invested in Treasury bills with a face value of Rs.120.5 million. A Task Force was appointed to study and make recommendations on the feasibility of setting up a mandatory Deposit Insurance Scheme in place of the existing voluntary scheme. The recommendations of the Task Force will be made in early 2001.

Supervision of Non-Bank Financial Institutions

The Department of Supervision of Non-Bank Financial Institutions continued to carry out its regulatory and supervisory functions in respect of registered finance companies (FCs) with the objective of ensuring the FCs comply with minimum prudential requirement stipulated by the Central Bank. The Department strove to achieve the above objectives mainly through off-site surveillance and on-site examinations.

The consolidated balance sheet of the 25 registered FCs as at 31 March 1999 and 31 March 2000 is given in Table II-6. Total assets of registered FCs have increased by Rs.3,633 million during 2000. The increase in assets was reflected mainly in the growth of advances by Rs.3,221 million and the liquid assets by Rs.444 million. There has been no significant change in the distribution of the major asset categories. However, as in the previous three years, lease financing continued to expand. Deposits and capital funds increased by Rs.3,065 million and Rs.391 million, respectively.

Off-site Surveillance

During the period under review, the Department continued its off-site surveillance of the 25 registered FCs by analysing periodical statements submitted by these companies. These returns included weekly statements of liquid assets, monthly statements of large advances granted, monthly statements of assets and liabilities, quarterly statements of non-performing advances and annual audited balance sheets and financial accounts. The information provided in the returns is analysed with a view to ascertaining the financial condition of the companies and monitoring their compliance with provisions of the Finance Companies Act and Directions and Rules issued

TABLE II – 6
Consolidated Balance Sheet of Operational Finance Companies

Category	At end March 1999		At end March 2000	
	Rs. '000	%	Rs. '000	%
LIABILITIES				
Capital Funds				
Issued Share Capital	656,587		660,920	
Share Premium	190,546		212,546	
Capital Reserve	892,553		882,450	
General Reserve	1,317,166		1,552,157	
Reserve Fund	543,740		623,108	
Other Reserves	47,469		74,147	
Profit & Loss A/c	67,736		101,643	
Gross Capital Funds	3,717,797		4,106,971	
Less: Deferred Expenditure	6,775		5,038	
Net Capital Funds	3,711,022	13.47	4,101,933	13.15
Provision for Bad & Doubtful Debts	1,072,820	3.89	1,211,151	3.88
Public Deposits	16,970,850	61.58	20,035,593	64.23
Borrowings				
Bank Overdrafts	882,742		529,243	
Others	1,485,925		1,610,897	
Total Borrowings	2,368,667	8.59	2,140,140	6.86
Other Liabilities	3,437,024	12.47	3,704,556	11.88
Grand Total	27,560,383	100.00	31,193,373	100.00
ASSETS				
Liquid Assets				
Cash & due from Banks	408,663		392,538	
Fixed Deposits	575,544		617,718	
Treasury Bills	2,095,626		2,513,731	
Total Liquid Assets	3,079,833	11.17	3,523,987	11.30
Investments				
Shares in Subsidiaries & Associated Companies	724,817		709,474	
Shares in Related Companies	281,291		273,846	
Shares in Other Companies	627,878		611,975	
Share Trading	251,362		241,612	
Total Investments	1,885,348	6.84	1,836,907	5.89
Advances				
Loans	1,240,181		1,900,054	
Hire Purchase	2,232,039		2,459,631	
Leasing	11,117,742		13,201,154	
Real Estate	1,648,635		1,907,683	
Other Advances	1,730,795		1,691,997	
Total Advances	17,969,392	65.20	21,190,519	67.93
Fixed Assets				
Free hold Land & Building	1,725,353		1,732,633	
Furniture, Fittings & Office Equipment	242,163		294,325	
Motor Vehicles	188,677		184,015	
Plant & Machinery	1,998		1,320	
Leased Assets	57,811		55,150	
Others	60,014		59,106	
Total Fixed Assets	2,276,016	8.26	2,326,549	7.46
Other Assets	2,349,794	8.53	2,315,411	7.42
Grand Total	27,560,383	100.00	31,193,373	100.00
No. of Companies Reporting	25		25	

Source : Central Bank of Sri Lanka

under the Act. The Directions include minimum capital requirement, liquidity ratio, single borrower limits, provisioning for bad and doubtful debts *etc.* The early warning system was continued to identify and arrest any adverse developments.

On-site Examination

The Department conducted on-site examinations of three FCs during the year. The books of accounts and other records were scrutinised and discussions held with officers of the companies in order to make an appraisal of capital adequacy, asset quality, management efficiency, earnings and liquidity. Internal controls and systems and the companies' compliance with statutory requirements were also examined.

In addition, spot examinations of the finance companies were conducted prior to the issue of annual licences for 2001. In these examinations, critical areas which were identified in the course of off-site examination were scrutinised.

Failed Finance Companies

Of the nine failed finance companies whose administration and management were earlier vested in the Monetary Board under the Finance Companies Act, four companies were under liquidation as at the end of 2000. The administration and management of the remaining five companies continued to be vested in the Monetary Board. The petition for liquidation is pending in Court with respect to one such company. During the year, a liquidator was appointed to another failed finance company, which was not vested in the Monetary Board, but had been granted a refinance loan by the Central Bank.

Of the five companies which continued to be vested in the Monetary Board, three companies continued making relief payments to depositors during the year. One such company was making an enhanced relief payment of 15 per cent of the balance capital outstanding, while another company was making full payment of the capital. The third company continued to make full payment of capital with revised interest to all the depositors. These relief payments were made out of funds made available to these companies as refinance loans in previous years as well as out of proceeds realized from sale of company assets and through loan recoveries. No payments were made to depositors by the other two companies during the year, since one company had exhausted its funds and liquidation proceedings had commenced in respect of the other, which prevented any further repayments being made to depositors.

The Central Bank has lodged claims for the total amount due on outstanding refinance loans with accumulated interest as well as on amounts due in respect of administrative expenditure, with the liquidators of four failed finance companies who were appointed during the year. Out of the other companies to which refinance loans had been granted, one company repaid Rs.0.3 million during the year. A state bank received refinance amounting to Rs.50 million in respect of a loan granted to one of the failed finance companies, under an agreement entered into with the Central Bank earlier.

Policy Initiatives

During the year the Department had several discussions with the Finance Houses Association on proposals to amend prudential Directions issued by the Monetary Board on lending, liquid assets, deposits and share investments of finance companies. Meanwhile, the members of the Leasing Association and the Finance Houses Association were consulted with regard to implementation of the provisions of the Finance Leasing Act, No.56 of 2000 which was enacted in August 2000.

Development Finance

The Development Finance Department performs the following functions –

- (i) Re-lending of loan proceeds from external lines of credit to Participating Credit Institutions (PCIs) for financing of project activities of Small and Medium Enterprises (SMEs);
- (ii) Issuing of credit guarantees on loans disbursed to finance such projects, collecting guarantee premia and administering credit guarantee funds; and
- (iii) Undertaking post-credit inspection and follow-up action to ensure proper utilisation of loan funds with a view to preventing defaults.

The activities of the Development Finance Department continued to expand in 2000 due to accelerated loan disbursements under the Urban Development & Low Income Housing Sector Project (UDLIHSP) and the Plantation Reform Project (PRP). The UDLIHSPP commenced its operations during the first half of 1999 with financial assistance of US dollars 20 million from the Asian Development Bank (ADB). During 1999, due to an insufficient number of financial institutions that were eligible to participate in the project, the progress of the project was slow. However, with the inclusion of three more financial institutions as PCIs in July 2000, a large volume of funds was disbursed during 2000. Disbursement of loan funds under the Plantation Reform Project continued unabated in 2000.

The issue of credit guarantee covers issued by the Department under the Small and Medium Term Assistance Project (SMAP), by and large, were concluded in the year under review due to full utilisation of loan balances by the PCIs. However guarantee covers are being issued in respect of loans disbursed under the PRP.

The Department continued to conduct project inspections and follow-up work in respect of current credit schemes as well as those already concluded. Details of activities performed by the Department in 2000 are described below.

Current Credit Schemes

Plantation Reform Project (PRP)

The total value of approvals of refinance under the PRP stood

at Rs.1,211 million during 2000 as against Rs.1,513 million in 1999. The moderate level of approvals in 2000 was mainly due to higher utilisation (approximately 90 per cent) of the loan funds from the ADB and the Japan Bank for International Co-operation (JBIC) in the previous years. However, the total fund disbursements stood at Rs.1,300 million as at the end of 2000 due to disbursement in 2000 in respect of some refinance approvals granted in the previous year. During the 1996 to 2000 period, the total disbursements under the project were Rs.4,677 million. Details of refinance approvals and disbursements are given in the Table II-7.

As in the previous years, the largest portion of the loan, to the value of Rs.885 million, was approved for tree crop development. Disbursement of funds for this category during 2000 was Rs.947 million, which included a part of refinance approved in 1999. Under the category of processing, improvement and pollution control, Rs.270 million was approved as refinance, while Rs.271 million was disbursed. Similarly, under the category of purchasing of service vehicles and equipment, Rs.56 million was approved as refinance and the sum disbursed amounted to Rs.82 million.

Among the Participating Financial Institutions (PFIs) in the scheme, Seylan Bank Ltd. (SBL) accounted for 28.3 per cent of the total disbursements to Regional Plantation Companies (RPCs), amounting to Rs.368 million during 2000. DFCC Bank, Bank of Ceylon (BOC), National Development Bank (NDB), Sampath Bank Ltd. (SMBL), Commercial Bank of Ceylon Ltd. (CBC) and Hatton National Bank Ltd. (HNB) accounted for disbursements amounting to Rs.362 million (27.9 per cent), Rs.208 million (16 per cent), Rs.146 million (11.2 per cent), Rs.94 million (7.2 per cent), Rs.73 million (5.6 per cent) and Rs.50 million (3.8 per cent), respectively, in 2000. Approvals and disbursements of loan funds under the PRP loan scheme by each PFI and details of credit guarantee liability are given in the Table II-8.

The total liability of the Central Bank on account of credit guarantee cover issued against PRP loan disbursements was Rs.903 million in 2000. The total liability of the Bank on

TABLE II - 7
Plantation Reform Project
Refinance Approvals and Disbursements by Purpose

Purpose	Rs. Mn.					
	1999		2000		1996-2000	
	A	D	A	D	A	D
Tree Crop Development	841	985	885	947	3,178	2,729
Processing, Improvement and Pollution Control	425	575	270	271	2,166	1,303
Service Vehicles & Equipment	247	249	56	82	1,043	646
TOTAL	1,513	1,810	1,211	1,300	6,386	4,677

Note: A = Approvals

D = Disbursements

Source: Central Bank of Sri Lanka

account of issue of guarantees under this scheme from 1996 to 2000 amounted to Rs.2,894 million. Premia collected on credit guarantees under PRP amounted to Rs.60 million in 2000, whereas the total premia collected for the period 1996 to 2000 amounted to Rs.116 million.

Small and Medium Enterprise Assistance Project (SMAP)

The SMAP credit line, which has been disbursed by the National Development Bank (NDB) since 1997, was almost drawn down in full during 2000. However, the issue of credit guarantee covers continues to-date. The number of credit guarantee covers issued in 2000 was 369 for a total of Rs.685 million, compared with 817 guarantee covers worth Rs.1,187 million issued in 1999. During 2000, 16 guarantees were withdrawn and 37 guarantees amounting to Rs.49 million were fully paid. The Central Bank's total guarantee liability under this scheme at end December 2000 was Rs.1,459 million and the total premia collected was Rs.28 million.

Following similar trends in the past few years, the majority of loans (51.5 per cent) disbursed under SMAP during 2000

TABLE II - 8
Plantation Reform Project
Refinance Approvals, Disbursements and Central Bank's Credit Guarantee Liability

Project	1999				2000				1996 - 2000			
	A (a)		D (b)		A (a)		D (b)		A (a)		D (b)	
	GL (c)	PC (d)	GL (c)	PC (d)	GL (c)	PC (d)	GL (c)	PC (d)	GL (c)	PC (d)	GL (c)	PC (d)
NDB	428	837	504	19	208	146	91	26	2,329	1,746	1,055	55
DFCCB	460	538	283	11	346	362	267	18	2,068	1,413	863	33
BOC	109	237	157	3	211	208	145	8	727	606	390	14
CBC	255	173	92	4	35	73	68	5	491	377	241	11
SAMPATH	-	25	13	-	66	94	33	3	238	119	69	1
SEYLAN	260	-	-	-	297	368	265	1	482	368	242	3
HNB	-	-	-	-	50	50	35	-	50	50	35	-
TOTAL	1,512	1,810	1,048	37	1,211	1,300	903	60	6,386	3,377	2,894	116

A = Approvals

D = Disbursements

GL = Central Bank's Credit Guarantee Liability

PC = Premia Collections

Source: Central Bank of Sri Lanka

TABLE II – 9
SMAP Credit Guarantee Scheme
Industry-wise Classification of Loans

Value in Rs. Mn.

Industry Category	No. of Loans Granted			Loan Amount			CBSL Liability 1997–2000
	1999	2000	1997–2000	1999	2000	1997–2000	
Food Beverages & Tobacco	97	58	267	165	130	481	230
Textiles Wearing Apparel & Leather Products	21	10	94	52	35	174	80
Wood & Wood Products	29	7	59	45	6	69	38
Paper & Paper Products	21	8	42	67	21	114	45
Chemical, Petroleum, Rubber & Plastic Products	33	14	63	65	67	156	83
Basic Metal Products	28	16	52	36	9	57	25
Non-Metallic Mineral Products	29	–	76	39	–	91	54
Fabricated Metal Products, Machinery & Transport Equipment	–	–	28	–	–	22	17
Agro-Industries	102	28	200	164	63	307	178
Other (a)	457	228	1,008	555	353	1,265	710
TOTAL	817	369	1,889	1,187	685	2,735	1,459

(a) Includes passenger and commercial transport, service & filling stations, restaurants, electronic and other services.

Source : Central Bank of Sri Lanka

were for financing of investments under the 'other' category, which includes service industries, such as passenger and commercial transport, vehicle servicing, restaurants, service stations, electronics related industries and services, while about 19 per cent of loans were granted for food, beverages and tobacco industries. Loans to agro-industries and chemical, petroleum, rubber and plastic products accounted for 9.3 per cent and 9.8 per cent, respectively, of the total disbursements in 2000. Industry-wise classification of loans granted under the scheme as at end 2000 is illustrated in the Table II-9.

Urban Development & Low Income Housing Sector Project (UDLIHSP)

This scheme commenced operations during the first half of 1999 with financial assistance from a soft loan of US dollars 20 million from the ADB. Refinance approvals and disbursement of loan funds increased rapidly during 2000 as

against low disbursements in 1999. At the initial stage of the scheme only two financial institutions, out of seven envisaged in the project, were included as PCIs and the progress of disbursements was, therefore, slow. However, with the inclusion of three additional financial institutions as PCIs, namely, Kandurata Development Bank, Rajarata Development Bank and the Housing Development Finance Corporation (HDFC), the loan disbursements increased rapidly. Details of refinance approvals and disbursements by financial institutions are given in the Table II-10. Total refinance approvals amounted to Rs.117 million, of which Rs.35 million was disbursed during the year under review. The difference between approvals and disbursements is due to the time taken by PCIs to submit disbursement applications. The HDFC accounted for refinance approvals amounting to Rs.86 million and disbursements amounting to Rs.23 million.

TABLE II – 10
Urban Development and Low Income Housing Sector Project (UDLIHSP)
Approval of Refinance Disbursements as at 31 December

Rs.

Participating Credit Institution	No. of Loans Approved		Refinance Amount		Disbursement Amount	
	1999	2000	1999	2000	1999	2000
Commercial Bank of Ceylon	18	63	1,061,250	5,088,250	86,250	4,403,550
Hatton National Bank	33	78	1,155,000	4,923,750	615,000	2,372,250
Ruhuna Development Bank	–	190	–	5,149,140	–	–
Kandurata Development Bank	–	369	–	16,533,200	–	5,968,400
Housing Development Finance Corporation	–	871	–	85,526,868	–	22,588,955
TOTAL	51	1,571	2,216,250	117,221,208	701,250	35,332,955

Source: Central Bank of Sri Lanka

Out of the total loans granted to sub-borrowers, about 64 per cent were for the purpose of construction of new houses and extensions to existing houses. A purpose-wise classification of loan disbursements is given in the Table II-11.

TABLE II-11
Loans by Purpose
(from 01.01.2000 – 31.12.2000)

Purpose	No. of Loans	Loan Amount (Rs.) (a)
Land Acquisition	246	27,788,000
Infrastructure Development	21	2,147,000
New House Construction & Extension	829	93,759,561
Improvements to Existing Houses	475	23,059,950
TOTAL	1,571	146,754,511

Source : Central Bank of Sri Lanka

(a) This includes refinance amount and the contributions by the PCIs.

Investment of Credit Guarantee Fund

The total value of investments in Treasury bills amounted to Rs.1,982 million during the year. The total interest income from the investments amounted to Rs.165 million. Funds for these

investments are derived from premia collected under SMI¹, BPL², SMAP³ and the PRP⁴ Credit Guarantee Schemes and funds advanced by the Central Bank.

Concluded Credit Schemes

Implementation of SMI-IV (1979 - 1997), the Bus Purchase Loan Scheme (1990 - 1992), the Housing Guarantee Low Income Shelter Programme Phase IV (1992 - 1998) and the Small and Medium Enterprise Assistance Project (1997 - 2000) have been successfully concluded. A summary of the performance of concluded schemes is given in the Table II-12. Since the Central Bank's credit guarantee liabilities on SMIs, BPL and SMAP Schemes are still in force, project inspection work and follow-up work in respect of non-performing loans are being carried out by the Department. Premia payments on loans for which credit guarantees are still in force is being continued.

1. Small & Medium Industries
2. Bus Purchase Loan Scheme (1990-1992)
3. Small & Medium Enterprise Assistance Project
4. Plantation Reform Project

TABLE II - 12

Summary of Performance of Central Bank's SMI Credit Guarantee Schemes as at 31st December 2000

Item	Value in Rs. Mn.									
	SMI-I (a)		SMI-II (b)		SMI-III (c)		SMI-IV (d)		SMAP (e)	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans Granted	1,670	286	2,531	1,393	3,130	1,956	9,072	7,666	1,889	2,735
1.2 Loans Guaranteed	1,670	158	2,531	714	3,130	1,313	9,072	4,772	1,889	1,459
2.1 Loans Fully Repaid*	1,235	210	1,744	1,120	1,930	1,656	6,450	4,516	37	49
2.2 Guarantee Withdrawn or Lapsed*	113	65	496	242	872	581	271	242	16	21
3.1 Total Claims Received	338	76	228	119	171	98	273	226	29	50
3.2 Central Bank Liability on Claims Received		34		66		67		150		25
3.3 Settlement of Claims - Fully Settled	232	19	126	32	92	24	87	36	7	6
Partly Settled	27	2	5	1						
ClaimsRejected	32	7	46	13	44	16	56	22	1	0
Claims Returned	-	-	1	0	-	-	11	7	2	1
Loans fully paid after submission of Claims	36	2	7	2	10	4	25	13	-	-
ClaimsDeferred	8	2	21	8	6	5	11	7	-	-
Claims Pending	-	-	10	3	12	8	76	46	19	17
ClaimsWithdrawn	3	1	12	4	7	4	7	7	-	-
4.1 Loans Outstanding (f)*	5	-	63	27	157	54	2,078	1,222	1,807	1,860
4.2 Central bank Liability on Loans Outstanding			63	16	157	37	2,078	797	1,807	1,244
5. Premia Collected	-	12	-	30	-	46	-	170	-	28
6. Post Claim Recoveries	-	10	-	19	-	18	-	10	-	-

Notes : (a) SMI-I - Operated from 1979-81
(b) SMI-II - Operated from 1982-89
(c) SMI-III - Operated from 1988-91

(d) SMI-IV - Operated from 1992-97
(e) SMAP - Commenced in 1997
(f) Provisional
* Adjusted figures.

Source : Central Bank of Sri Lanka

Rural Credit

The Rural Credit Department (RCD) continued to implement credit components of several credit schemes funded by donors, the government and lending banks. During the year under review, the RCD completed successfully the implementation of two credit schemes of the Southern Province Rural Development Project (SPRDP) and the North Western Province Water Resources Development Project (NWP-WRDP). The Monetary Board approved of the implementation of two new credit schemes namely, the Asian Development Bank (ADB) funded Skills Development Project (SDP) and a follow up credit scheme for Southern Province Rural Development utilising the Revolving Fund of the project. As the executing agency for the projects, the Central Bank continued to be involved in admitting new Participating Financial Institutions (PFIs), disbursing refinance to PFIs in respect of loans eligible under projects and monitoring and co-ordinating loan schemes with the assistance of the relevant project offices and other local agencies.

In order to address the marketing problem for agricultural produce, the RCD encouraged farmers and buyers to use forward contracts for sale agricultural produce at prices reasonable to both the farmers and the buyers.

During 2000 the administration of the functions of Regional Offices of the Central Bank was brought under the purview of the RCD, enhancing the outreach capability of the credit schemes implemented by the RCD.

The credit schemes of the following projects were implemented by the Central Bank through the RCD during 2000:—

(a) ADB¹ Funded projects:—

- (i) Tea Development Project;
- (ii) Second Perennial Crops Development Project;
- (iii) Southern Province Rural Development Project;
- (iv) North Western Province Water Resources Development Project;
- (v) North Central Province Rural Development Project;
- (vi) Skills Development Project

(b) IFAD²/CIDA³/SIDA⁴/Japanese Govt.⁵/WFP⁶/USAID⁷/JBIC⁸ Funded Projects:—

- (vii) North Central Province Participatory Rural Development Project (IFAD, SIDA & WFP);
- (viii) Food and Nutrition Promotion Credit Scheme (Japanese Govt.);
- (ix) Poverty Alleviation Microfinance Project (JBIC);
- (x) Matala Regional Economic Advancement Project (IFAD).
- (xi) Urban Environmental Infrastructure Development Project Scheme (USAID).

(c) Government Funded projects:—

- (xii) Small Farmers and the Landless Credit Project (SFLCP);
- (xiii) Kegalle District Integrated Rural Development (Revolving Fund) Project;
- (xiv) Surathura Program;
- (xv) Southern Province Rural Development (Revolving Fund) Project.

Tea Development Project (TDP)

The TDP, which commenced operations in 1999 as a follow up of the Small Holder Tea Development Project, completed its first year of operations in 2000. During the year, a good response was shown by tea smallholders and factory owners to obtain loans under the credit scheme. This was mainly due to the increase in prices for tea in world markets and the favourable weather conditions for planting tea. As a result, the PFIs were able to disburse loans surpassing the targets set for the year. The banks disbursed a total sum of Rs.337 million in 2000, which was 117 per cent above the target for disbursements during the year.

The activities eligible for financing under the project are replanting of tea, establishment of tea nurseries, rehabilitation and modernisation of tea factories, purchase of vehicles and construction of green leaf collection centres. As in the case of the previous credit scheme for smallholder tea development, a majority of the loans had been granted for factory rehabilitation, which was 50 per cent more than the amount targeted for it. A lower level of loans had been granted for establishment of tea nurseries due to the difficulties in providing collateral acceptable to PFIs, such as mortgage of properties, etc. by the Tea smallholders engaged in development of tea nurseries.

The performance of PFIs shows that DFCC Bank (DFCC) accounted for 41.7 per cent of total loan disbursements in 2000. Hatton National Bank (HNB) (16.4 per cent), Commercial Bank (16 per cent), National Development Bank (NDB) (10.7 per cent), Sampath Bank (8.9 per cent) and Bank of Ceylon (BOC) (6.3 per cent) accounted for the balance disbursements. Two new PFIs, Bank of Ceylon (BOC) and Kandurata Development Bank (KDB), having satisfied the eligibility criteria for admission as PFIs, were admitted under the scheme during the year.

Upto the end of 2000, PFIs together approved 568 loans amounting to Rs.506 million and disbursed 499 loans amounting to Rs.372 million. Of these, the Central Bank has refinanced 236 loans amounting to Rs.217 million.

1. Asian Development Bank
2. International Fund for Agricultural Development
3. Canadian International Development Agency
4. Swedish International Development Agency
5. Japanese Food Production Grant
6. World Food Programme
7. United States Agency for International Development
8. Japan Bank for International Co-operation.

Second Perennial Crops Development Project (SPCDP)

The SPCDP, a continuation of the First Perennial Crops Development Project (FPCDP), completed its second year of operations in 2000. The Project covers the entire island, except the Northern and Eastern provinces, and is scheduled to be completed by 2004. The objective of the Project is to support the development and commercialisation of the perennial crop sector by providing credit facilities and support services. The Project consists of 5 major components, viz., (a) credit; (b) farm advisory, marketing and technical services; (c) research; (d) seed and planting materials; and (e) institutional strengthening. The Central Bank handles the credit part, while the Ministry of Agriculture handles the other components.

During the year under review, two new PFIs, Bank of Ceylon (BOC) and Kandurata Development Bank (KDB), satisfied the ADB criteria for admission as PFI under the credit scheme. Hence the number of PFIs under the credit scheme increased to seven. Out of the allocation made for the credit component, i.e. SDR 11.562 million (approximately Rs.1,155 million), a sum of Rs.295 million has been disbursed to 698 eligible sub-projects by all PFIs at end 2000. The amount disbursed by PFIs during the year stood at Rs.184 million. The Central Bank granted a sum of Rs.129 million to PFIs by way of refinance during the year under review.

In response to a request made by the Central Bank, the ADB increased the free limit allowed for approval of sub loans by PFIs from US dollars 50,000 to US dollars 100,000 or its rupee equivalent. Loans exceeding this amount, up to US dollars 150,000, require ADB's approval for disbursement. Further, the ADB was associated in activities relating to technical assistance for a pilot project for private sector participation in advisory services for project beneficiaries of the SPCDP. At present, farm advisory, marketing, technical services etc. are being handled by the Ministry of Agriculture. The Ministry has made necessary arrangements to sign agreements with selected private entities. This move is considered to be one of the first attempts in Sri Lanka to rely on the private sector to provide extension services on a 'user-pays' system, where the clients pay directly at commercial rates for advisory services they receive. The Central Bank, in collaboration with the project office of the PCDP, conducted 6 training programmes/workshops for managers of branches of PFIs with a view to motivating them to expedite credit disbursements under the Project.

Southern Province Rural Development Project (SPRDP)

The Southern Province Rural Development Project (SPRDP), funded by the ADB, which commenced operations in 1992, completed its operations on 30 June 2000. The Project was originally scheduled to be terminated by end 1999, but was

extended by a further six months in order that reimbursements could be claimed from ADB for loans granted during the latter half of 1999.

The SPRD Project was implemented with the objective of raising the income levels and the quality of life of the people in the Southern Province by creating opportunities for self employment and income generating activities and strengthening the economic and social infrastructure in the districts of Galle, Matara and Hambantota. The target group of the project included small and marginal farmers, landless labourers, small and medium industrialists, women and unemployed youth.

Out of the total allocation of Rs.466 million (SDR 6.4 million) for the credit component, Rs.369 million or 79 per cent was allocated to the Central Bank by the Ministry of Plan Implementation to provide refinance to PCIs for loans granted by them for rural micro and small and medium scale industries. The balance was provided to the Thrift and Credit Co-operative Societies (TCCS) to facilitate the financing of micro level self-employment activities. During the project period, the entire allocation made by the Ministry was utilised to provide refinance to the PCIs. The Central Bank had released a sum of Rs.16 million by way of refinance to PCIs during the year 2000, bringing the total refinance provided to Rs.369 million. Loan disbursements by the PCIs amounted to Rs.18 million in 2000. Total loan disbursements during the project period were Rs.418 million, of which nearly Rs.50 million or 12 per cent were contributed by the PCIs from their own funds. The district-wise performance of the loans granted shows that Matara had the highest number of loan disbursements with 51 per cent, while Galle and Hambantota had loan disbursements of 29 per cent and 20 per cent, respectively.

Ruhuna Development Bank (RDB) and the DFCC had financed around 7,709 projects during the project period. Out of the total loan disbursements, around 85 per cent was disbursed by the RDB. In terms of the number of loans, RDB had funded 98.5 per cent of the loans and the entirety of these loans had been micro loans.

The impact evaluation study of the project had rated the credit programme as one of the successful components of the Project. The study had also revealed that the RDB had made a positive attempt to address the acute unemployment problem in the province by supporting a large number of self-employment income generating activities. The size of loans granted by the RDB was within the range Rs.28,000 - Rs.45,000, and about 44 per cent of the loans granted had been for self-employment projects. Of the categories of loans, income generating activities such as trading and self-employment account for the highest portion of loans disbursed, whereas the lowest was for the fisheries sector. Approximately 94 per cent of the projects financed had been successful, whereas and only 6 per cent had failed.

Southern Province Rural Development Project (Revolving Fund) Credit Scheme (SPRDPCS)

The SPRDP (Revolving Fund) Credit Scheme was introduced in order to provide refinance to PCIs in respect of loan instalments approved and not disbursed under the Southern Province Rural Development Project (SPRDP) which concluded its operations in June 2000. Funds for operating the credit scheme were drawn from transferring a sum of Rs.194 million from the loan recoveries and the interest income of the SPRDP.

The Central Bank entered into an administrative agreement with the government and subsidiary loan agreements with the PCIs for implementation of the above credit scheme until a second line of credit comes into operation. The terms and conditions of lending under this credit scheme were the same as those of the SPRDP, except for new loans where the interest rate was revised downwards. The on-lending rate and the refinance rate were reduced by 2 per cent per annum for new loans, and were fixed at 12 per cent and 4 per cent per annum, respectively.

A total of Rs.38 million had been provided to PCIs as refinance under this credit scheme upto end 2000.

North Central Province - IFAD Funded Participatory Rural Development Project (NCP-PRDP) and ADB Funded Rural Development Project (NCP- RDP)

The IFAD funded North Central Province Participatory Rural Development Project (NCP-PRDP) and the ADB funded North Central Province Rural Development Project (NCP - RDP), having commenced their operations in 1996 and 1997, respectively, completed the fourth and third years of operation in 2000. Both these projects aimed at alleviating of poverty through the improvement of productivity of farmers and the development of infrastructure facilities in the Districts of Anuradhapura and Polonnaruwa.

The Central Bank functions as the apex co-ordinating agency for the credit component of both projects and operates through its Regional Office at Anuradhapura. Though the PCIs were to finance sub-loans out of their own funds, for a payment of 2 per cent per loan to cover administration costs and other support services, the disbursement of credit was substantially below expectation. Hence, the total loan disbursements from the inception of the projects amounted to only Rs.3 million. The slow progress of the project was taken into consideration by the officials of the funding agencies, and the government had negotiations with the National Development Trust Fund (NDTF) to explore the possibility of allocating part of the funds to refinance sub loans under the Project. However, having failed to obtain funds from the NDTF, the Mid - Term Review Missions of the ADB and IFAD to Sri Lanka in 2000 agreed to allocate funds from the unutilised funds of these projects for provision of refinance to PCIs. Accordingly, a sum of US dollars 500,000 (approximately Rs.40 million) has now been

allocated by the ADB for the NCP-RDP and US dollars 250,000 (approximately Rs.20 million) by IFAD for the NCP-PRDP. These credit schemes are expected to continue operations with a new credit plan once the revisions to the loan agreements are finalised.

NWP-Water Resources Development Project (NWP-WRDP)

The North Western Province Water Resources Development Project, which commenced operations in 1992, completed its activities in June 2000. The project focussed attention on improving the economic, social and institutional wellbeing of the rural population in the North Western Province. The Central Bank functioned as the executing agency for the credit component of the project, which had a credit allocation of US\$ 1.8 million (approximately Rs.112 million) for promotion of farmer owned on-farm irrigation systems with dug wells and water pumps and for establishment of income generating activities by rural women. At the inception of the project, the Regional Development Banks of Puttalam and Kurunegala (which were later vested with the Wayamba Development Bank) and Hatton National Bank participated in the credit scheme, and in 1996, the Bank of Ceylon and the People's Bank were also included as PCIs in order to improve the outreach of micro-credit for rural women.

At the completion of the Project in June 2000, PCIs had disbursed Rs.31 million for the construction of 918 agro-wells and Rs.81.5 million for self-employment projects of 3,430 women. Under the lift irrigation component, which commenced operations in 1996, 148 projects to a value of Rs.4 million had been financed. A total of 4,239 sub-loans amounting to Rs.112 million had been refinanced by the Project upto its termination, recording a loan utilisation rate of 100 per cent.

Urban Environmental Infrastructure Development Project Scheme (UEIDP)

The Urban Environmental Infrastructure Development Project (UEIDP) Credit Scheme recorded considerable progress during the year by providing a sum of Rs.32 million as at end 2000, compared to zero disbursement recorded during the previous year. The progress shown in the loan scheme is mainly due to the publicity programme launched by the RCD during the year under review. The RCD also admitted the six Regional Development Banks (Wayamba, Sabaragamuwa, Kandurata, Ruhuna, Rajarata and Uva) in addition to National Development Bank and the Sanasa Development Bank as PCIs under the scheme.

The UEIDP was inaugurated in 1999 and funded by the government through a loan of US\$ 4 million raised from the private sector in USA under the Housing Guarantee Loan No.383 HG006 and guaranteed by USAID. The project aimed at promoting the private sector in environmental development, particularly in the urban and semi-urban areas throughout the country. Projects resulting in improvement in community water

supply and sanitation, garbage collection and waste water treatment are some of the environmental development projects, which qualified for financing under the Project. Municipal Councils, Urban Councils, Pradeshiya Sabas, private and Government sector organisations and individual borrowers undertaking eligible sub-projects mentioned above will be provided with loans through the PCIs. During the year under review, Sanasa Development Bank had granted a sum of Rs.30 million for community development, water sanitation and garbage collection projects and the Regional Development Banks (Ruhuna and Sabaragamuwa) a sum of Rs.2 million for a water sanitation project.

The RCD conducted awareness programmes for Regional Development Banks and local authorities with a view to expanding credit disbursement under the Project.

Small Farmers and the Landless Credit Project (SFLCP)

The Small Farmers and the Landless Credit Project (SFLCP), which commenced operations in 1990, continued its activities in four districts, namely, Puttalam, Kandy, Galle and Matara, with assistance from the International Fund for Agricultural Development (IFAD) and the Canadian International Development Agency (CIDA). The credit delivery mechanism used by the SFLCP was to grant loans to groups of poor who were deprived of formal credit due to lack of collateral. The foreign funding for the project was terminated in December 1997 as scheduled, and in 1999, the Central Bank continued the project activities by recycling the loan recoveries in terms of the Agreement with IFAD. The Central Bank recalled its personnel seconded for management of the project district offices and arrangements have now been made to obtain staff from the RDBs in the relevant districts to co-ordinate the field operations of the Project.

At the end 2000, the Project had covered 2,450 villages in the four project districts and had formed 10,281 self-help groups as the vehicle for providing assistance to beneficiaries. The beneficiaries, numbering 61,752, were reached through these groups which is well above the target of 32,000 set in the project design. A noteworthy feature in the Project has been the active and predominant participation of 42,867 women, accounting for 69 per cent of the total beneficiaries. At the end of the year, a sum of Rs.594 million had been advanced as micro-loans to enable the borrowers to undertake income generating self-employment activities. The average size of a loan amounted to Rs.10,245. The Project has consistently maintained a cumulative recovery rate of over 97.3 per cent. In addition, the beneficiaries had saved Rs.78 million as group savings up to the end of 2000 under the savings mobilisation scheme of the Project.

In 2000, as in the previous years, loan recoveries were recycled to provide refinance to the Regional Development Banks, while the interest income earned by investing excess funds was utilised to meet the administration and beneficiary

training expenditure of the Project.

The Central Bank continued to set up Isuru Development Societies by allowing the self-help groups (SHGs) to amalgamate themselves into formal corporate bodies during 2000. This was a scheme inaugurated in 1997 to facilitate matured SHGs to strengthen their fund base, improve negotiation capacity, enhance outreach capability and achieve greater synergical power. Accordingly, several groups operating in a village were formed into Isuru Development Societies and were registered with the Registrar of Companies as a limited liability society under the Societies Ordinance. By the end of the year under review, 187 such limited liability societies had been formed. Four district federations in the project districts of Matara, Galle, Puttalam and Kandy have been formed by federating the societies in each district. During the year, Isuru District Federations have expanded their activities to develop the economic, social and cultural skills of the members. A scholarship fund had been established in the Kandy and Matara districts to provide financial assistance to needy children of members of Isuru Societies. With a view to providing avenues to sell the products of the beneficiaries, exhibitions were organised in the four districts. A programme was also launched by the Isuru Project to supply local varieties of herbal plants to Link Natural Products Ltd. and the Ayurveda Pharmaceutical Corporation by entering into forward sales contracts. The beneficiaries were also provided with practical training relating to varieties of herbal plants by the above-mentioned institutions. The diversification of the activities undertaken by the Isuru Development Societies is a reflection of the improved capacity of the Societies that had been established three years ago. The issued share capital and savings of the Development Societies amounted to Rs.5.9 million, Rs.7.0 million respectively as at end of 2000. The loans granted by the societies out of their own funds stood at Rs.54 million.

Poverty Alleviation Microfinance Project (PAMP)

The Central Bank made preliminary arrangements during the year to commence implementation of the PAMP funded by the Japan Bank for International Co-operation (JBIC).

The Government of Sri Lanka entered into a loan agreement with the JBIC on 4 August 1999 for the implementation of a micro-credit project titled 'Poverty Alleviation Micro Finance Project' (PAMP). This project is a replication of the SFLCP which successfully followed the credit plus approach. The project PAMP aims at setting up an effective credit delivery mechanism for channelling institutional credit for income generating activities to the rural poor who have had no access to credit from formal credit institutions. The project also expects to improve the economic conditions and the general welfare of the beneficiaries and eventually contribute to the economic and social development of Sri Lanka. Six districts viz., Badulla, Nuwara Eliya, Matale, Kalutara, Kurunegala and Hambantota, have been identified for project implementation.

During the year under review, the Central Bank set up the Central Project Office and Project District Offices (PDOs) and also recruited a staff for them.

The total project cost has been estimated at Japanese yen 1,610 million (Rs.870 million) for credit, training, technical assistance and project administration. The JBIC will provide a loan of Japanese yen 1,368 million (Rs.739 million), while Government is required to finance the balance as the local component of the project costs.

Surathura Programme - Self-Employment Promotion through Micro Enterprise Credit

The three PCIs of the Surathura Programme, Bank of Ceylon (BOC), People's Bank (PB) and Hatton National Bank (HNB), continued the second phase of the programme out of their own funds at an interest rate of 10 per cent per annum. The government continued to pay a 10 per cent interest subsidy to PCIs.

Under Phase II, 30,000 loans to the value of Rs.1,300 million were targeted for disbursement by the PCIs to eligible borrowers to undertake income generating self-employment projects. The scheme provided loans to unemployed, particularly, educated youth, to enable them to commence new projects or to expand existing projects.

At end 2000, the PCIs had financed 23,000 projects to a value of Rs.907 million. During the year under review, the PCIs had granted Rs.171 million for 3,752 projects.

The Central Bank continued to monitor the recoveries of the Surathura Phase I which completed its operations in 1997. Under this phase, the government allocated a sum of Rs.350 million to provide refinance to PCIs at an interest rate of 4 per cent per annum for a period of 7 years, including a grace period of 5 years. The Surathura Phase I programme had maintained an overall recovery rate of 65 per cent. A fact finding survey conducted by the Rural Credit Department revealed that poor identification of borrowers had resulted in the low rate of recovery of loans under the credit scheme.

Food and Nutrition Promotion Credit Scheme (FANP) The Food and Nutrition Promotion (FANP)

Credit Scheme commenced its operations in 1997 at the request of the Ministry of Agriculture. The government provided a sum of Rs.284 million out of the counterpart funds of the Japanese Food Production grant, received by it for implementation of the credit scheme. It was designed to channel credit through farmer organisations, co-operatives and Thrift and Credit Co-operative Societies. At end 2000, the total sum financed amounted to Rs.25 million. The main reason for under utilisation of credit was the difficulties encountered by co-operatives and farmer organisations in providing collateral acceptable to banks as security for loans. Banks have approved loans amounting to Rs.129 million for paddy processing, dairy farming, banana cultivation and food processing. However, it is likely that the scheme will remain operative only to finance the loans already approved.

Kegalle District Integrated Rural Development (Revolving Fund) Project (KGIRDP)

After the conclusion of the Kegalle District Integrated Rural Development Project (KGIRDP) in 1995, a revolving fund was established by transferring funds from loan recoveries of the IRDP. The IRDP revolving credit scheme commenced operations in 1997, and continued to provide loans to unemployed educated youth to start up new self-employment projects or to expand their existing self-employment projects in the district. For implementation of the Project, Business Development Officers (BDOs) were engaged on a fee based system, to identify beneficiaries, to prepare business plans and to direct the beneficiaries to appropriate banks. The Project had financed 3,594 sub-projects amounting to Rs.142 million by end 2000. During the year, the three PCIs involved in the Project, Bank of Ceylon (BOC), People's Bank (PB) and Sabaragamuwa Development Bank (SDB) had granted loans amounting to Rs.2 million, Rs.12 million and Rs.29 million, respectively. The credit delivery mechanism adopted under the Project has become very successful and, therefore, the activities of the project are corrected to expand in the future.

Skills Development Project

In December 2000, the Monetary Board of the Central Bank of Sri Lanka approved the participation of RCD in the Skills Development Project (SDP). The SDP is funded by the Asian Development Bank (ADB) in terms of the loan agreement for the project entered into between the Government and the ADB on 15.11.1999. The ADB will provide a loan of SDR 13.7 million for this project. The Project will be implemented by the Ministry of Vocational Training (MOVT), on behalf of the government, for a period of six years from March 2000 to August 2006.

The objective of the project is to improve the quality and reliance of skills development Programmes with a view to building a high quality workforce through restructuring and reorientation of the vocational training system by introducing competency based training programmes and to promote a closer partnership between vocational training institutions and the private sector. The Project consists of the following four components, i.e., (a) improving the quality and relevance of skills development programmes, (b) institution building and human resource development, (c) resource mobilisation and sustainability and (d) innovative interventions and NGO/private sector participation.

The Central Bank is responsible for implementing the innovative intervention and NGO/private sector participation component by providing refinance to PCIs for eligible sub loans granted to people who have completed the Skills Development Programmes. Preliminary arrangements have been made by the Central Bank to sign the Administration Agreement with the Government and the Subsidiary Loan Agreements with PCIs. The Project is expected to launch a self-employment promotion initiative as a pilot programme for supporting needy people who

will be completing Skills Development Programmes. A total sum of US dollars 657,000 has been allocated for the Project to provide initial financial support to establish small scale entrepreneurial or self-employment activities, subject to a minimum of Rs.50,000 and a maximum of Rs.250,000.

Matale Regional Economic Advancement Project

The Matale Regional Economic Advancement Project funded by IFAD, which came into effect from 1999, continued its operations in 2000. This Project is implemented on a trial basis in the Matale District. Conceptually, this Project is a deviation from the earlier Integrated Rural Development Project (IRDP) implemented by the government. Under this new programme, the private sector will be effectively associated in the project. This together with infrastructural and credit components the entrepreneurial abilities available in districts would be conducive to achieving a sustainable development in the district. The CBSL functions as the executing agency for the credit component. The resources of the Matale Regional Office of the Bank will be used for this purpose. The Kandurata Development Bank (KDB) has been identified as the main PCI under the credit component. The IFAD has provided a loan of SDR 8.35 million to the Government, which includes a credit component amounting to SDR 2 million, to be utilised for funding micro and medium scale enterprises, especially in rural areas in the Matale District. A Project Management Office under the Regional Development Division of the Ministry of Plan Implementation has been set up in Matale to assist the credit component activities. The Bank's Regional Office in Matale will supervise and monitor the credit component under the supervision of the Rural Credit Department.

During the year under review, the Central Bank has entered into an administrative agreement with the Ministry of Plan Implementation and a subsidiary loan agreement with the Kandurata Development Bank (KDB) for implementation of the project.

A summary of the rural credit projects currently being implemented by the Central Bank is presented in Table II-13.

Regional Offices

The Monetary Board assigned the responsibility of monitoring the activities of the Regional Offices (ROs) of the Central Bank at Matara, Anuradhapura and Matale to the Rural Credit Department (RCD) in September 2000.

The ROs continued to carry out developmental activities and traditional central banking activities. Under the developmental activities, the three ROs have given priority to promoting the Forward Sales Contract System (FSCS) under which the buyers and sellers of agricultural produce enter into forward sales contracts at a pre-determined price, so that the farmers could secure a reasonable price for their produce, whilst buyers obtain good quality produce in time. The three ROs together with the Regional Development Banks in their respective areas actively engaged themselves in co-ordinating

this activity. In addition, the ROs were engaged in currency operations (Matara and Anuradhapura), cheque clearing activities, data collection, conducting beneficiary training programmes, assisting regional development projects and co-ordination with government departments, agencies and organisations involved in development work in the region.

Matara

The development banking activities of the Matara RO includes co-ordination of refinance credit schemes, assistance to the Small Farmers and the Landless Project credit scheme in the Galle and Matara districts, preliminary activities related to the Poverty Alleviation Microfinance Project (PAMP) funded by the Japan Bank for International Co-operation in the Hambantota District, introduction of FSCS in the region through the Ruhuna Development Bank (RDB) and other banks, the Arunalu Village Adoption Programme and the co-ordination of several rural credit schemes.

Under the research and statistics functions, the office continued to assist in the islandwide data collection scheme with weekly data collection in Matara and monthly data collection in six centres in the Matara District, preparation of district-wise data and carrying out a survey of small industries in the Urban Council area in Matara. Other functions performed by the Matara RO included currency operations, maintenance of current accounts of commercial banks, operating the regional clearing house, encouraging sale of government securities through primary dealers, sale of CBSL publications, conducting of entrepreneurial development programmes, training of officers of RDBs, educational programmes for students and other development finance activities relevant to commercial banks and other agencies.

The Matara RO, made special efforts to introduce the FSCS in the region jointly with the RDB and the RCD. This work involved conducting a series of meetings for paddy farmers and buyers in Weerawila, Lunugamvehera, Ambalantota, Angunakolapelessa and for sesame farmers in Suriyawewa, Lunugamvehera and Weeraketiya. The RO introduced the FSCS programme to commercial bankers in the area through the Bankers' Forum organised by the Southern Development Authority. Largely as a result of these efforts, by the end of the year, as at end, 779 agreements covering a total value of Rs.49 million for purchase of paddy and sesame were signed.

The RO continued to assist the RDB in the implementing the Arunalu Village Adoption Programme in Paravahera and Angulumaduwa in the Matara and the Hambantota districts respectively.

With regard to currency operations, a special programme was launched by the RO to collect coins that has been kept out of circulation, and three consignments comprising 3,775 bags of these coins to the value of Rs.3.24 million were sent to the Currency Department of the Central Bank of Sri Lanka. The regional clearing house operated in the RO, Matara, provided

TABLE II - 13
Credit Schemes Operated by the Rural Credit Department during 2000

Name of the Project	Funding Agency	Broad Mission	Original Allocation	Interest Rate to the Borrowers (%)	Credit Disbursement upto 31.12.2000 (Rs.Mn.)	Recovery Rate where applicable (%)
1. Tea Development Project (1999-2005)	ADB	Increase tea smallholders' income on a sustainable basis and improve the natural environment in the project area.	US \$ 17 Mn.	AWDR (a) + 2 (for Replanting) AWDR + 6 (for other purposes)	372.3	95
2. Second Perennial Crops Development Project (1998-2004)	- do -	Increase the production and commercialisation of perennial crops, development of nurseries, post-harvest handling and processing activities and marketing.	US \$ 15.685 Mn.	AWDR + 2	294.7	still in grace period
3. Southern Province Rural Development Project (1992-1999)	- do -	Improve the quality of life of the people in the Southern Province.	US \$ 8.1 Mn.	14	417.6	85
4. Southern Province Rural Development Project (Revolving Fund) Credit Scheme (from 2000)	Govt. of Sri Lanka	- do -	-	12	37.8	85
5. North-Western Province Water Resources Development Project (1993-2000)	ADB	Improve economic, social and nutritional well-being of the people living in the project area.	US \$ 2.7 Mn.	14	116.7	95
6. North-Central Province Participatory Rural Development Project (1996-2002) and North-Central Province Rural Development Project (1997-2003)	ADB, IFAD, SIDA and WFP	Poverty alleviation, improve food security, nutrition and increase employment opportunities for low-income families.	SL Rs. 153 Mn. SL Rs. 43 Mn.	Maximum 17	3.3	n.a.
7. Urban Environmental Infrastructure Development Project (1999-2001)	USAID	Improve environmental facilities, health and sanitary conditions of the people living in urban and semi-urban areas.	US \$ 4 Mn.	16	32	95
8. Small Farmers & Landless Credit Project (1990-2000)	IFAD, CIDA and GOSL	Establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	SDR 4.85 Mn.	16 (Agri.) 20 (Other Purposes)	569	96.7
9. Food & Nutrition Promotion Credit Scheme (Year Commenced - 1997)	Japanese Government	Increase food production and improve food processing techniques in the country.	SL Rs. 284 Mn.	10	115	n.a.
10. New Comprehensive Rural Credit Scheme	PCIs with govt. interest subsidy	Upliftment of rural farmers who cultivate short-term food crops.	-	12	594	85 (b)
11. Kegalle District Integrated Rural Development (Revolving Fund) Project (1997-2007)	Government of Sri Lanka	Uplift the standard of living of the people in the project area by promoting income-generating activities.	SL Rs. 100 Mn.	10	143.4 (c)	91
12. Surathura Programme Phase II (1998 & onwards)	PCIs with govt. interest subsidy	Increasing income and improve living standards of unemployed educated youth by promoting self-employment among them.	SL Rs. 1,300 Mn.	10	914.3	53
13. Japan U-Ko Micro-finance Project (Poverty Alleviation Micro-finance Project) - (Year commenced 2000)	JBIC	Establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	¥ 1,368 Mn.	Market Rates	n.a.	n.a.
14. Matale Regional Economic Advancement Programme	IFAD	Permanent raising and sustaining of income of small entrepreneurs of rural and farmer families of project area.	SDR 2 Mn.	14	n.a.	n.a.
15. Skills Development Project (Year commenced 2000)	ADB	Improve quality and relevance of skill training programmes to build a high quality workforce and address issue of skills mismatch and unemployment among rural and urban youth.	SDR 0.657 Mn.	AWDR + 2	n.a.	n.a.

(a) AWDR - Average Weighted Deposit Rate

(b) Approximate overall position

(c) Total amount refinanced by CBSL

Source : Central Bank of Sri Lanka

clearing facilities to 7 commercial banks in the area, facilitating current account holders to realise the proceeds of cheque deposits by them. During the year, 209,065 cheques to the value of Rs.44.8 billion had been cleared through the regional clearing house.

Matale

The main activities undertaken by the RO, Matale, during the year under review were promotion of the Forward Sales Contract System (FSCS) for agricultural produce, conducting awareness programmes on post-harvest technology, educating farmers on high-tech agriculture, entrepreneurship development, development of micro enterprises, village adoption programmes, marketing development, banking sector development and rural credit activities. In view of the marketing difficulties faces by farmers, the RO had given priority to promoting the FSCS in the region. The first programme was launched at Morayaya, and activities taken to enter into 312 contracts as at end 2000 with Bank of Ceylon and the Kandurata Development Bank (KDB) acting as facilitators. The RO also provide training and conducted workshops and seminars to improve the skills of farmers.

During the year, the RO selected a colony in Dullewa in the Matale District for development under the village adoption programme. The RO also initiated the establishment of two organisations in Matale and Kandy for bankers in the area to discuss common problems with a view to developing good harmony among them.

During 2000, the RO continued the activities relating to the credit schemes on Food and Nutrition Promotion, Tea Small Holder Development, Second Perennial Crop Development Project, Urban Environment and Infrastructural Development Project, Kegalle District IRD Project (Credit Monitoring Committee Activities), Small Farmers and the Landless Credit Project, Regional Economic Advancement Project and the Interest Subsidy Scheme for Agriculture.

The RO also continued operating two clearing houses in Kandy and Matale. The Kandy clearing house handled 811,533 cheques to the value of Rs.23.1 billion of two State Banks and nine private commercial banks, while the Matale clearing house handled 113,433 cheques to the value of Rs.2.1 billion.

Anuradhapura

The main activities carried out by the Regional Office, Anuradhapura were micro enterprise development, development of cultivation systems, forward sales contracts, loan disbursements under the ADB funded Rural Development Project (ADB-RDP) and the IFAD funded Participatory Rural Development Project (IFAD-PRDP), conducting educational seminars, data collection, sales of central bank publications, currency operations and the regional clearing house.

Under micro enterprise development activities, the Regional Office (RO) had conducted three entrepreneurship development programmes for youths in the Anuradhapura

District, training them in a variety of areas such as food processing, procurement of raw materials, banking and financial assistance and maintenance of quality control, to help them to start self-employment projects.

With a view to uplifting the living standards of the rural poor and upgrading their skills, the RO conducted several training programmes/workshops for targeted groups. Through the development of cultivation systems programme, the farmers/cultivators in the region were made aware of latest farming techniques, irrigation systems, methods of minimising waste and maintaining high quality of products.

During 2000, the RO, in collaboration with the banks operating in the area, took the initiative to promote the FSCS in the area. As a result, the RO was able to initiate 963 forward sales agreements to a total value of Rs.35 million.

In addition, the RO carried out currency operations, regional clearing and selling of Central Bank publications in the area.

Financial Markets

The Central Bank, through its Financial Markets Department (FMD), assists in creating a conducive policy environment for the development of financial markets in Sri Lanka, with emphasis on the debt securities market. The functions of the Department involve identifying appropriate incentives, institutional support requirements and improving operating and regulatory structures for the proper and efficient functioning of the financial markets. The FMD is also responsible for coordinating and monitoring the implementation of the on-going financial sector reforms programme and for co-ordinating the activities of the Financial Sector Reform Committee, which is responsible for reforms in the financial sector. The Department also liaises with international donor agencies on technical assistance projects for the Central Bank relating to the financial sector.

During the year under review, the Department was engaged in co-ordinating a number of activities. Some of them are set out below.

Deposit Insurance Scheme

The Central Bank appointed a Task Force to explore the feasibility of setting up a compulsory deposit insurance scheme, covering banks and finance companies. The main objective of the proposed scheme is to protect small depositors and to level the operating conditions between the state banks and the private banks.

The Task Force is expected to give recommendations on:

- (a) The scope and level of deposit insurance coverage
- (b) The institutional structure and administration
- (c) The cost of funding and ownership
- (d) The type of premium rates and policies for addressing depositor claims

- (e) The outline of the proposed legislation required to set up and administer the deposit insurance scheme.

Legislative Enactments and Proposed Legislation

(a) Regulations relating to Primary Dealers under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance

New regulations governing the licensing, operating and supervisory framework of primary dealers were gazetted in March 2000. This allowed dealers to set up separate entities with dedicated capital to trade exclusively in Treasury securities. Eight primary dealers have been registered under the new scheme.

(b) Insurance Act

The Regulation of Insurance Industry Act, No.43 of 2000 was passed by Parliament in July 2000.

This Act provides for the establishment of a regulatory authority for the insurance sector. The insurance regulatory body will be responsible for supervising the operating environment of insurance companies, insurance broking companies and agents. The minimum share capital and prudential requirements, such as solvency margins and reserves for insurance companies, are specified in the law.

The new Act also provides for greater diversification of the investment portfolio of insurance companies by reducing the minimum stipulated level of investment in government securities. The qualifications of the directors and key staff in the insurance and broking companies are specified in the law. There are also requirements relating to actuarial valuations and audited accounts. This Act replaced the Control of Insurance Act, No.25 of 1962.

(c) Finance Leasing Act

The new Finance Leasing Law was passed by Parliament in August 2000 and will become operative in early 2001. The Finance Leasing Law defines the rights and obligations of parties to a finance leasing transaction and provides a regulatory and supervisory framework for the finance leasing industry. The CBSL will license, regulate and supervise finance leasing companies.

Preparation of Draft Bills and Regulations

The FMD was also associated in the preparation of several draft bills and regulations during the year. The bills are expected to be finalised and presented to Parliament in 2001.

The following are the draft bills and regulations:

(a) Draft Bill for a Superannuation Benefit Fund Regulatory Commission

The Draft Bill for a Superannuation Benefit Fund Regulatory Commission was approved by the Cabinet in May

2000. This move was taken to facilitate the establishment of a regulatory authority for private pension and provident funds.

(b) Draft Bill to amend the Banking Act, No. 30 of 1988

Amendments to the Banking Act were approved by the Monetary Board in February 2000, and Cabinet approved the Bill in April 2000.

These amendments would strengthen the supervisory and regulatory powers of the Central Bank relating to licensing procedures, revocation of licences, amalgamation, liquidation and closure of banks, qualifications, appointment and removal of bank directors and senior management. They also provide for the establishment of a regulatory framework for 'Registered Financial Institutions' which is a category of institutions engaged in financial business, other than deposit taking.

(c) Draft Bill to amend the Monetary Law Act, No. 58 of 1949

The proposed amendments to the Monetary Law Act relate to:

- ▶ Making price stability the main objective of the CBSL so as to avoid possible policy conflicts.
- ▶ Revising the definition of money supply to take in to account 'broad money'.
- ▶ Removal of the maximum and the minimum limits on the statutory reserve ratios.
- ▶ Providing more flexibility to the Monetary Board to decide the basis of computation of the required reserves.
- ▶ Payment of interest on reserves, and
- ▶ Enabling the imposition of reserve requirements on financial liabilities other than deposit liabilities.

Tax incentives for the development of capital markets

A series of tax incentives had been granted during the past few years to develop the equity and debt markets and to increase the array of financial instruments available in Sri Lanka.

During 2000, the stamp duty for mortgages and asset backed securities was removed with a view to promoting the diversification of financial instruments and creating an environment conducive to financial innovation.

The Agreements between the Government of Sri Lanka and the State owned Commercial Banks

The main objectives of the Agreements signed by the Bank of Ceylon and People's Bank with the Government of Sri Lanka on 16 July 1998, were to improve the banks' profitability, efficiency and financial soundness by commercialising and consolidating operations, increasing productivity, reducing costs, rationalising staff levels and the branch network, conserving assets, increasing loan recoveries and improving risk management. These objectives sought to improve the banks' internal governance and financial performance, by providing

the management with operating autonomy and specifying annual quantitative performance targets. Profitability targets included return on assets and return on capital, efficiency targets and financial soundness targets for loan recovery and non-performing loans.

The Central Bank continued to monitor the performance of the Banks to achieve these targets set out in the Agreement.

Technical Assistance Projects

The FMD co-ordinated the implementation of the following technical assistance projects with various donor agencies during the year.

(a) Automation of the Central Bank Payments System and the Government Debt Securities Market

An in-house Central Depository System for scripless treasury bills and treasury bonds has been developed during the year. The preliminary work connected with the implementation of the Real Time Gross Settlement System will commence in 2001 under the proposed World Bank technical assistance programme.

(b) Surveillance of Primary Dealers

The Central Bank has prepared a new legal framework for the supervision of primary dealers. With technical assistance from the World Bank, manuals and guidelines required for effective supervision of the primary dealer system were prepared during the year and staff have been provided with training. Both on-site examinations and off-site surveillance commenced during the year.

(c) Upgrading the supervisory capabilities of the Bank Supervision Department

The project involves upgrading the on-site and off-site supervisory capacity of the Department in risk based supervision and computer audits. The second phase of the technical assistance under SIDA was in progress.

(d) Pension Reform Project

Technical assistance has been obtained to engage consultants to assist in introducing pension reforms. This assistance is in the area of :

- Establishing a regulatory authority for insurance and private superannuation funds and
- Making proposals for reforming pension and provident fund systems and developing a comprehensive and sustainable social security system.

Research Activities

The Economic Research Department (ERD) assisted the Governor and the Monetary Board in the conduct of monetary policy and in the performance of the Central Bank's role as economic adviser to the government. ERD collected and

analysed statistical and other information on the Sri Lanka economy as well as on the trends and recent developments in the world economy and undertook research on related subjects. It improved and enhanced the supply of economic information to the public, that being one of the major responsibilities of the Central Bank.

ERD also co-ordinated Sri Lanka's relations with the IMF and the Intergovernmental Group of Twenty Four (G-24) on International Monetary Affairs, while also helping the Ministry of Finance and planning to co-ordinate its functions with other international organisations, such as the World Bank, the Asian Development Bank and other multilateral and bilateral donors. It also provided technical support in the Ministry of Foreign Affairs and the Ministry of Internal and International Trade and Commerce in the area of some of the international relations. In addition, the ERD provided policy advice/observations on various matters referred to the Department by other departments of the Bank as well as the Ministry of Finance.

The services of research officers in the Department were made available for training of postgraduate degree aspirants of the Bank and for providing guidance in their research. Its officers also served as resource persons in training programmes conducted by the Centre for Banking Studies and other foreign and local organisations.

The ERD continued to compile the weekly and monthly economic indicators and made these available to the public through the Internet and other media. The Department compiles the Sri Lanka Inter Bank Offer Rates (SLIBOR) that give an indication of the likely rates for rupee transactions among commercial banks for different maturities. The coverage of the SLIBOR was expanded to include three, six and twelve month offer rates, as against the earlier coverage of only three maturities, viz. overnight, seven days and one month. In 2000, Sri Lanka became a member of the General Data Dissemination System (GDDS) of the IMF. The Department was also involved in the preparation of Meta Data to subscribe to the GDDS.

The Department contributed to and co-ordinated the publication of the 1999 Annual Report of the Central Bank in collaboration with other departments of the Bank. In addition, the September 15th Report, a report prepared under Section 116 of the Monetary Law Act, was completed and submitted to the Hon. Minister of Finance. Similarly, the Department published 'Sri Lanka Economy in 1999 and Medium Term Prospects' and the 'State of the Economy 2000'. The Department also prepared several special policy reports as required under the Monetary Law Act.

The publication of a monthly private sector industrial production index, based on a sample survey of 100 major industrial firms, continued. The detailed half-yearly and annual private sector industrial production surveys were also continued. A quarterly index of 'Greater Colombo Housing Approvals' was prepared and publication commenced in 2000. A special survey was conducted on local government budgets with a view to analysing their share in the general government fiscal activities.

Officers of ERD undertook a number of research studies. These included policy oriented research as well as studies which are largely of academic interest, covering macro and microeconomic issues. Some of these were published in the 'Staff Studies' of the Central Bank.

The monetary implications of various foreign loan agreements to be entered into between the Government of Sri Lanka and donors were examined by the Department and a number of Board Papers were submitted to the Monetary Board advising on these.

Some of the senior officers of ERD served on several important committees, both within the Bank and outside. These included the Inter Ministerial Sub Committee on the General Agreement on Trade in Services (GATS) and the Sub Committee on Anti Dumping and Countervailing Duties, the Committee on Master Plan for Industrialisation and Investment Promotion, the Balance of Payments Committee, the Exchange Rate Committee, the Treasury Bills and Treasury Bonds Tender Committees, the Liquidity Assessment Committee, the Open Market Operations Committee and the Domestic Debt Management Committee. Officers of the Department represented the Central Bank in the Core Group on Taxation of the Ministry of Finance and Planning, which reviews the current tax system and makes proposals for a medium term tax strategy of the government.

The Department initiated consultations with the Riksbank of Sweden to develop a macroeconomic model that could be effectively used for implementing monetary policy.

The Central Bank hosted the 23rd SEANZA Central Banking Course and the SEANZA Governors' Symposium in 2000. The South East Asia, New Zealand and Australia (SEANZA) grouping of central banks is one of the oldest in the region, having been set up in the 1950s. At present, it consists of 20 members, both developed economies and developing economies. Sri Lanka is a founder member. SEANZA has been conducting a training course in central banking every two years since 1957. Sri Lanka last hosted the Course in 1968. There were 19 participants from 18 countries (13 SEANZA and 5 non-SEANZA members) who attended the Course in 2000.

Governors from SEANZA countries also meet at a Symposium, usually held at the end of the Central Banking course. The Symposium in 2000 was held in August and was a part of the Central Bank's Golden Jubilee celebrations. The theme of this Symposium was 'Central Bank Independence'. The keynote speaker was the Right Honourable Sir Edward George GBE, Governor of the Bank of England. Delegations from 15 SEANZA member central banks and monetary authorities participated at the Symposium. A special guest at the Symposium was a deputy governor from Sveriges Riksbank, the central bank of Sweden, the world's oldest central bank.

The SAARC FINANCE cell, established in the Department, co-ordinated the activities of the Network of SAARC Central Bank Governors and Finance Secretaries.

Statistics and Field Surveys

The Statistics Department (SD) continued to discharge its obligations in the collection, compilation, analysis and dissemination of (a) data on national accounts, prices, wages, labour force, employment and other socio-economic indicators and (b) micro level data on households and the corporate sector.

The SD continued to compile and disseminate national accounts estimates on a quarterly and an annual basis. During 2000, it focussed on identifying statistically deficient areas of economic activities, with a view to improving the quality of available information for the compilation of national accounts. In obtaining market information pertaining to price data and price movements, the SD continued its collection of wholesale and retail prices of food commodities in key market centres. The frequency of collecting retail prices in some markets was increased from a weekly to a daily basis. The release of daily, weekly and monthly information on prices to the print and electronic media, as well as to relevant institutions, continued. At the same time, the dissemination of market information on prices was expanded.

In the field of household surveys, the Department undertook two experimental surveys in late 2000. One was in the Anuradhapura District to obtain production data on 'other' agricultural crops and livestock farming. The other was on small business activities in the Colombo District. Both these surveys were conducted with a view to improving the quality of production estimates in these two specific sectors towards strengthening the existing database on national income accounts.

Meanwhile, the Department commenced preliminary planning work in 2000 to conduct the eighth Consumer Finances and Socio Economic Survey during 2001/02. The Department also initiated action to release micro data from the seventh Consumer Finances and Socio Economic Survey to potential users, solely for research purposes.

Surveys

Survey on Subsidiary Food Crops and Animal Husbandry in the Anuradhapura District - Yala 2000

The first experimental survey conducted by the Department to strengthen the database on national income accounts was on Subsidiary Food Crops and Animal Husbandry in the Anuradhapura District in the 2000 Yala season. A second objective in conducting this survey was to enhance the information provided by the Department of Census and Statistics (DCS), which is the official source of national information for agriculture food crops and livestock farming. Considering the urgent need to address these two objectives, the responsibility for conducting this survey on an experimental basis in the Anuradhapura District was entrusted to the Statistics Department of the Central Bank.

The information collected through the survey included the quantity and value of production and extent of area under cultivation of subsidiary food crops, as well as data on livestock population and livestock products at household level. Field work of the survey was conducted from end October to end November 2000. The data collection for the survey was done by unemployed graduates hired from the area through the Anuradhapura Regional Office under the Departments' supervision. The field supervision was undertaken by Central Bank officers. Data entry and editing were completed by end December 2000 and the survey findings are expected to be published in early 2001.

Small Business Pilot Survey

This was the second experimental survey conducted by the Department. The objective was again to strengthen the database for this sector in the estimating of the national income accounts. The Department undertook this survey with a view to developing a standard reporting system to obtain regular information to identify the contribution of this sector to the national economy. The small business sector mainly covers establishments which provide business, social, personal, household and other miscellaneous services to the surrounding community including hotels, restaurants and small scale manufacturing units.

The Department conducted the pilot survey initially in one Grama Niladari (GN) Division of the Colombo District, on an experimental basis. Prior to conducting the pilot survey, a listing exercise was undertaken to identify all small business units in the GN division. The data collection was outsourced to teachers and students who were trained for the purpose by the Department. The Department completed the preliminary data processing work of the survey in 2000. The quality and reliability of data gathered will be analysed to evaluate the feasibility of employing students and staff drawn from schools as investigators for future surveys of this kind.

Country Wide Data Collection System (CWDCS)

The Country Wide Data Collection System of the Statistics Department, which commenced in 1978, completed 22 years of operation in 2000. Regular collection of information on retail prices of consumer goods, producer prices of agricultural commodities and wage rates pertaining to the informal sector is carried out under this programme. The system is also used to identify the impact of changes in the administered prices of consumer items as well as to monitor the performance of agriculture in major producing areas. The sub sectors covered by the scheme include paddy, tea, rubber, coconut cultivation and small-scale construction. Data collection is accomplished through an islandwide network of school teachers who function as statistical investigators. Information thus collected is published regularly through the print and electronic media. Seminars were conducted in Colombo, Kandy and Anuradhapura in 2000 to provide further training for the data

collectors in order to improve the quality and efficiency of their data collection as well as to obtain their input in the computation of regional consumer price indices.

The daily collection of wholesale and retail prices of major food items from the Pettah Market and other centres such as the Maradagahamulla rice market and the Dambulla Economic Centre is also done by the Department. This information is disseminated daily in the newspapers and through the electronic media to farmers, traders and consumers. The information is also used by government agencies and private sector institutions for research and business decision making such as in forward sales contracts.

Computation of Price Indices

Consumer Price Indices

The Colombo District Consumer Price Index (CDCPI), introduced in 1998, continued to be computed by the Department as a supplementary index to the Colombo Consumers' Price Index (CCPI) computed by the DCS. The target population used in this index is the lowest 40 per cent of the district population ranked by income. It has a broader coverage in terms of the number of items, as well as geographically, than the CCPI. The information for the computation of the index is obtained from 11 centres in the Colombo District. Of these 11 centres, 5 centres, namely, the Pettah Market, Hanwellla, Homagama, Moratuwa and Avissawella, are established under the CWDCS and other centres namely, Kolonnawa, Nugegoda, Dehiwala, Piliyandala, Maharagama and Padukka, were newly introduced in January 1999. Officers of the Statistics Department and appointed teacher investigators collected information regularly from these centres.

Since 1998, the Department has computed three regional consumer price indices for the districts of Anuradhapura, Matara and Matale on an experimental basis. The commodity weights for the indices are based on the expenditure patterns of the respective districts derived from the Consumer Finances and Socio-Economic Survey of 1996/97 conducted by the Central Bank. The corresponding weights for the calculation of the indices were constructed, based on the target population of the lowest 40 per cent of households in the district, when ranked by income. These indices are useful in analysing regional price movements. They are also used by market players in negotiating forward sales contracts in agricultural commodities.

The Statistics Department continued to develop a new consumer price index covering the Western Province. This is still at an experimental stage. This has a wider coverage than the CDCPI both geographically and in terms of income. The main improvement expected from this index is expanded coverage of a consumer price index to higher income households as well. This index represents households in the Western Province, which are below the islandwide cut off for

the average monthly income level of the lowest 80 per cent ranked by income, taken from the Consumer Finances and Socio Economic Survey of 1996/97. The weights are based on the expenditure pattern of the representative households. Data collection centres have been extended beyond major trading centres used for the CDCPI to include super markets in the city to capture changing consumption patterns of the higher income households as well.

Wholesale Price Index

The Department continues to compute the Wholesale Price Index (WPI) which reflects the price movements at the primary market level. This is useful as an indicator of the future price movements in retail markets.

National Accounts

The Department continued its activities in connection with the estimation of national accounts. These included the collection and compilation of primary and secondary data. In 2000, the Department endeavoured to strength estimation procedures of national accounts, in general, giving wider coverage to informal and emerging economic activities. As mentioned earlier, the Department conducted two experimental surveys on domestic agriculture and small business to strengthen the prevailing database for these activities.

Meanwhile, steps were taken to enhance public awareness on current trends in national accounts through issuing press releases and organising press conferences. Also, available information was disseminated through the Central Bank web-site. Timely dissemination of quarterly national accounts data also enhanced public interest in the subject.

Provincial National Accounts

The Department completed compilation of provincial Gross Domestic Product estimates (GDP) on an experimental basis for the period from 1996 to 1998. The estimates of provincial GDP were compiled on the basis of current factor cost prices. These benchmark estimates provide a comprehensive database on provincial economic activities, thus enabling measurement of the contribution from the different provinces to national economic development.

Employment Statistics

The annual Survey of Public Sector Employment was conducted in 2000 as well, with the objective of ascertaining the trends in employment in government ministries, departments, provincial councils, local authorities, corporations and state boards.

Networking and Web Page Development

In 2000, the Statistics Department established a networking facility, thereby integrating most of its computers to the network system of the Bank. This integrated system provided access to

and sharing of databases between divisions and other departments of the Bank, thereby ensuring speedy and efficient transfer of data and information. A Statistics Department web page 'STANET' was also developed to provide access to data and press releases of the Department as well as to provide general information about the work of the Department to all departments connected to the local area network of the Central Bank.

Publications

Consumer Finances and Socio Economic Survey 1996/97

Part II of the report of the seventh Consumer Finances and Socio Economic Survey conducted in 1996/97 was published in 2000. Part I of the report, which was published in 1999, contained an in-depth analysis of data, while Part II presents a compendium of 514 detailed statistical tables. The data presented in this report are sample data and not estimates for population totals.

Part II comprises 6 chapters, namely; (1) Demographic and Socio Economic Conditions (2) Labour Force, Employment and Unemployment (3) Income (4) Expenditure and Consumption (5) Loans and Investments and (6) Provincial Data. These micro level household data are particularly useful for decision makers, policy planners and researchers, both in the private and public sectors. In disseminating survey information to a wider cross section of users during the year, the Department acceded to requests made by both public and private sector institutions to provide specially tabulated data. In addition to Part II, the Department initiated action to prepare a single CD ROM incorporating Part I of the report and the statistical tables published in Part II of the report.

Other Publications

During the period under review, the Department continued working on two annual publications. The Department released 'Sri Lanka Socio-Economic Data 2000 - Volume XXIII' in June 2000, while work on the publication 'Economic and Social Statistics of Sri Lanka 2000 - Volume XXII' was reaching completion by end - 2000.

These two publications carry 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 and finance, prices and wages, money and banking, capital markets, government finance and socio-economic services. Data dissemination in the publication 'Economic and Social Statistics of Sri Lanka 2000' was improved further by providing province-wise information with a wider coverage. In addition, the Department contributed to several other publications of the Central Bank during the year.

Employees' Provident Fund

The Monetary Board continued to perform its functions as the custodian of the Employees' Provident Fund (EPF) during 2000 in close collaboration with the EPF Division of the Department of Labour. In terms of the EPF Act, the functions of the Monetary Board in relation to the Fund, consist of receiving contributions, surcharges and income from investments, maintaining proper accounts of registered employments and members of the Fund, investing excess monies in suitable investments and paying benefits to the members of the Fund.

The modernisation of the investment process and other operations of the EPF was further continued during the year. Special projects were undertaken to continue the progressive automation of the EPF system with the assistance from the Information Technology Department of the Bank. Automation in areas of refund payments, member account amalgamation and processing of housing loan applications was further developed, bringing more accuracy, efficiency and improved customer service.

Streamlining of the Investment Process

Eight Fund Managers who had successfully completed a training program conducted by the EPF with financial assistance from the World Bank, were recruited by the EPF in the fourth quarter of 2000. The improved in-house fund management capacity has facilitated the Fund to move towards a progressive diversification of the investment portfolio by more investments in market oriented instruments.

Investment Activities

The diversification of the portfolio into market based securities was continued during the period under review. The total Government Rupee loan investments amounted to 73 per cent of the total investment portfolio at the end of 2000, against 81 per cent as at the end of 1999. This drop was compensated by an increase in investments in Treasury bonds from 15 per cent in 1999 to 22 per cent in 2000.

As a part of the diversification strategy, the EPF expanded its investments in the listed equity market recording a point to point increase of 115 per cent in the equity portfolio during the

period under review. The equity portfolio as a percentage of the total portfolio increased to 0.5 per cent at end 2000 as compared to 0.3 per cent recorded at the end of the previous year. These investments were made after carrying out in-depth analyses, which enabled the EPF to possess an equity portfolio with the potential of high returns at an acceptable level of risk. The equity portfolio yielded a rate of return of 37 per cent during 2000.

Secondary Market Trading

The EPF continued its participation in the secondary market activities in Treasury bonds and Treasury bills during 2000. The secondary market activities enabled the EPF to enhance the realisable rate of return on Treasury bonds and Treasury bills. Table II-15 below gives the details of the secondary market operations of the EPF during the year under review.

TABLE II – 15
EPF : Secondary Market Activities – 2000

Item	Volume Purchased	Volume Sold	Rs. Mn.
			Capital Gain
Treasury Bonds	1,459	4,090	104
Treasury Bills	96	380	1
Equity Shares	755	133	25
Total	2,310	4,603	130

Source : Employees' Provident Fund

TABLE II – 16
EPF : The Salient Features

Item	1999	2000
Number of Members		
Active Members	1,783,777	1,855,900
Non-active Members	6,325,168	6,520,500
Total Contributions (Rs.mn.)	13,679	16,853
Total Refunds (Rs.mn.)	7,691	10,802
Number of Refunds	99,386	95,157
Total Investment Portfolio (Rs.bn.)	186	215
Rate of Return on Average Portfolio (%)	13.12	12.95
Total Members Balance (Rs.bn.)	194	223
Gross Income (Rs.mn.)	22,847	26,313
Income Tax (Rs. mn.)	2,271	2,616
Administration Expenses (Rs.mn.)	186	259
Administration Expenses as a % of Investment Income (%)	0.81	0.98
Housing Loan Applications		
Dispatched	12,339	14,648
Normal Interest Rate Declared on Member Balances (%)	11.50	11.50
Effective Interest Rate Declared on Member Balances (%)	11.72	11.69

Source : Employees' Provident Fund

TABLE II – 14
EPF : Performance of Equity Portfolio

Item	Rs. Mn.	
	1999	2000
Average Portfolio	466	1,007
Total Dividends	28	55
Total Capital Gains	15	25
Bonus Shares (valued at the end of period)	91	294
Total Dividends, Capital Gains & Bonus Shares	134	374

Source : Employees' Provident Fund

Exchange Control

In 2000, the Exchange Control Department (ECD) took several policy measures consistent with the objective of continuing the process of sequential liberalisation of the capital account. Concurrently, the Department also strengthened its monitoring activities relating to foreign exchange transactions with a view to avoiding exchange malpractices and abuses. It also continued investigations into contraventions of the Exchange Control Act, the registration of freight forwarders and grant and renewal of permits of travel agents and money changers.

A major development during the year with regard to the liberalisation of capital account transactions was an increase in the limits imposed for investment by non residents in the banking, insurance, and stock brokering sectors and in Unit Trusts.

Another noteworthy feature during the year was that permission granted to banks to lend to non resident controlled companies in 1999 was extended to apply to companies approved under Section 17 of the BOI Act as well, subject to prudential limits on each bank's total lending to such companies. In the area of foreign currency loans, permission was granted to the National Development Bank and the DFCC Bank to lend in foreign currency to exporters, provided that the two banks have the resources to do so with foreign currency credit lines. Further, in the case of default of foreign currency loans given by banks, the banks were informed that they could apply to the Controller of Exchange for the conversion of rupee sales proceeds of mortgaged assets into foreign currency and each application would be decided on its merits.

In the area of electronic fund transfer cards (EFTCs), permission was given to issue such cards to holders of Non Resident Foreign Currency Accounts (NRFC), Resident Foreign Currency Accounts (RFC), Resident Non National Foreign Currency Accounts (RNNFC) and accounts in Foreign Currency Banking Units (FCBUs) irrespective of whether the applicant is a resident or non resident. The implementation of the monitoring scheme for foreign exchange drawings through EFTCs, although introduced in 1999, commenced in July 2000 as the concerned banks had to adjust their computer systems to provide the information required by the Controller of Exchange.

Capital Transactions

(a) Non-resident Investment in Sri Lanka

With effect from March 2000, the limits imposed on non resident investment in the banking, insurance and stock brokering industry were relaxed. With the relaxation non-resident investment in shares in a banking institution was permitted up to 60 per cent; the earlier stipulated limit was 49 per cent. The limit with respect to companies engaged in insurance business was specified as 90 per cent. In companies engaged in stock brokering, the limit was to 49 per cent, but

where permission was granted by the Securities Exchange Commission, allowed upto 100 per cent. The limits with respect to other financial sector activities continued to be 49 per cent. Further non residents were permitted to invest Unit Trusts registered with the Securities and Exchange Commission, subject to the condition that the Trust Deed creating the Unit Trust and agreement between the Trustees and the Managing Company contains a restriction that not more than 20 per cent of the deposited property is to be invested in government securities. These changes were introduced by a notification published in the *Government Gazette* No.: 1122/12 of 7 March 2000. Subject to these changes the terms and conditions for investments by non residents in local companies remained as before.

(b) Rupee Lending to Non-resident Controlled Companies

In 1999 permission was granted to all banks licensed under the Banking Act to extend accommodation including, loans and advances, to Sri Lanka companies with a majority non-resident share holding, other than companies approved under Section 17 of the BOI Act. With effect from April 2000, banks were permitted to lend non resident controlled companies approved under Section 17 of the BOI Act as well, subject to prudential limits imposed on each bank as a percentage of its total lending to the private sector. The applicable percentages were the following:

Foreign Banks	– No limit
State Banks	– 2 per cent of total lending to the private sector
Domestic Private Banks	– 3 per cent of total lending to the private sector
Licensed Specialised Banks	– 5 per cent of total lending to the private sector

These facilities were provided particularly with a view to assisting BOI companies engaged in large scale infrastructure projects, whose earning are exclusively in Sri Lanka rupees. The prudential limits were imposed mainly to avoid crowding out of domestic borrowing.

(c) Foreign Currency Borrowing by Residents

With effect from April 2000, the Licensed Specialised Banks, NDB and DFCC Bank were permitted to extend foreign currency loans to exporters, provided that they had resources from foreign currency credit lines to do so.

Another development in this area was that all Authorised Dealers were informed that, in cases of default of foreign currency loans secured by the mortgage of domestic assets, they could apply to the Controller of Exchange for permission to convert the sale proceeds of such assets to foreign exchange. However, such applications would be considered only if the Controller of Exchange were satisfied that every endeavour had been taken to recover the loan in foreign exchange and failing

that, to sell the mortgaged assets for a consideration in foreign exchange. The order covering off-shore banking business was also amended during the year to incorporate permission given to offshore units to provide foreign currency accommodation to direct and indirect exporters of goods and services.

(d) Borrowing from Abroad by Resident Companies

The ECD continued to consider applications by companies, other than companies approved under Section 17 of the BOI Act with full exemption from the provisions of the Exchange Control Act, to obtain foreign currency loans from abroad. Only a few applications under this category were approved during the year. The total value of these loans amounted to US dollars 3.2 million approximately.

(e) Blocked Funds Held by Sri Lankan Emigrants and Foreign Nationals

Funds realised on the sale of capital assets belonging to Sri Lankan emigrants continued to be kept in blocked accounts, while the interest earned on such accounts were permitted to be remitted after meeting tax liabilities, if any. As in the past, release of such funds was permitted through commercial banks, subject to a limit of Rs.750,000 per individual and Rs.1 million per family unit. A sum of Rs.30 million had been remitted abroad in respect of 126 applications received from those migrating abroad during the year. A sum of Rs.753,765 was also remitted during the year, to beneficiaries of deceased persons living abroad. A sum of Rs.4 million out of funds realised by the sale of immovable property by Sri Lankan emigrants was also remitted abroad during the year.

2. Registration of Freight Forwarders and Issue of Permits to Engage in Foreign Exchange Transactions

ECD continued to register freight forwarders, permit travel agencies to issue travellers' cheques, and issue/renew licenses to money changers and to other establishments such as hotels, duty free shops, travel agents and service providers to accept foreign currency with respect to sales and services provided by them to foreign tourists.

(a) Registration of Freight Forwarders

During 2000, five new companies were registered as freight forwarders bringing the total number of companies registered as freight forwarders to 93 as at the end of the year. The ECD continued to monitor the activities of freight forwarders registered with the department.

(b) Authority for Travel Agents to issue Travellers' Cheques

During the year, a permit was issued to one travel agent authorising issue of travellers' cheques (TCs) to residents of Sri Lanka who travel abroad. With this the number of travel

agents permitted to issue TC's increased to 7 in 2000.

(c) Appointment of Money Changers

During the year, the performance of the 30 money changers issued with permits was closely monitored. Permits of 2 money changers were not renewed on account of poor performance. However, permits were issued to 2 new money changers and the number of money changers with valid permits remained at 30 as at end of 2000.

3. Monitoring

Consequent on the liberalisation of current account transactions, Authorised Dealers (AD) and approved travel agents were permitted to release foreign exchange without any restriction for current account transactions, exercising their judgement and discretion and after satisfying themselves of the *bona fides* of the requests.

All ADs and approved travel agents are required to report to the ECD the sales and purchases of foreign exchange effected by them on a regular basis to enable the Department to monitor the transactions. From 1999, ADs were also required to report releases of foreign exchange on electronic fund transfer card (EFTC) transactions. In particular, they were required to furnish a monthly statement on all EFTC transactions where the monthly remittances in respect of a EFTC exceeded US dollars 5,000 or its equivalent foreign currency. However, as there was a need to adjust computer systems in banks to conform to this, the reporting requirement became fully effective only in July 2000. Until then ADs were required to report only payments/drawings on single transactions exceeding US dollars 3,000. The ECD has been monitoring these transactions to ascertain whether the payments relate to purchases of goods in commercial quantities or for capital transactions which are not permitted to be made through EFTCs.

The ECD continued to monitor payments made in advance for imports in order to ensure the receipts of goods and services in the country against such advance payments. Credits and debits made to rupee accounts maintained by shipping and airline agents as well as freight forwarders on behalf of foreign principals continued to be monitored. Capital transfers made through Share Investment External Rupee Accounts (SIERA) were also monitored.

4. Investigation

The ECD continued to investigate alleged violations of the Exchange Control Act. Some investigations were concluded in 2000 and penalties under the Act were imposed on offenders. A total sum of Rs.25 million, paid as penalties in 1999 and 2000 was transferred to the account of the Deputy Secretary to the Treasury during the year.

Public Debt

In terms of Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka (CBSL) is entrusted with the issuance, management and servicing of domestic debt and servicing of foreign debt of the Government of Sri Lanka (GOSL). These activities are handled by the Public Debt Department (PDD) of the CBSL. In fulfilling its responsibilities, the PDD continued to issue domestic debt instruments, namely Rupee securities (RSs), Treasury bills and Treasury bonds during 2000. In addition, servicing of the external debt of the government is also handled by the PDD. The PDD also handles issuance and servicing of Central Bank securities (CBSs). However, there were no CBS issues during 2000. The other activities of the PDD include service payments of Tax Reserve Certificates (TRCs) and debenture issues on behalf of the State Mortgage and Investment Bank (SMIB), the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA). The PDD is also responsible for the off-site surveillance and on-site examination of Primary Dealer (PD) activities and for developing the government debt securities market.

Development Activities

During 2000, the PDD implemented several measures to further develop the domestic debt securities market. The PDD continued with activities relating to the introduction of the proposed scripless securities system (SSS) with a view to developing the market for government debt securities. The software for SSS was developed by the Bank's Information Technology Department (ITD). It is expected that the proposed SSS would initially facilitate transactions in government securities, namely outright sales and purchases, repurchases and reverse repurchases among PDs.

With the objective of strengthening the Primary Dealer System (PDS), 8 public limited liability companies with a dedicated capital of Rs.150 million each were appointed as PDs with effect from 01 March 2000. The new PDs were appointed in terms of the Regulations promulgated by the Minister of Finance and Planning under the provisions of the Registered Stock and Securities Ordinance (RSSO) and the Local Treasury Bills Ordinance (LTBO). These companies are required to engage exclusively in PD activities, viz. trading in government debt securities. With the above Regulations coming into force, the PDs who functioned upto then ceased operations. The Regulations, inter alia, provided for the CBSL to supervise and examine the activities of the PDs in order to ensure that PDs operate in an efficient, safe and sound manner.

The PDD obtained the services of a consultant to design a framework and a system for PD surveillance. The consultants reviewed the existing legal and regulatory framework relating to PD operations and the directives issued to date by the PDD. The consultants made recommendations with respect to modifications and additions required to the existing regulations

and guidelines. Key recommendations made by them include the introduction of an electronic bidding system for Treasury bond auctions to increase clarity and transparency to adopt the Global Master Repurchase Agreement and to develop and introduce a more rigorous process for the licensing of PDs.

The consultants also prepared two Operations Manuals, i.e., one for the PDD and the other for the PDs. The PDD Operations Manual contains on-site examination questionnaires covering different activities under different risk categories. This manual also provides details of conducting an on-site supervision exercise. The consultants have used a risk based approach to supervision which focuses on evaluating the PD's ability to properly identify, manage and control risks in an effective, efficient and timely manner. Thus, the overall approach of the Supervision Unit is to systematically identify the risk profile of each PD and assess the adequacy of the management, organisation and systems to monitor and control the risks inherent in its operations.

The PD Operations Manual contains all reports required by the PDD as a part of off-site surveillance along with detailed instructions for report preparation and submission. With the objective of assisting the establishment of a safe and sound PD network, this manual also provides guidance to PDs in the development and introduction of international best practices with respect to government securities trading, overall PD management, organisation and operations. The manual will also guide the PDD on-site surveillance and off-site supervision, and each PD will be evaluated in terms of the extent to which the principles and best practices set forth in the manual are being complied with.

Two year Treasury bonds with a call option were issued by the PDD for the first time in 2000. In the case of these bonds, the government reserves the option of redemption at the end of the first year after issue or on any thereafter prior to maturity, thus providing the government with an opportunity to benefit from any future decline in the interest rate. Total issues of this instrument amounted to Rs.650 million.

Operational Activities

The total outstanding gross public debt serviced by the PDD at end 2000 amounted to Rs.1,147,968 million. This indicated an increase of Rs.138,750 million or 13.8 per cent compared with the outstanding value at end 1999. The composition of public debt outstanding at end 2000 included Rs.603,026 million (52.5 per cent) of domestic debt and Rs.544,942 million (47.5 per cent) of foreign debt. The domestic component of public debt increased by Rs.111,089 million (22.6 per cent) while foreign debt rose by Rs.27,661 million (5.3 per cent) over that of 1999. Table II-17 shows the composition of public debt serviced by the PDD.

TABLE II – 17
Composition of Public Debt

Category	At end 1999		At end 2000	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	491,937	48.7	603,026	52.5
Treasury bills	124,996		134,996	
Rupee securities	262,056		263,888	
Treasury bonds	104,867		204,124	
Treasury Certificates of Deposits	11		11	
Tax Reserve Certificates	7		7	
Foreign Debt	517,281	51.3	544,942(a)	47.5
Total	1,009,218	100.0	1,147,968	100.0

(a) Provisional

Source : Central Bank of Sri Lanka

TABLE II – 19
Annualised Weighted Average Yield Rates by Maturity

Year	Maturity Period (Months) (a)			Overall
	3	6	12	Average
1996	16.04	16.46	17.17	16.46
1997	11.03	11.95	12.29	11.60
1998	11.77	12.13	12.20	11.98
1999	11.69	12.03	12.55	12.06
2000	12.78	12.97	14.23	13.68

Source : Central Bank of Sri Lanka

(a) The issue of Treasury Bills with maturities of 91 days, 182 days and 364 days in place of 3, 6, 12 month maturities respectively commenced in October 1999.

Domestic Debt

Primary Market

Treasury Bills

The total Treasury bills outstanding at end 2000 was Rs.134,996 million as compared with Rs.124,996 million at end 1999. This was the result of net new issues of Rs.10,000 million (i.e. new issues of Rs.13,000 million and retirements of Rs.3,000 million) Treasury bills during 2000. The authorised limit of Treasury bills was raised from Rs.125,000 million to Rs.135,000 million during the year.

The total bids received during the year amounted to Rs.248,244 million as against a total issue of Rs.182,044 million. Of this, PDs purchased bills amounting to Rs.118,292 million or 65.0 per cent of the total issues. Special funds managed by the Central Bank purchased 5.7 per cent of the bills issued, at the weighted average yield rates. The amount of Treasury bills purchased by the Central Bank during the year amounted to Rs.53,429 million or 29.3 per cent. Table II-18 shows the maturitywise distribution of sales of Treasury bills by source.

Rupee Securities

A total of 15 Rupee security (RS) issues, amounting to Rs.42,211 million were floated during 2000. The EPF and the

NSB continued to be the major subscribers to the RS programme in 2000, and these two institutions subscribed to Rs.41,190 million, accounting for 97.6 per cent of total subscriptions.

Rupee loans issued during 2000 carried interest rates of 11.00 per cent per annum, 11.90 per cent per annum and 12.00 per cent per annum for maturities of 5/6, 1 and 8/10 years, respectively. One of these RSs was floated with a fixed maturity of 1 year, four were floated with optional maturity of 5/6 years, and the other 10 issues were with optional maturity of 8/10 years. Information relating to flotation and repayment of RSs in 2000 is summarised in Table II-20.

A total of 12 Rupee loans, amounting to Rs.40,378 million, were repaid during 2000. Accordingly, net subscriptions to RSs amounted to Rs.1,832 million. This resulted in an increase in the outstanding liabilities on account of RSs from Rs.262,056 million at end 1999 to Rs.263,888 million at end 2000. The maturity profile of outstanding RSs is presented in Table II-21.

Total interest payments on RSs in 2000 amounted to Rs.33,902 million in 2000, an increase of Rs.1,099 million (3.4 per cent) over the previous year. The PDD made interest payments on account of 769 interest warrants during 2000.

TABLE II – 18
Sales of Treasury Bills by Maturity and by Source – 2000

Source	Maturity period (days)				Rs. Million	
	91	182	364	Others	Total	%
1. Primary Dealers	31,785	13,389	73,118	–	118,292	65.0
2. CBSL	–	–	–	53,429	53,429	29.3
3. CBSL Managed Funds	3,782	1,971	4,570	–	10,323	5.7
Total	35,567	15,360	77,688	53,429	182,044	100.0

Source : Central Bank of Sri Lanka.

TABLE II – 20
Flotation and Repayment of
Rupee Loans – 2000

Interest Rate (% p.a.)	Maturity (Years)	No. of Loans	Amount (Rs. Mn.)
Floated			
11.00	5-6	4	11,000
11.90	1	1	8,000
12.00	8-10	10	23,211
Total		15	42,211
Repaid			
13.50	3	1	5,000
14.00	5-6	4	14,878
14.00	6	1	1,500
14.50	3	2	10,000
14.50	6	1	4,000
14.75	6-7	2	3,000
15.75	6-7	1	2,000
Total		12	40,378

Source : Central Bank of Sri Lanka

Treasury Bonds

During 2000, Rs.125,322 million worth of Treasury bonds were issued. The maturity periods of these Treasury bonds ranged from 2 to 6 years. Two year callable bonds, amounting to Rs.650 million, were issued for the first time in 2000. During the year, 74 auctions comprising 30 auctions of 2 year bonds, 19 auctions of 3 year bonds, 8 auctions of 4 year bonds, 9 auctions of 5 year bonds and 8 auctions of 6 year bonds were held. The distribution of Treasury bonds issued, by maturity, is given in Table II-22.

The coupon rates on 2-6 year maturities ranged between 10.75 - 11.75 per cent per annum with an increase of 25 basis points for each one year increase in maturity. All auctions held during 2000 were over-subscribed with bids amounting to

TABLE II – 21
Maturity Profile of Rupee Loans at end 2000

Maturity (Years)	Amount (Rs. Mn.)	Percentage
1	8,000.00	3.03
2	7,485.58	2.84
4	5,000.00	1.89
5	10,000.00	3.79
10	5,979.86	2.27
30	24,088.00	9.13
4-5	5,500.00	2.08
4-6	10,316.68	3.91
4-8	3,500.00	1.33
5-6	17,000.00	6.44
5-7	53,715.01	20.36
6-7	38,800.00	12.81
6-8	1,000.00	0.38
7-8	26,400.00	10.00
8-10	24,210.59	9.17
9-10	8,500.00	3.22
1-10	19,392.62	7.35
Total	263,888.34	100.00

Source : Central Bank of Sri Lanka

TABLE II – 22
Treasury Bonds Issued by Maturity

Maturity Period (Years)	Amount (Rs. Mn.)	Percentage
2	58,321	46.54
3	27,951	22.30
4	10,000	7.98
5	14,550	11.61
6	14,500	11.57
Total	125,322	100.00

Source : Central Bank of Sri Lanka

Rs.275,537 million being received. Table II-23 presents selected information pertaining to the primary issues of Treasury bonds during 2000.

Interest payments are made bi-annually on surrender of coupons to the PDD by the T-bond holders through PDs. Total interest payments on account of Treasury bonds amounted to Rs.15,015 million in 2000, as compared with Rs.7,487 million in the previous year.

Total Treasury bonds that matured in 2000 amounted to Rs.26,065 million. The number of Treasury bond scrips received for payment of maturity proceeds totalled 3,821. The total number of coupons received by the PDD for bi-annual coupon interest payments was 24,575.

The number of Treasury bond scrips issued during 2000 was 12,253. This included 7,764 of 2-year bonds, 2,889 of 3-year bonds, 620 of 4-year bonds, 567 of 5-year bonds and 413 of 6-year bonds.

Treasury Certificates of Deposit

There were no issues or payments of Treasury Certificates of Deposit (TCDs) during 2000. The TCDs outstanding at end 2000 remained at Rs.10.6 million.

Other Domestic Debt Instruments

There were no activities in respect of debentures of the SMIB, NHDA or UDA during the year. The amount outstanding of SMIB, NHDA and UDA debentures remained at Rs.500 million, Rs.109 million and Rs.83 million, respectively, at end 2000.

There were no capital repayments or interest payments on Tax Reserve Certificates (TRCs) during the year. The outstanding TRCs remained at Rs.7.2 million at end 2000.

Secondary Market Transactions of Primary Dealers

The secondary market for Treasury bills and Treasury bonds expanded considerably during 2000. A substantial amount of outright purchase and sales, repurchase and reverse repurchase transactions on Treasury bills and Treasury bonds took place among PDs, commercial banks and their clients. During 2000, the total value of outright sales and purchases of Treasury bills by PDs in the secondary market amounted to Rs.111 billion

TABLE II - 23
Selected Information on Treasury Bonds - 2000

Bond Title	Maturity (Years)	Bids Received (Rs. Mn.)	Bids Accepted (Rs. Mn.)	W.A.Y.R. to Maturity (% p.a.) (range)	Coupon Rate (% p.a.)
10.75% 2002A	2	5,926	1,000	12.49	10.75
10.75% 2002B	2	3,985	2,000	12.34	10.75
10.75% 2002C	2	1,000	1,000	12.00	10.75
10.75% 2002D	2	3,025	2,000	13.11	10.75
10.75% 2002E	2	12,000	12,000	13.11	10.75
10.75% 2002F	2	14,685	4,000	13.58-13.69	10.75
10.75% 2002G	2	10,033	4,660	13.86-15.38	10.75
10.75% 2002H	2	2,895	2,500	15.71	10.75
10.75% 2002J	2	5,777	4,511	16.40-16.89	10.75
10.75% 2002K	2	10,593	6,300	17.52-21.81	10.75
10.75% 2002L	2	18,655	5,450	21.80-22.19	10.75
10.75% 2002M	2	4,427	650	20.62-22.00	10.75
10.75% 2002N	2	30,976	9,500	20.09-21.30	10.75
10.75% 2002O	2	10,788	2,750	18.97	10.75
11.00% 2003A	3	3,060	955	12.51	11.00
11.00% 2003B	3	9,842	4,000	12.27-12.38	11.00
11.00% 2003C	3	2,000	2,000	12.02	11.00
11.00% 2003D	3	6,909	4,000	13.93-14.81	11.00
11.00% 2003E	3	7,141	3,500	14.81-15.53	11.00
11.00% 2003F	3	12,358	3,500	15.65-15.92	11.00
11.00% 2003G	3	3,712	2,500	16.00	11.00
11.00% 2003H	3	5,820	4,496	16.44-16.93	11.00
11.00% 2003J	3	4,313	3,000	17.30-18.71	11.00
11.25% 2004A	4	10,245	4,000	12.40-12.53	11.25
11.25% 2004B	4	8,175	3,000	12.39-13.01	11.25
11.25% 2004C	4	3,540	3,000	12.17-13.05	11.25
11.50% 2005A	5	13,495	7,000	12.87-13.02	11.50
11.50% 2005B	5	8,898	2,400	12.71-12.77	11.50
11.50% 2005C	5	6,318	2,150	12.71-12.94	11.50
11.50% 2005D	5	3,000	3,000	12.46	11.50
11.75% 2006A	6	17,015	7,000	12.90-13.21	11.75
11.75% 2006B	6	5,616	2,000	12.73	11.75
11.75% 2006C	6	5,315	1,500	12.78-12.95	11.75
11.75% 2006D	6	4,000	4,000	12.53	11.75
TOTAL		275,537	125,322		

Source : Central Bank of Sri Lanka

and Rs.34 billion, respectively, while the value of outright sales and purchases of Treasury bonds by the PDs amounted to Rs.128 billion and Rs.74 billion, respectively. The value of repo and reverse repo transactions of Treasury bills amounted to Rs.134 billion and Rs.104 billion, respectively while the value of repo and reverse repo transactions of Treasury bonds amounted to Rs.756 billion and Rs.327 billion respectively.

At the end of 2000, total Treasury bills held by the PDs amounted to Rs.3 billion or 2.2 per cent of the total outstanding, while the total Treasury bond outstanding held by PDs amounted to Rs.10 billion, or 4.9 per cent of the total outstanding.

External Debt

The total outstanding external debt of the government at end 2000 amounted to Rs.544,942 million, showing an increase of Rs.27,661 million (5.3 per cent) as compared with end 1999. Of the total outstanding debt at end 2000, bilateral loans and multilateral loans amounted to Rs.277,258 million (51 per cent) and Rs.249,777 million (46 per cent) respectively, while commercial loans and export credits amounted to Rs.17,907 million (3 per cent). Major creditors in the bilateral category

were Japan, USA and Germany. These sources accounted for Rs.258,124 million or 93 per cent of total bilateral loans. The International Development Association (IDA), which is the largest creditor in the multilateral category, was responsible for Rs.129,144 million or 52 per cent of the total multilateral debt.

When classified according to the use of funds, project, programme and commodity loans amounted to Rs.427,415 million (78 per cent), Rs.49,529 million (9 per cent) and Rs.30,627 million (6 per cent) respectively. Table II-24 shows the composition of outstanding external government debt as at end 2000 by donor category and by use of funds.

The total principal repayments and the payment of interest plus other charges on external government debt in 2000 were Rs.20,464 million and Rs.10,236 million, respectively. Total disbursements during 2000 amounted to Rs.26,966 million, consisting of Rs.16,804 million (62 per cent) from bilateral sources and Rs.9,490 million (35 per cent) from multilateral sources. Rs.672 million (3 per cent) was from commercial banks and export credit. This compares with Rs.24,889 million of total disbursements which consisted of Rs.12,823 million (51 per cent) from bilateral, Rs.10,880 million (44 per cent) from multilateral and Rs.1,186 million (5 per cent) from

TABLE II - 24
Gross External Debt Outstanding at end 2000

Category	Amount (Rs. Mn.)	%
1. Donor	544,942	100
Bilateral	277,258	51
Multilateral	249,777	46
Commercial	11,096	2
Export Credits	6,811	1
2. Use of Funds	544,942	100
Cash	4,750	1
Commodity	30,627	6
Food	32,447	6
Programme	49,529	9
Project	427,415	78
Technical Assistance	174	-

Source : Central Bank of Sri Lanka

commercial plus export credit sources, respectively, in the previous year. Of this disbursements in 2000, 99 per cent was received under project loans. Table II-25 shows the breakdown of disbursements by donor category and use of funds for 1999 and 2000.

TABLE II - 25
Foreign Loan Disbursements

Category	1999		2000	
	Amount (Rs. Mn.)	%	Amount (Rs. Mn.)	%
1. Donor	24,889	100	26,966	100
Bilateral	12,823	51	16,804	62
Multilateral	10,880	44	9,490	35
Commercial	-	-	-	-
Export Credits	1,186	5	672	3
2. Use of Funds	24,889	100	26,966	100
Cash	-	-	-	-
Commodity	28	-	6	-
Food	-	-	385	1
Programme	-	-	-	-
Project	24,860	100	26,575	99
Technical Assistance	1	-	-	-

Source : Central Bank of Sri Lanka

During 2000, 19 new foreign loans were contracted and the number of operative loans increased to 535 at the end of the year. These loans carried grace periods ranging from 1 to 17 years and repayment periods ranging from 2 to 40 years. Interest rates ranged from 0 to 10.85 per cent per annum. The grant element of the loans ranged between 2 and 91 per cent. Table II-26 shows the ranges of grace period, maturity period, interest rate and grant element of the external government debt by donor category at end 2000.

TABLE II - 26
Maturity, Interest Rates and Grant Element of External Debt

Donor Category	Maturity Period (Years)		Interest Rate/Service Charge (% p.a.)	Grant Element (%)
	Grace Period	Repayment Period		
Bilateral	1 - 17	7 - 40	0.00 - 7.39	5 - 91
Multilateral	3 - 11	9 - 40	0.75 - 8.25	5 - 88
Commercial	1 - 10	2 - 30	4.00 - 10.85	2 - 61
Exports Credits	1 - 10	7 - 13	3.50 - 9.58	4 - 55

Source : Central Bank of Sri Lanka

The Centre for Banking Studies

The Centre for Banking Studies (CBS) conducted training programmes for employees of the Bank and personnel in the financial sector to equip them with the required skills to meet the challenges arising from technological advances and innovations in the financial sector. In 2000, the CBS conducted 90 training programmes for 2,265 participants covering 2,969 training hours. About 49 per cent of the participants were from the Central Bank. Of the total number of programmes conducted by the CBS, 76 programmes were included in the Programme Calendar for 2000, for which 43 per cent of the participants were from the Central Bank and 39 per cent were from commercial banks. The rest were from the specialised banks including regional development banks, finance companies, ministries and other financial sector institutions. Of the 14 special programmes conducted, the CBS provided logistical support for 2 international programmes conducted by the Central Bank. These programmes were the Financial Stability Institute/SEANZA Forum of Banking Supervision Workshop on 'Credit Risk Management and Asset Quality' conducted from 22 - 24 May 2000 and the 23rd SEANZA Central Banking Course conducted from 12 - 26 August 2000.

In 2000, the CBS offered more training opportunities to employees of the Bank for training in information technology and computer operations by conducting 31 programmes for a total of 413 participants of which 81 per cent were from the Bank. Three programmes covering 144 training hours each were conducted in application software, especially for the newly recruited staff officers to the Bank. The duration of most computer programmes was 60 hours.

Short-term seminars and courses at the CBS covered subjects such as commercial banking, banking supervision and regulation, financial and capital markets, central banking, rural banking and skills development. There were 14 topics covered under commercial banking attended by 357 participants and the more popular courses were on Hire Purchase and Lease Financing, Law Relating to Securities and Documentation, Collateral and Related Legal Procedures, Effective Loan Management, Financial Statement Analysis and Understanding a Bank Balance Sheet. There were 199 participants, mainly

from commercial banks, who attended programmes on banking supervision and regulation. A majority of them attended seminars on Prevention of Financial Frauds and Combating Computer Crimes, Capital Adequacy, Money Laundering Control, Management Information and Internal Control Systems for Banks and Credit Risk Management and Banking System Failures. In addition, there were 6 in-house training programmes for officers of the Bank Supervision Department conducted by Consultants at the CBS.

Seminars such as Portfolio Management, Government Debt Securities Market, Colombo Stock Market: Trends and Prospects and Determinants and Structure of Interest Rates were popular among personnel in the commercial banking sector.

The CBS, for the third successive year, offered Diploma Courses in Commercial Banking and Central Banking. A Certificate course in English was conducted for only officers of the Bank. Skills development programmes on Report Writing, Office Management and Office Procedures and other basic level courses were also conducted by the CBS, some of which were mainly for Central Bank staff. There were 50 officers who attended three programmes especially designed for officers of the regional development banks. The CBS, for the first time, offered a series of Senior Management Seminars on Capital Account Liberalisation: Current Issues, Understanding Governance, Corporate Debt Security Market in Sri Lanka and

a Workshop on Financing Exports in the New International Trade Environment, with resource persons from Sri Lanka and abroad.

Other special programmes conducted by the CBS included a one day seminar on 'Network / Internet / E-mail Training' for 270 Central Bank officers, an Orientation Programme for 60 newly recruited staff officers to the Bank, a special training programme for 54 staff officers, a public awareness programme on government securities organised by Primary Dealers, a seminar on Sale and Purchase of Foreign Exchange by Authorized Dealers organized by the Exchange Control Department and an Efficiency Bar Orientation Programme on Law and Office Procedures.

To disseminate new ideas and to provide a forum for professionals and academics to exchange views and share experiences on issues pertaining to economic and financial sector developments, four Commemoration Lectures were held in 2000. They were the Independence Commemoration Lecture delivered by Mr. R. A. Jayatissa, Director, Economic Research of the Central Bank on 'Budget 2000 and Medium Term Prospects for Sri Lanka', the Republic Commemoration Lecture delivered by Dr. Nadeem Ul Haque, Senior Resident Representative of the IMF in Sri Lanka 'On the Development of Financial Markets in Developing Economies', the 50th Anniversary of the Central Bank of Sri Lanka Lecture delivered

TABLE II - 27
Training Programmes conducted by CBS in 1999 and 2000

	1999					2000				
	No. of Programmes	No. of Central Bank Trainees	No. of Other Trainees	Total No. of Trainees	No. of Training Hours	No. of Programmes	No. of Central Bank Trainees	No. of Other Trainees	Total No. of Trainees	No. of Training Hours
Information Technology and Computer Training	16	186	39	225	1,164	31	333	80	413	1,524
Commercial Banking	12	37	279	316	381	14	57	300	357	444
Merchant and Investment Banking	1	5	22	27	18	-	-	-	-	-
Financial and Capital Markets	3	22	43	65	60	3	19	68	87	48
Central Banking	4	18	87	105	105	4	20	61	81	114
Banking Supervision and Regulation	8	105	130	235	138	7	39	160	199	90
Financial Sector: Skill Development	15	411	5	416	204	8	115	24	139	270
Basic Level	10	307	2	309	126	3	37	7	44	42
Middle Level	4	59	3	62	66	5	78	17	95	228
Senior Level	1	45	-	45	12	-	-	-	-	-
Other Calendar Programmes	-	-	-	-	-	9	47	150	197	180
Rural Banking	-	-	-	-	-	3	0	50	50	120
Senior Management	-	-	-	-	-	4	22	85	107	36
Other	-	-	-	-	-	2	25	15	40	24
Special Programmes / Other Programmes	16	140	313	453	321	14	474	318	792	298
Bank Supervision Dept. by Consultants	7	68	-	68	171	6	73	-	73	138
International Programmes	1	5	14	19	18	2	16	30	46	42
Other	8	67	299	366	132	6	385	288	673	118
TOTAL	75	924	918	1,842	2,391	90	1,104	1,161	2,265	2,968
Public Seminars / Commemoration Lectures	9			1,800	13.5	10			2,000	15

Source: CBS, Central Bank of Sri Lanka

by Dr. John Williamson, Senior Fellow, Institute of International Economics, Washington D.C. and formerly Chief Economist for South Asia, in the World Bank on 'Financial Crises: Prevention and Management' and the 19th Anniversary of the Centre for Banking Studies Lecture delivered by Dr. D. C. Jayasuriya, Director General, Securities and Exchange Commission of Sri Lanka on 'The Regulation of Money Laundering: A New Challenge to a Global Problem'.

Six public seminars aimed at enhancing awareness among the general public on current economic policies and issues were conducted in 2000. The list of seminar topics and speakers are given below :-

- i. 'Economic Problems of South Asia' by Professor Lord Desai, Professor of Economics, London School of Economics and Political Science and Director, Centre for the Study of Global Governance.
- ii. 'WTO and Emerging Issues in International Trade' by Dr. Saman Kelegama, Executive Director, Institute of Policy Studies.
- iii. 'Poverty Economics and Environment' by Dr. Anil Markandya, Professor of Economics, University of Bath, U.K.
- iv. 'Exchange Rate Movement in Sri Lanka' by Dr. H. N. Thenuwara, Senior Economist, Central Bank of Sri Lanka.
- v. 'How Cost of Living is Measured in Sri Lanka' by Mr. A. G. W. Nanayakkara, Director, Department of Census and Statistics.
- vi. 'How to Make Your Savings Work for You : Role of Credit Rating' by Mr. Ravi Abeysuriya, Managing Director, Duff & Phelps Credit Rating Lanka Ltd.

Table II-27 provides a classification of training programmes conducted by the CBS in 1999 and 2000.

Seventy two Central Bank employees made use of the Self Access Centre (SAC) for English to improve their language skills. Classes were held on oral communication and report writing to supplement the facilities available at the Centre.

Secretariat

The Secretariat Department continued to provide corporate services such as finance, supplies, travel and other miscellaneous services which facilitated the work of the Bank.

In 2000, the system of self-monitoring of departmental expenditure by the departments of the Bank was further strengthened by the Secretariat issuing guidelines on steps that should be taken for the purpose. These supplemented the existing comprehensive budgetary system, which ensures strict financial controls within the framework of the comprehensive corporate plan of the Bank.

There was marked improvements in employer employee relations in the Bank in 2000. After negotiative with the trade unions of the Bank the wages and benefits of employees were improved and a collective agreement between the Bank and all trade unions was extended into covering the period 1 January 2000 to end 2002.

Legal

The work carried out by the Legal Department can broadly be categorised as advising the Bank on legal issues, representing the Bank in courts and in other legal fora, and contributing to the further development of laws in the banking/financial sector.

As in previous years, the Department continued to provide advisory services to the other departments of the Bank, and to instruct counsel in litigation in which the Monetary Board and Central Bank officers were parties. The major reforms to laws that were undertaken in 2000 include proposed amendments to the Monetary Law Act No.58 of 1949, the Banking Act, No.30 of 1988 and to legislation relating to debt recovery by financial institutions.

Premises

During 2000, the Premises Department continued the maintenance and up-keep of the premises taken on lease and also the Central Bank's own premises. In addition, the Department continued to provide support services such as transport and communication facilities.

The Department completed the conservation work of the Chatham Street Clock Tower in consultation with the Archaeological Department and the Central Engineering Consultancy Bureau. A chime based on the well-known song 'Danno Budunge' was installed in the clock with technical support from the Arthur C. Clarke Institute for Modern Technologies.

New Buildings

The New Buildings Department was established on 18 November 1997 to handle the twin tasks of monitoring and supervising the work connected with the construction of the Central Bank Extension Building and the Rehabilitation of the damaged Head Office Building.

Extension to the Central Bank Building

The construction work of the Extension Building was completed at the end of 1999. After a soft opening, occupation of the building took place in stages. The building was formally declared opened by Her Excellency Chandrika Bandaranaike Kumaratunge, President of Sri Lanka and the Minister of Finance and Planning on the occasion of the Golden Jubilee of the Central Bank, on 27 August 2000.

During the year, the Department worked towards providing a pleasant and secure working environment for the staff of the Central Bank. The work included landscaping of the Bank's premises, construction of a security fence and refurbishing the offices.

New furniture was supplied to the Heads of Departments, Additional Heads of Departments and some others to modernise the furniture provided to the staff. Modular designed furniture

were also ordered for the staff of the Banking, Economic Research and Information Technology Departments. The other departments too will be supplied with similar furniture.

To ensure efficient and interruption free services in the building, an agreement was signed with M/s. Sudd ETNA Werk GmbH, Germany for the maintenance of mechanical services for a period of one year from October, 2000.

Rehabilitation of the Damaged Central Bank Building

The rehabilitation work of the damaged Central Bank building, which commenced in December 1997, continued during the year. The completion of this project, which was scheduled for the middle of 2000, was held up due to unforeseen circumstances, but is expected to be completed by mid 2001. Additional work undertaken for the construction of a fully equipped Conference Hall, and changes in the design also contributed to the delay.

Construction of a Car Park

A land, 140 perches in extent, was taken on lease from the Urban Development Authority (UDA) for a period of 99 years at a total cost of Rs.113 million. Possession of the land was taken on 27 October 2000 and the land has been cleared for surface parking as the first stage of this project. The Department is currently engaged in designing a multi storeyed car park and obtaining the necessary legal and other clearances for its construction.

Security Services

By the beginning of 2000, all departments of the Central Bank that were located at the World Trade Centre had moved into the New Extension Building at Janadhipathi Mawatha.

The Security Services Department trained its officers on the electronic security systems installed in the building.

In addition, all security officers were trained on fire fighting and handling of fire arms. Live firing was also conducted during the year.

During the period under review, the Department provided security to all premises occupied by the Bank, for movement of currency to and from the Regional Offices and other places and for the transport of building materials for construction work.

The Department worked very closely with the government security establishments and the Intelligence Agencies in implementing security measures required for the safety of the Bank.

Information

The Information Department of the Bank continued to function as the central information unit, responsible for collection and dissemination of information to Bank personnel and to the public through multi-media.

In the dissemination of management and general information within the Bank, the Department continued to issue the Internal News Letter regularly.

In disseminating information to the outside world, the Department arranged to issue the daily exchange rates, weekly and monthly economic indicators, consumer price indices, information on Treasury bills, Treasury bonds and Rupee loans to the electronic and print media. In addition, the issue of official press releases and the Bank's publicity work were also undertaken by this Department.

As in the previous years, the Department, on behalf of the Bank, printed the Annual Report, the State of the Economy, the Sri Lanka Socio-Economic Data, the Monthly Bulletin, and Economic and Social Statistics. Two issues of Staff Studies (Vol.25 - 26 and 27 - 28) were also released together with the Report of the Consumer Finance and Socio Economic Survey 1996/97 (Part II) and the Sri Lanka Economy - 1999 and the Medium Term Prospects. *Satahana*, the Sinhala monthly, and the News Survey, the English bi-monthly, were two other publications issued by the Department.

A book titled 'History of Coins and Currency of Sri Lanka' was published to mark the 50th Anniversary of the Central Bank. 'Pahan Tharuwa', an educational television documentary on the function of the Central Bank was also produced to mark the occasion.

The Printing Press of the Central Bank continued to meet the bulk of the printing needs of the Bank. Apart from printing the publications mentioned above, the Central Bank Press undertook the printing of the publication 'Trends in Public Finance' for the Ministry of Finance and Planning. The Department also provided photographic and artistic design services in the Bank.

Library and Information Centre

The Bank's Library, which is also responsible for dissemination of information, was renamed as the Library and Information Centre (LIC). The IDF Project under the World Bank Technical Assistance programme, which funded the rebuilding of the CBSL Library, was completed during the year, with the automation of operations of the LIC. Under this project, a CD-ROM database on 'Global Business Periodicals' was added to the library collection, and the library staff were trained on current developments in Libraries abroad.

During the year, the LIC continued to provide compilations such as Current Article titles with abstracts, Web Watch, Recent Acquisitions, Current Contents, BIS Review, Web Directory and Central Banking Around the World via the Intranet. The Online Public Access Catalogue (OPAC) facility provided for the accessibility of Library holdings.

During the year under review, the LIC has built up a collection of 9,040 books, 494 periodical titles and 680 CD-ROMS.

Information Technology

The Information Technology Department (ITD) was involved in the management, operation and development of the Bank's computer systems. Responding to the progress in information processing technology in Sri Lanka and abroad, the IT facilities were expanded to reach a larger number of the Bank's workforce enabling them to perform in a computerised environment, conducive for promoting efficiency and reducing operational costs. The main focus of the ITD during the year was to introduce new technology, re-engineer the existing computer systems and upgrade the IT skills of the staff to meet the future challenges in keeping with the long-term vision of the Bank.

The existing AS/400 computer systems were upgraded during the year. The capacity expanded in terms of the processor, main memory and secondary storage enabling it to support new applications which would be introduced during the next 3-4 years and existing applications which may expand.

A Local Area Network (LAN) was established linking 250 personal computers in departments located in the New Central Bank Building. The inter-departmental connectivity is provided through a fibre optic cable for optimum operational reliability. The LAN is currently used for better dissemination of information and sharing data between departments and reducing duplication of effort. Other salient features of the LAN are, that it had made possible - (a) the sharing of IT resources, namely critical software and peripheral devices, among a large number of users; (b) streamlining personal communication with e-mail; and, (c) making the file back-up process efficient. After establishing the LAN, on-line reservation of reading material from the Library for reference and borrowing has become possible, enabling more effective use of the 'LIBSYS' System. To facilitate fast, easy and economical communication both within the Bank and with outside institutions, the E-mail facilities are provided to officers, while the internet facility is extended only to the senior officers.

A Wide Area Network (WAN) connecting the head offices of all commercial banks and Primary Dealers to the Central Bank was established and made functional during the year. The WAN enables banks and primary dealers to communicate simultaneously with the CBSL AS/400 computer. Accordingly, the physical infrastructure is ready to move to a modern payment system, where large value funds could be securely transacted on-line, with funds settled across the CBSL books in real-time as the transactions occur.

Currently, the WAN is used for the following purposes:

- ▶ For banks to send information required by the CBSL for liquidity management;
- ▶ To conduct Open Market Operations;
- ▶ To conduct the Primary Auctions in government debt securities;
- ▶ To obtain two-way quotes of US dollar/SL Rupee exchange rates in commercial bank forex operations.

The ITD continued to develop several AS/400 and PC-based applications. An application system for on-line trading and settlement of government debt securities among Primary Dealers was developed and installed in their Treasury Offices. This would facilitate a Delivery vs Payment mechanism, where delivery of securities occurs if and only if payment is made. The system has been extensively tested and the parallel run is expected to commence in April 2001.

The ITD examined the Staff Payment Modules with a view to overhauling the system, introducing better security features and streamlining the processes to reduce human intervention. A new system for Staff Welfare Loans was developed for implementation from 01 January 2001. The Widows and Orphans Pension System was modified extensively to upgrade the functional efficiency of the system as well as to meet the necessary security standards. After undertaking a system study, the development of a new system for staff payroll commenced during the fourth quarter of the year.

The ITD computerised the SMI loans scheme of the Development Finance Department.

A centralised system to process employee attendance, leave and similar information of relevance was developed in an AS/400 environment. This system will maintain a centralised database to record employee sign-on/off times, leave and short-leave records, overtime and shift-work information. For administrative purposes, the departments will access the centralised database to obtain records relevant to their employees. In the future, this centralised system will substantially reduce the manual work currently being done to maintain these records in each department. The 'parallel run' of the new system is in progress.

The ITD continued to maintain the EPF application system and further automation of the EPF Department was undertaken during the year under review. Several projects to computerise namely, refund part payments and Refund payment returns, bank reconciliation system, member accounts amalgamation, housing loan certificate printing and monitoring of loan applications, in-house records' movement system were developed and implemented. A system was also undertaken to computerise the EPF investment and, as an initial step, sales and purchases of Treasury bills were computerised. This was in addition to the overall maintenance of the EPF computer installation located in the EPF Department.

The Sri Lanka Automated Clearing House continued to operate the system for the inter-bank exchange and clearing of cheques. The number of cheques, cleared in 2000 increased by 5.8 per cent to reach 34, 561, 846 cheques. Meanwhile the value of payments handled during the same year was Rs.9.23 billion. IT strategies to further strengthen the operational reliability of the cheque clearing system were undertaken, including the operation of a back-up computer from a remote location as a fall-back option in the event of a break-down or disaster at the main site.

Following the trend in recent years, the volume of SLIPS transactions increased rapidly during the year, recording a growth of 29.7 per cent. The value of SLIPS transactions processed during the year was Rs.51.9 billion, compared to Rs.42.9 billion in 1999. In view of the rapid growth in SLIPS transactions, modifications to the SLIPS processing software were undertaken to reduce the processing time. The development of software was outsourced to a private company. The direct debit transfer system, which was relatively inactive for a long time, showed an improvement with several companies providing communication services and banks joining to collect their bills and credit card payments through this system.

Management Audit

In accordance with the Annual Audit Programme and the Audit Plan for 2000 approved by the Monetary Board, the Management Audit Department (MAD) carried out its internal audit and management service functions during the year with the objective of increasing the efficiency, economy and effectiveness in the performance of the Central Bank.

Pre-auditing was carried out on all payments relating to the construction of the Extension Building and the rehabilitation of the Head Office Building, all emoluments paid to Bank employees, annual financial statements prepared by the Secretariat and Welfare Departments relating to the Pension Fund, Provident Fund, Widow's and Widower's Pension Funds and other Welfare schemes of the Central Bank and also refunds on retirement or termination of the Bank service. The Central Bank Balance sheet as at 31.12.2000 and the Income and Expenditure statements of the Centre for Banking Studies and the Sri Lanka Automated Clearing House were also pre-audited before submission to the Management.

The Management Services Division of the Department carried out a number of studies, including a study on the payment of overtime to drivers and the work performance of the minor employees in technical grades in the Bank.

Training

In terms of Section 27 of the Monetary Law Act, the Central Bank promotes and sponsors the training of suitable employees in subjects relevant to the Bank, both in Sri Lanka and abroad. As one of the Departments of the Bank engaged in the functions relating to development of human resources in the Bank, the Training Department continued to implement and promote various training activities throughout 2000.

On the academic front, training is related to postgraduate studies in Economics and allied fields at recognised universities in Sri Lanka and abroad. During the year under review, two officers proceeded abroad to follow Master's Degree programmes in Economics and Finance. Three officers followed Doctoral programmes in Economics at Universities

in Sri Lanka and abroad and two officers followed the Postgraduate Diploma in Computer Technology at the Colombo University. Another officer pursued a postgraduate Diploma course in Statistics at the International Statistical Education Centre, Calcutta.

TABLE II – 28
Training of Officers:
Postgraduate Studies 1999 / 2000

Year	No. of Officers Sent for Postgraduate Studies	No. of Officers who Returned after Postgraduate Studies	No. of Officers Pursuing Postgraduate Studies as at 31 December	
			Doctoral	Masters/Post-graduate Diploma
1999	07	08	03	6 / 1
2000	06	07	03	10 / 4

At the end of December 2000, the Central Bank had ten officers pursuing postgraduate studies in universities abroad. During the year, five officers resumed duties after successfully

TABLE II – 29
Training of Officers:
Short-term Training Programmes / Seminars

Department	No. of Officers Trained			
	Foreign		Local (Conducted by the CBS)	
	1999	2000	1999	2000
1. Banking	21	10	28	44
2. Economic Research	21	16	29	45
3. Bank Supervision	20	14	104	87
4. Information Technology	15	4	12	46
5. Secretariat	–	–	32	54
6. Employees' Provident Fund	5	2	11	43
7. Public Debt	8	4	23	41
8. Banking Development (a)*	6	3	23	36
9. Rural Credit	6	7	24	25
10. Centre for Banking Studies	2	4	6	12
11. Currency	3	4	132	15
12. Development Finance	2	1	10	19
13. Establishments	2	–	12	16
14. Exchange Control	3	6	8	19
15. Financial Markets	1	1	2	3
16. Management Audit	2	1	8	17
17. Premises	1	–	8	9
18. Statistics	5	5	20	35
19. Supervision of Non-Bank Financial Institutions	3	3	37	60
20. Welfare	1	–	11	18
21. Training	–	1	4	5
22. Security Services	–	–	7	8
23. New Buildings	–	–	2	11
24. Legal	–	1	2	13
25. Information (including Library)	–	13	18	47
Total	127	100	573	728
Cost of Training (Rs.Mn)	24.1	12.7	2.8	3.9

(a) Regional Offices included Source: Central Bank of Sri Lanka

* Merged with Bank Supervision Dept. w.e.f. September, 2000.

completing their postgraduate programmes abroad. Table II-28 contains information relating to employees who have been sent for postgraduate studies in 1999 and 2000.

During the year under review, a considerable number of bank officers were nominated for participation in short-term training programmes, both locally and abroad. These comprised courses, seminars and workshops in subject areas relevant to the Bank. During 2000, a total of 100 officers participated in such short-term training programmes held abroad, while 728 officers participated in 76 programmes conducted by the Bank's Centre for Banking Studies. The number of employees who participated in such training programmes/seminars during 2000 with comparable data for 1999 is given in Table II-29.

During the year, 54 officers followed international training conducted by institutions such as the International Monetary Fund, the Bank of England, the Federal Reserve Bank, the World Bank, the Swiss National Bank and the SEACEN Centre.

Welfare

The Bank carries out its staff welfare activities through the Welfare Department (WD). The WD, among other things continued to implement and administer loan schemes at concessional rates of interest for the staff and the Medical Benefit Scheme for the staff as well as for those who had retired from the Bank service.

With the enhancement of the housing loan facilities many employees availed themselves of the enhanced facilities to construct extensions or effect improvements to their houses during the year.

The Bank Clinic, with a full time Medical Officer in attendance for consultation by employees as well as the dispensing of medicines through the in-house pharmacy, provided necessary medical facilities to employees during office hours. This Clinic also makes available the necessary equipment and the personnel to enable employees to undergo pathological tests such as ECG and blood tests.

Personnel

The Establishments Department performed functions with regard to recruitment, appointments, promotions, retirements and other related matters during 2000 in keeping with its vision of 'Maintaining a competent and capable work force developed to its true potential, with an ability to clearly understand their role and responsibilities and discharge them efficiently and effectively and meet un-hesitantly the emerging needs and challenges'.

During 2000, 40 Staff Officers were appointed to the Bank service from outside and twenty Staff Assistants were promoted to the Staff Class from within the Bank.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 2000.

1. The 35th South East Asian Central Banks (SEACEN) Governors' Conference held in Kuala Lumpur, Malaysia from 27 to 29 January.
2. The 2000 IMF Spring Meetings held in Washington D.C., U.S.A. and visit to the Chicago Board of Trade from 09 to 23 April.
3. Meeting of the Commonwealth Finance Ministers held in Malta from 19 to 21 September.
4. The Development Forum (Aid Group Meeting) from 17 to 19 December.

Cessation of Functions of Banking Development Department

Department In the process of streamlining the work of the Central Bank, the functions of the Banking Development Department (BDD) other than those dealing with Regional Officers were transferred to the Bank Supervision Department. The functions of BDD relating to Regional Offices were assigned to the Rural Credit Department. With these arrangements, the Banking Development Department ceased to function with effect from 24 July 2000.

Appointments

1. Mr. D. Boyagoda, Director of Establishments, was promoted to the Special Grade and was designated as an Assistant to the Governor with effect from 9 May 2000.
2. Mr. M. B. Dissanayake, Chief Accountant, was promoted to the Special Grade and was designated as an Assistant to the Governor with effect from 9 May 2000.
3. Mr. W. A. Wijewardena, Director of Rural Credit and Actg. Superintendent of the Employees' Provident Fund, was promoted to the Special Grade and was designated as an Assistant to the Governor with effect from 9 May 2000. He was subsequently appointed as a Deputy Governor with effect from 20 June 2000.
4. Mr. R. A. Jayatissa, Director of Economic Research, was promoted to the Special Grade and was designated as an Assistant to the Governor with effect from 20 June 2000.
5. The following officers were promoted to the Special Grade and designated as Senior Heads of Department with effect from 9 May 2000.
 - (i) Dr. N. L. Sirisena, Director of the Centre for Banking Studies
 - (ii) Mr. M. I. F. Hamid, Director of the Department for Supervision of Non Bank Financial Institutions
 - (iii) Mr. T. S. N. Fernando, Superintendent and Registrar of Public Debt
 - (iv) Mr. P. T. Sirisena, Director of Financial Markets
 - (v) Mr. M. R. Fernando, Superintendent of Currency
 - (vi) Dr. S. S. Colombage, Director of Statistics

- (vii) Mr. K. C. M. Gunasekera, Director of Training
- 6. Mr. P. D. J. Fernando, Additional Director of Statistics, in addition to his duties, was appointed as Additional Director of Information Technology with effect from 26 January 2000. He was later appointed as the Director of Information Technology with effect from 1 May 2000.
- 7. The following appointments were effected from 10 May 2000
 - (i) Mr. S. Rupasinghe, as Director of Establishments.
 - (ii) Mr. M. S. Siripala, as Director of Management Audit.
 - (iii) Mr. Y. M. W. B. Weerasekera, as Chief Accountant.
 - (iv) Mrs. C. K. Nanayakkara, as Director of Rural Credit.
 - (v) Mr. W. S. L. Fernando, as Secretary.
 - (vi) Mrs. P. T. Perera, as Director of Welfare.
 - (vii) Mr. M. D. D. Gunathilake, as Superintendent of the Employees' Provident Fund.
 - (viii) Dr. D. S. Wijesinghe, as Additional Director of Economic Research.
- 8. Mr. N. J. Perera, was appointed as Additional Superintendent of the Employees' Provident Fund with effect from 10 May 2000 and as Acting Superintendent of the Employees' Provident Fund with effect from 10 July 2000, and as Superintendent of Employees' Provident Fund with effect from 29 August 2000.
- 9. Dr. (Mrs.) Anila D. Bandaranaike, was appointed as Director of Bank Supervision with effect from 8 June 2000. She was subsequently appointed as Additional Director of Statistics with effect from 8 August 2000 and as Acting Director of Statistics with effect from 14 September 2000 and as Director of Statistics with effect from 14 December 2000.
- 10. Mr. P. T. Sirisena, was appointed as Director of Bank Supervision in addition to his duties as Director of Financial Markets, with effect from 8 August 2000.
- 11. Mrs. L. K. Gunathilake, was appointed as Additional Director of the Department for Supervision of Non Bank Financial Institutions with effect from 20 September 2000 and was subsequently appointed as Acting Director of that Department with effect from 16 October 2000.
- 12. Dr. A. G. Karunasena, was appointed as Director of Economic Research with effect from 10 November 2000.

Retirements

- 1. Mrs. S. N. Fernando, Director of Information Technology, retired from the Bank service with effect from 1 May 2000.
- 2. Mr. J. L. E. Peiris, Acting Additional Secretary, retired from the Bank Service with effect from 1 June 2000.
- 3. Miss. C. I. Fernando, Director of Bank Supervision, retired from the Bank Service with effect from 2 June 2000.
- 4. Mr. P. Amarasinghe, Deputy Governor, retired from the Bank Service with effect from 14 June 2000.
- 5. Mr. A. R. A. Mihindukulasuriya, Director of New Buildings, retired from the Bank Service with effect from 28 June 2000. He was re-appointed to the same post on contractual basis with effect from 3 July 2000.
- 6. Mr. M. D. D. Gunathilake, Superintendent of the Employees' Provident Fund, retired from the Bank Service with effect from 29 August 2000.
- 7. Dr. S. S. Colombage, Director of Statistics, retired from the Bank Service with effect from 14 December 2000.
- 8. Mr. M. G. Senanayake, Additional Director of the Department for Supervision of Non Bank Financial Institutions, retired from the Bank Service with effect from 30 December 2000.

Officers on Release

- 1. Dr. (Mrs.) Ranee Jayamaha to the Commonwealth Secretariat, London.
- 2. Mrs. M. A. R. C. Cooray to the Ministry of Finance and Planning as Director General/Fiscal Policy and Economic Affairs.
- 3. Mr. R. A. Jayatissa to the International Monetary Fund as Alternate Executive Director.
- 4. Dr. U. Vidanapathirana to the Ministry of Plantation Industries as the Director General (Development).
- 5. Mr. M. J. S. Abeysinghe to the Ministry of Finance and Planning.
- 6. Mr. A. Abayratna to the Ministry of Finance and Planning.
- 7. Mr. P. G. Jayatunga to the Ministry of Power and Energy.
- 8. Mr. R. Akurugodagamage to the Ministry of Finance and Planning.