
Chapter 2

Internal Structure And Operations

At the commencement of operations of the Central Bank in 1950, the activities of the Bank centered around a few departments, namely Banking and Currency, Economic Research, Exchange Control, Public Debt and the Secretariat. At the helm of the Bank was the Governor, who was also the Chairman of the Monetary Board which consisted of three members. The Governor was assisted by Deputy Governors and Advisors.

Since then the organizational structure of the Bank as well as the management structure have changed. The departments, which were originally established in order to meet the Central Bank's statutory requirements in terms of the Monetary Law Act became insufficient, as new activities were undertaken by the Bank in order to fulfil its objectives as well as to meet additional requirements arising from subsequent legislation.

This chapter is therefore divided into two main sections, the first of which will cover the historical evolution of the management and organisational structure of the Central Bank, while the second section will cover the current management and organisational structure of the Bank.

Historical Evolution of the Management and Organisational Structure of the Central Bank

The first few years after the establishment of the Central Bank in 1950 saw the gradual growth of the departmental structure of the Bank. The Bank Supervision Department, one of the early additions to the existing departments, was established in 1957 in order to fulfil one of the bank's major statutory requirements, namely the continuous supervision and periodic examination of banking institutions in Sri Lanka.

The Department of Exchange Control which was originally established under the Defence Finance Regulations continues to carry out an agency function of the government in terms of the Exchange Control Act No. 24 of 1953. During the same year an Establishments Department was instituted to relieve the Secretariat Department of functions relating to staff recruitment, promotions and other related activities; it was once again absorbed into the Secretariat Department and functioned as a unit of the latter until 1967. Thereafter it was upgraded to the status of a separate department.

The passing by Parliament of the Employees' Provident Fund Act No. 15 of 1958, resulted in the creation of the Employees' Provident Fund Department in 1958, which was entrusted with the responsibility for receiving contributions, payment of refunds and administering the accounts of the Employees' Provident Fund.

The Internal Audit Division was raised to the status of an independent department in 1964, consequent to the increase in activities of the Bank, both in relation to its statutory functions as well as its agency and administrative functions.

After 1973, a series of new departments and divisions came into being consequent to the further expansion of the Bank's activities due to the amendments to the Monetary Law Act accompanied by a conscious effort by the management to fulfil the Bank's objectives. The establishment of the Development Finance Department in 1973 to take over the functions of the Development Finance Division of the Bank Supervision Department was such a move. The amendments to the Monetary Law Act in 1963 and 1968 created the necessity for such an

independent department as the provider of medium and long term funds to the economy through credit institutions which was of prime importance in the country's economic development efforts.

Further changes in the institutional structure took place in 1977, when the Internal Audit Department was entrusted with the management audit aspect and was named the Management Audit Department. During the same year, the Banking and Currency Department was separated into two departments due to the increase in its activities consequent to the expansion in central banking services offered to financial institutions, such as refinance and foreign exchange operations of the Banking Division on the one hand and currency issue activities of the Currency Division on the other; the newly created departments were known as the Banking Department and the Currency Department, respectively.

The expansion of the activities of the Central Bank had an impact not only on its operational and administrative aspects, but were also felt in areas which contributed to research and policy formulation. Among such activities was the collection, tabulation and presentation of data which was hitherto handled by the Statistics Division of the Economic Research Department. In view of the magnitude of the activities of the division, it was considered necessary to establish a separate Statistics Department in the Bank in 1978.

The year 1979 saw further changes in the restructuring of existing departments of the Bank to meet the needs of its developmental role. Thus, in the year 1979, the Development Finance Department was entrusted with activities pertaining to the promotion of rural credit and was named the Rural Credit and Development Finance Department.

A long felt need to provide the public with information on the Central Bank's activities and its role in the field of economic development was fulfilled when, in 1980, the Information Department was established. The expansion of the Bank's activities caused a need to acquire and maintain buildings and movable property as well as supporting services, which resulted in the establishment of the Premises Department in the same year.

Further changes in the departmental structure of the Bank took place in 1981. The Data Processing Division of the Bank which was established to carry out the provision of data processing and computer services to its various departments had to play an important role as the number of departments increased and, accordingly, it was renamed the Data Processing Department with additional activities entrusted to it. The same year saw the establishment of the Rural Banking and Staff Training College for the purpose of providing training facilities especially to personnel of the Central Bank and commercial banks.

An important landmark in the expansion of central banking activities was the decision to establish regional offices of the Bank as provided for in Section 7 of the Monetary Law Act. The establishment of regional offices was a natural consequence of the increase in the Bank's activities due to its developmental role as well as to the expansion of commercial banks' branch network, especially during the 1960's and 1970's. It was also necessitated by the need for closer supervision of activities of commercial banks and for the provision of facilities to the branch network of commercial banks as well as the supportive services for activities conducted by the Banks' own departments in the regions. The first such regional office was established in Matara in 1981, followed by the offices in Anuradhapura and Matale in 1982 and 1985 respectively.

A further change in the departmental structure of the Bank which took place in 1981, was the separation of the functions of the Rural Credit and Development Finance Department into two separate departments to carry out these respective functions. During the same year, a separate unit named the Office of Banking Development was also established, thereby upgrading the advisory unit for Banking Development established in 1968.

The establishment of Regional Rural Development Banks (RRDBs) as subsidiaries of the Bank was also an important factor in the Bank's role in providing opportunities for rural agricultural and industrial development; the first such rural bank with capital provided by the Bank was established in 1985.

A further important change in the organizational structure of the Bank took place with the establishment of the Department for the Supervision of Non-Bank Financial Institutions in 1988 consequent to the need for strict supervision of finance companies, some of which had failed in the mid - and late - 1980's. The Banking Development Department was also established during the same year by upgrading the Office of Banking Development. The Training Department and the Welfare Department were established in 1988 and 1989 respectively.

Current Management and Organizational Structure of the Central Bank

The supreme body for the management of the Central Bank is the Monetary Board which constitutes the Governor, who is ex-officio Chairman of the Monetary Board, the Secretary to the Ministry of Finance and a private-sector member appointed by His Excellency the President. The Law provides for the Monetary Board to meet at least once in every two weeks. The Monetary Board, being the advisor to the government in matters connected with monetary and fiscal policies, in addition to its role as the governing body for the banking system, has a special role to play in the country's development process.

The day to day executive functions of the Central Bank are carried out by the Governor who is appointed by His Excellency the President for a period of six years. He is assisted by the Deputy Governors. The Executive Directors are entrusted with the supervision of one or more departments, except in certain cases where a department comes under the direct supervision of the Governor or a Deputy Governor. The Auditor General carries out the functions of the External Auditor.

The Heads of Departments carry out the day to day affairs of individual departments with the assistance of Deputy Heads of Departments and Staff Officers. Presently, the Bank is organized into 22 departments; some departments are composed of various divisions handling specific functions. A summary of the organization and operations of the individual departments/divisions as well as other activities of the Bank is given in the following sections.

1. The Banking Department

The Banking Department was among the few departments which were established at the inception of the Bank. This department handles a number of statutory and other functions.

The major activities of the Banking Department can be categorised under two main headings namely domestic and foreign transactions, as listed below :

(a) Domestic Transactions

- (1) maintenance of accounts of the Central Bank, commercial, banks regional rural development banks, the government and its agencies and certain development finance institutions;
- (2) granting of lender-of-last-resort facilities to commercial banks, and refinance facilities to commercial banks, RRDBs, specified credit institutions and finance companies;
- (3) granting of loans to government to meet short term liquidity problems and to meet long term commitments such as quota subscriptions to international financial institutions;
- (4) open market operations in Treasury bills;
- (5) implementation of monetary policy instruments such as credit ceilings, margin requirements and reserve requirements;
- (6) safe custody facilities;
- (7) operation of subsidy and ex-gratia payments for Indian repatriates;
- (8) administration of funds under the Compulsory Savings Scheme on behalf of the government;

(9) provision of guarantees on behalf of the government and its agencies;
and

(10) preparation of the monthly balance sheet and annual accounts of the Central Bank.

(b) Foreign Transactions

(1) maintenance and investment of the country's international reserve in gold and foreign currencies ;

(2) purchase and sale transactions in foreign exchange with commercial banks and the government;

(3) imposition of foreign currency working balances on commercial banks ;

(4) announcement of the Central Bank's buying and selling rates for foreign currency ;

(5) forward exchange operations ;

(6) transactions pertaining to foreign aid received by the government;

(7) transactions with international financial institutions and maintenance of accounts on their behalf ;

(8) multilateral currency clearing operations such as the Asian Clearing Union ;

(9) operations in gold ; and

(10) Letter of Credit facilities to government departments for specified purposes.

In addition to these important functions, the Banking Department also acts on behalf of the RRDBs by providing them with facilities for cheque clearing, investment, safe custody facilities for the finance companies for their holdings of Treasury bills, investment of funds under the Compulsory Savings Scheme and payments to commercial banks under the Import Duty Rebate Scheme of the government.

2. The Banking Development Department

The major functions of the Banking Development Department include the appraisal of proposals for the establishment of commercial banks and branches and screening of proposals from commercial banks for the floatation of money market instruments and making appropriate recommendations thereon to the Governor and the Monetary Board. This department, in addition, supervises the activities of regional rural development banks and regional offices of the Central Bank. The department also provides support services to the Monitoring Committee established by the Central Bank for regional offices and convenes meetings of the Chairmen of RRDBs in order to discuss matters connected with policy, direction of credit and administration.

3. Bank Supervision Department

The Bank Supervision Department which has been established in terms of Section 28 of the Monetary Law Act provides continuous supervision and periodic examination of banking institutions in Sri Lanka. The Director of Bank Supervision could also examine a specified banking institution which is not a commercial bank if directions for that purpose are given by the Monetary Board. It is also the responsibility of the department to communicate to commercial banks directions given by the Monetary Board. The department obtains periodic returns from commercial banks, in order to ensure that the statutory requirements as well as the department's own requirements imposed upon them have been complied with.

The Director of Bank Supervision, after examination of banking institutions, is expected to furnish periodic reports to the Governor and

the Monetary Board with regard to such banking institutions. These reports form the basis of appropriate policy decisions with regard to the direction of activities of a particular banking institution or the banking system as a whole as and when necessary. The reports made by the Director of Bank Supervision are also made available to the management of the respective banking institutions and thereby provide them with useful data and observations enabling them to correct the deficiencies of their banks, if any.

When an order is made by a court of law for the winding up of a bank, the law provides for the Director of Bank Supervision to be the liquidator of such an institution. The Director of Bank Supervision is also empowered to take charge of the books and records of a bank and prevent its continuance in business, where the Monetary Board has cancelled the licence of such bank.

The Bank Supervision Department is expected to carry out certain statutory functions in terms of the provisions of the Banking Act No. 30 of 1988, which makes it mandatory for commercial banks to maintain a Reserve Fund, Liquid Assets and specific financial ratios. The department also administers a Deposit Insurance Scheme for commercial banks and RRDBs.

4. The Currency Department

The Central Bank has the sole right and authority to issue currency in Sri Lanka. Accordingly, the Currency Department has been entrusted with the responsibility of the issue of legal tender currency. The major activities of the department include:

- (1) estimating the needs of the economy for various denominations of currency, both notes and coins, and making recommendations for their manufacture to the Monetary Board;
- (2) the preparation of dimensions, designs, inscriptions and other characteristics of currency notes for approval by the Monetary Board and the Minister of Finance;

- (3) placement of orders for the printing of notes and minting of coins with the approval of the Monetary Board;
- (4) replacement of currency unfit for circulation;
- (5) exchange of currency;
- (6) maintenance of stocks of currency for supply to the banking system and the general public; and
- (7) acceptance of deposits of commercial banks (both serviceable and unserviceable currency).

The Currency Department, in addition, provides counter facilities to the public for the encashment of cheques drawn on government accounts maintained with the Central Bank.

It is the responsibility of the Currency Department to ensure the availability of currency notes and coins in sufficient quantities to meet the public demand and also to withdraw from circulation currency notes and coins unfit for use by the public.

5. The Data Processing Department

The basic responsibility of the Data Processing Department is to provide computer facilities to departments in the Bank and the computerization of existing manual operations. The department presently serves a number of departments of the Bank including the provision of on-line facilities.

The Automated Clearing House which provides cheque clearing facilities to the Central Bank as well as all commercial banks operating in Sri Lanka, has been one of the more important activities undertaken by the department since 1988. This project is considered a major step towards banking automation and implementing electronic fund transfers in Sri Lanka.

6. The Development Finance Department

The Development Finance Department is responsible for the evaluation of medium and long term refinance proposals for production purposes such as industry, agriculture and exports and the recommendation to the management of the feasibility of the proposals made by commercial banks and other credit institutions. It also provides training facilities for entrepreneurship development and formulates schemes for the rehabilitation of sick industries.

The implementation of a package of relief measures made available to the tourist industry with the approval of the Cabinet of Ministers, has been carried out by the department in recent years. These measures included the rescheduling of refinance loans and capitalization of interest. The department also provided credit guarantee facilities for the Small Scale Industries (SSI) Scheme on behalf of the Government during the period 1978 to 1981 and thereafter for the Small and Medium Industries (SMI) Loan Schemes. The credit guarantee schemes provided by the department enable greater involvement by participating credit institutions in the credit schemes which cover a variety of industries such as food processing, agro-based industries, construction, textiles and garments.

7. The Department for the Supervision of Non-Bank Financial Institutions

This department which was established in 1988, took over its responsibilities from the Department of Bank Supervision which earlier carried out the registration and supervision of finance companies. The Monetary Board, while registering finance companies in terms of the Control of Finance Companies Act No. 27 of 1979, also issued directions to such companies with regard to the terms of deposits, the need to maintain liquid assets, limitations on unsecured advances, maintenance of capital funds and lending to directors, among other issues. Consequent to the failure of certain finance companies to adhere to these regulations and their near-collapse, the government introduced new legislation under Section 5 of the Public Security Ordinance

(Chapter 40) on 17th June, 1988, vesting the Monetary Board of the Central Bank with special powers to direct and control the affairs of finance companies. In December, 1988, the enactment of the Finance Companies Act No. 78 of 1988, replaced all previous legislation relating to finance companies.

The Department for the Supervision of Non-Bank Financial Institutions (DSNBFI), as a result of the extra powers vested in it, had been able to carry out its activities effectively in order to bring about controls and financial discipline among finance companies. The department has in addition made arrangements to grant refinance facilities to meet their liquidity problems. Certain companies vested in the Monetary Board, due to their inability to perform satisfactorily, are now functioning under the management of persons appointed by the Central Bank, supervised by the Director of this department. The department continues to examine finance companies which are registered with the Monetary Board in order to ensure that they are functioning on sound management and financial principles.

8. The Economic Research Department

The Economic Research Department was established at the inception of the Central Bank as provided for by its Statute. The activities of the department are of special relevance, as one of the major roles of the Bank is that of economic advisor to the government.

The department is expected by law to prepare data and conduct economic research for the guidance of the Monetary Board and the Governor in formulating, implementing and executing policies in the areas of money and banking and other subjects of general interest. Although some of the activities of this department have now been divested in the Statistics Department, a substantial amount of data collection and analytical presentation are carried out by the department in the fields of agriculture, industry, economic and social overheads, prices, wages and employment, trade, balance of payments, public finance and money and banking.

The data so collected by this department are used for the preparation of reports for the use of the Monetary Board on a regular basis, as well as for advice to the government in accordance with the Bank's role as advisor to the government and for the preparation of Central Bank publications such as the Monthly Bulletin, Annual Report and Staff Studies.

9. The Employees Provident Fund Department

The Employees Provident Fund Department, which was set up in 1958, is responsible for the receipt of contributions, surcharges and income from the investment of monies of the Employees Provident Fund (EPF). It also maintains accounts of the Fund and those of the individual members of the Fund. Refunds are made to members of the Fund in terms of the provisions of the EPF Act. An additional function entrusted upon the department in the recent past had been the guaranteeing of loans granted by credit institutions for purposes of housing to members of the EPF.

This department, unlike most other departments of the Bank, carries out an agency function on behalf of the government. The Monetary Board is entrusted with the responsibility for the investment of funds belonging to the EPF in such manner that a reasonable return is received in order to meet the interest payments on members' balances. A fair amount of the funds are invested in gilt-edged securities such as Treasury Bills and Rupee Securities of the government, ensuring full security for the funds so invested.

10. The Establishments Department

The Establishments Department is entrusted with a function that is of prime importance to the smooth functioning of the Bank. Policy proposals pertaining to recruitment, promotion, retirement, remuneration, disciplinary procedures and matters related to Bank's employees are made by this department. On approval by the management of such proposals, the department is entrusted with their implementation.

11. The Exchange Control Department

The Exchange Control Department carries out yet another agency function on behalf of the government. Exchange control policies are, however, implemented by the government in close consultation with the Central Bank. The provisions of the Exchange Control Act No. 24 of 1953 encompasses transactions relating to gold, foreign currency, payments out of Sri Lanka, settlement of foreign debt, payments for imports and receipts on account of exports, payments on foreign contracts, transfer of property involving foreign currency and related matters. This department has, over the years, entrusted some of its functions to authorized dealers who approve permits on the basis of guidelines issued by the former.

The department maintains close liaison with other regulatory departments of the government such as Import Control and Customs on a regular basis in order to take co-ordinated action based on government policies. An important function of the department is its post-check activities, especially for exports, so as to ensure that export proceeds are realised in time.

Since 1977, the restrictions that prevailed have been removed or eased, especially with regard to travel, education, medical treatment, transfer of dividends and profits and accordingly, the emphasis of the department is in areas such as capital flows, realization of exports proceeds and foreign borrowing.

12. The Information Department

The activities of the Information Department are geared towards the provision of supportive services to operational as well as research oriented departments. Its prime responsibility is to provide publicity on the development activities undertaken by the Bank. This department, in addition to providing information to the public of the Central Bank's activities, is also instrumental in releasing publications prepared by various departments. For this purpose, the department operates a printing press. The department is also responsible for the Bank's library

which has a wide coverage of publications in economics and related areas.

13. The Management Audit Department

The Management Audit Department is divided broadly into two divisions carrying out the functions of internal audit and management services. The internal audit function encompasses activities of all departments and units of the Bank. A continuous audit of the Bank's activities is being implemented by this department. The Management Services Division of the department has undertaken studies pertaining to the manpower requirements of the different departments of the Bank.

14. The Premises Department

The Premises Department is responsible mainly for the acquisition of land and buildings, construction and renting out of buildings as well as their maintenance, the purchase of motor vehicles including their maintenance and disposal and the provision of other service facilities to various departments of the bank such as housekeeping, electricity, telephones, telex and facsimile transmission facilities. With the expansion of the operations of the Bank, the department is presently involved with the planning of the construction of the second head office building and buildings for regional offices. The department employs technically qualified personnel in order to provide these specialised services.

15. The Public Debt Department

The Public Debt Department is vested with responsibility for the management of Sri Lanka's public debt in terms of Section 113 of the Monetary Law Act. The activities of the department fall into two broad categories namely internal debt and external debt. It being an agency function, the departmental activities are closely co-ordinated with the activities of the Ministry of Finance, particularly with budgetary

operations. The department is entrusted with the management of the public debt in accordance with the requirements of the government or of designated agencies of the government.

The departmental activities pertaining to internal debt revolves around the issue, redemption and servicing of the following instruments :

(1) Treasury bills which are issued on tap and on tender for periods of three, six and twelve months, such bills being issued at a discount. These bills are issued under the provisions of the Local Treasury Bills Ordinance (Cap. 417) ;

(2) Government rupee securities which are issued for a term of 5-6 years with fixed interest. These are raised under the Registered Stock and Securities Ordinance (Cap. 420) ;

(3) Government guaranteed debentures issued on behalf of agencies such as the National Housing Department, the Urban Development Authority and the State Mortgage and Investment Bank. These debentures are issued under the acts establishing the respective institutions and under Section 106 (1) of the Monetary Law Act ;

(4) Tax Reserve Certificates which are issued under the Tax Reserve Certificates Act No. 22 of 1957 ; and

(5) Treasury Certificates of Deposit which have been recently introduced in bearer form.

The department is also responsible for the issue of Central Bank Securities from time to time in terms of decisions made by the Monetary Board to absorb excess liquidity in the financial system.

The functions of the department with regard to external debt emanate from governmental borrowings from international financial institutions and foreign governments and other approved sources in terms of the Foreign Loans Act No. 29 of 1957, as amended. The Public Debt Department maintains records of external debt on the basis of information received from donor agencies and institutions. The

payment of interest and repayment of principal, as applicable, is carried out by the department by drawing on the necessary rupee funds from the Consolidated Fund Account on the due dates. These transactions are effected through the Banking Department of the Central Bank.

16. The Rural Credit Department

The Rural Credit Department plays an important role in promoting rural credit in the country. The preparation of national policy guidelines, formulation of credit schemes and eligibility criteria therein, monitoring, supervision and evaluation of credit schemes and the promotion and development of the institutional infrastructure for rural credit have been the concern of this department. The department has been instrumental in designing and implementing credit programmes to provide an impetus to agricultural production through a number of schemes. Among these, the more important schemes are:

- (1) the New Comprehensive Rural Credit Scheme (NCRCS); in addition to providing refinance, the Scheme also arranges credit guarantee cover and rescheduling of loans;
- (2) the Marketing Loan Scheme for financing the purchase of paddy and other subsidiary food crops ;
- (3) Integrated Rural Development Project (IRDP) Schemes for which refinance is provided under Category I of the Medium and Long Term Credit Scheme ; and
- (d) other schemes refinanced under Category I of the Central Bank's Medium and Long Term Credit Scheme.

In addition, the department has formulated collateral free credit schemes with a view to alleviating poverty in the rural sector; the schemes will initially be operative in a few districts such as Puttalam, Kandy, Galle and Matara with the assistance of soft loans granted by institutions such

as International Fund for Agricultural Development (IFAD) and the Canadian International Development Agency (CIDA).

A Credit Guarantee Fund initially financed out of monies provided by the Central Bank which was introduced by this department in 1988 for loans granted for short term cultivation purposes was subsequently extended to cover loans granted under the Medium and Long Term Credit Scheme; the guarantee cover has provided the lending banks with a certain degree of protection against possible losses in granting credit to the rural sector. More recently, the department introduced an Inland Bill Scheme for the benefit of tea small holders in order to assist in the realization of liquid funds needed by them.

The department also functions as a co-ordinator between the various institutions in the field of agricultural credit and rural industrial development and is also instrumental in convening the Rural Credit Advisory Board meetings.

17. The Rural Banking and Staff Training College

The Rural Banking and Staff Training College was established in 1981. The functions and duties of the College are :

(1) training of Central Bank and commercial bank staff in rural credit, commercial banking, foreign exchange operations, budgetary and credit planning, manpower planning and related activities, record keeping and data management, project and loan appraisals ;

(2) organising of training programmes for persons other than those in the banking sector but involved in activities relating to rural and commercial banking; and

(3) research in banking operations and development.

The College, which is presently located at Rajagiriya in a modern building partly funded by the Asian Development Bank, conducts training courses mostly for middle and lower management personnel. The training programmes have hitherto been conducted in areas such

as financing of agricultural and small industrial projects, commercial credit and financial analysis, marketing, foreign exchange operations, offshore banking, international trade financing and specialized programmes relating to human resource management and managerial development.

The faculty of the College consists mainly of lecturers drawn from the Central Bank and commercial banks who are specialists in their respective fields of study.

18. The Security Division

The Security Service was established as a formal unit in the early 1970's by recruiting personnel on a contractual basis on recommendations made by the Inspector General of Police; the division functioned as a unit of the Secretariat Department. The security staff employed on a contractual basis were absorbed into the permanent cadre in 1977. The service was reorganized with a Comptroller of Security as its head in 1982. He is assisted by a Deputy Comptroller and an Assistant Comptroller as well as Security Officers of various grades.

The service which is a closed unit in the Bank expanded rapidly after 1982 due to the need for additional security as well as due to the expansion of the Bank with the establishment of the Rural Banking and Staff Training College and the regional offices.

The security service is established for the security and protection of bank employees, bank property and premises and the property of bank employees within the bank premises. It is also assisted by police personnel who guard strategic points of the Bank.

Security personnel engage in additional services such as providing escorts for currency and gold shipments and monitoring the visual security devices installed in the Bank.

19. The Secretariat Department

The Secretariat Department was one of the departments established at the inception of the Bank. Its activities, which originally encompassed certain major functions now handled by departments such as Establishments, Premises, Welfare and Information, are now limited to those of a specialized nature such as finance, legal services, supplies, travel and other general services. The Secretariat Department is the centre of all administrative services of the Bank.

The Finance Division of the department is responsible for the granting of salaries, emoluments and gratuities to Central Bank staff, the administration of the Provident Fund and Pension Fund Schemes and contributing to the Employees Trust Fund on behalf of employees.

The Legal Division is responsible for the provision of legal advice on matters connected with the Bank, representing the Bank in the Courts of Law, preparation and publication of statutory regulations of the Bank, preparation of preliminary drafts pertaining to legislation affecting the Bank and the banking sector, compilation of manuals pertaining to the conduct of staff and assisting the management in concluding contracts and agreements related to the Bank's activities.

The Supplies Division is responsible for the provision of supplies both of consumer and capital goods; for this purpose, the division has been provided with internal guidelines and, in addition, it has to comply with governmental tender procedures, where applicable.

Payments pertaining to internal and international travel by the Bank's staff are handled by the General Services Division of the Secretariat Department. Services of a general nature which are not entrusted to any other division, such as payment of audit fees and payments of a miscellaneous nature, such as for printing, membership subscriptions on behalf of the Bank, grants to RRDB's etc., are also handled by this division.

The staff of the Board Secretariat, who perform a specialized function and who are directly responsible to the Secretary to the Monetary

Board, and staff of the Protocol Division attached to the Governor's Office are also members of the Secretariat Department.

20. The Statistics Department

The Statistics Department which was established in 1978, in recognition of the need to expand the collection, analysis and presentation of statistics in the country, has increased its activities over the years. The department has used the data collected in statistical surveys to assess the growth in income, wealth, capital formation, production, consumption and savings in Sri Lanka. A consumer finance survey was first conducted by the Department of Economic Research in 1953, followed by surveys in 1963, 1973, 1978/79 and 1981/82. The Consumer Finances and Socio-Economic Survey of 1986/87 obtained data on consumer finances as well as socio-economic conditions of the household sector. A number of special surveys have also been conducted under the auspices of this department. Among such surveys was the Survey of Business Activities and Planned Investments.

The computation of a number of indices is carried out by the Statistics Department, among which is the wholesale price index. The department also publishes "The Economic and Social Statistics of Sri Lanka", which gives comprehensive coverage on data pertaining to climate, population and employment, national accounts, agriculture, industry, trade, prices and wages, finance, transport and social services. The publication titled "Price and Wage Statistics" issued by the department provides detailed data on retail prices of over 244 consumer items, producer prices of a wide range of items, retail prices of agricultural inputs and daily wage rates obtained from 100 centres scattered around the Island.

21. The Training Department

The Training Department was established in order to fulfil a statutory role of the Central Bank, namely the training of technical personnel in the areas of money, banking, statistics, finance and other economic subjects. While the Rural Banking and Staff Training College fulfils

these requirements by providing short term courses relating to the practice of banking in the areas of rural credit, development banking, trade and foreign exchange, etc., the Training Department provides facilities to train the Bank's staff in the theoretical aspects relating to these subjects.

The department conducts programmes for the selection of suitable candidates for post-graduate training as well as training at specialized institutions in specialised courses, locally and abroad. It also conducts classes for Central Bank staff in relevant subjects in preparation for their studies abroad.

22. The Welfare Department

The Welfare Department was created in order to organise and streamline the welfare services of the Bank's staff in a systematic manner. The department is instrumental in the preparation of policies and procedures and their implementation pertaining to a variety of services offered. Among them are :

- (1) the granting of loans to staff
 - (a) for the purchase and construction of houses under a mortgage scheme;
 - (b) for essential financial needs through a Provident Fund Loan Scheme and a Staff Benefit Scheme; and
 - (c) for the purchase of motor vehicles;
- (2) the provision of medical benefits such as hospitalization of members;
- (3) in-house medical facilities for Bank staff;
- (4) administration, directly or indirectly, of death relief schemes for the staff; and

(5) the provision of canteen facilities for Bank staff.

Other Specialized Activities of the Bank

(a) Regional Offices

Section 7 of the Monetary Law Act provides for the establishment of branches as may be necessary for the proper conduct of the business of the Bank.

The need for regional offices of the Bank was felt with the rapid expansion of commercial banks' branches over the years, as a result of which there arose a necessity to expand the Central Bank's services and supervisory functions. The services needed by commercial banks include mainly currency deposit and exchange facilities as well as cheque clearing facilities. The recommendation of the Committee for Restructuring the Central Bank, appointed by the Governor in 1976, was instrumental in the establishment of regional offices, the first of which was opened at Matara in 1981 and the second and third at Anuradhapura and Matale in 1982 and 1985, respectively.

The regional offices presently conduct limited operations and these offices have not yet achieved all their objectives which include closer supervision of the banking system, conduct of surveys and collection of statistics. However, these offices have been successful in identifying the human and physical resources in the areas in which they operate and in recommending, to commercial banks, credit facilities for those who have the capacity and experience to implement projects which are economically viable. These offices have also provided clearing facilities to commercial banks in their respective regions. Currency operations are also being introduced at the regional offices in a limited manner.

(b) Regional Rural Development Banks

The establishment of Regional Rural Development Banks (RRDBs) became necessary in view of the difficulties experienced by the rural

sector borrowers to meet their credit requirements from the branches of existing domestic banks. The requirements of acceptable collateral in the form of assets or guarantees were not available from most borrowers due to the existence of common and undivided ownership in the case of land or the lack of fixed income earners in the middle or high income brackets, in the case of guarantors. The steady outflow of educated youth from schools had increased the level of unemployment in the rural sector in the late 1970's and early 1980's and consequently there was an urgency to establish credit institutions geared mainly to self-employment projects. Accordingly, it was felt that the quickest means of establishing such institutions was by way providing funds from the Central Bank.

The Regional Rural Development Bank Act No. 15 of 1985, provided for the establishment of these banks for the purpose of developing the rural economy by granting facilities for the development of agriculture, cottage and small scale industry, the fishing industry, commercial and other development activities in rural areas. The capital of these banks amounted to Rs. 10.0 Million at their inception but was raised to Rs. 20.0 Million subsequently. They were permitted to conduct domestic banking business only and were exempt from income tax and stamp duty for a period of 10 years. It is expected that these institutions will eventually be established in all districts in the island, with 11 so far having been established.

(c) Promotion of Specialised Financial Institutions

The Central Bank has been a shareholder of three institutions whose creation was deemed necessary due to the expansion of the domestic economy and the export sector. These institutions are the National Development Bank (NDB), Sri Lanka Export Credit Insurance Corporation (SLECIC) and the Credit Information Bureau established in 1979, 1978 and 1990 respectively. The NDB was established for the provision of medium and long term credit and to stimulate further development of financial markets in Sri Lanka. The total capital contribution of the Central Bank to the NDB was Rs. 100 Million. The SLECIC was established mainly with the objective of issuing insurance policies to exporters of goods and services against non-receipt or delayed

receipt of payments and to issue guarantees to banks and other financial institutions on account of borrowers in the export sector. The capital contribution to SLECIC by the Central Bank has been Rs. 20.0 Million.

The Credit Information Bureau which was established in 1990, has its entire capital contributed by the Central Bank, commercial banks, regional rural development banks, the National Savings Bank, the National Development Bank, the State Mortgage and Investment Bank and the Development Finance Corporation of Ceylon. The data available from the Bureau will assist commercial banks to identify credit-worthy customers and thereby accelerate the credit delivery process.

The Central Bank is currently envisaging the establishment of a bank for the gem industry. The purpose of the bank is to assist gem miners as well as gem traders. It is envisaged that the bank will provide credit for the development of the infrastructure of the gem mining industry, for gem traders to meet their working capital requirements, as well as promoting the Sri Lanka gem trade internationally. The Central Bank will contribute a major portion of the capital of this bank.

Proposals have also been made for a Credit Guarantee Corporation to be established under the auspices of the Central Bank which will encompass the existing credit guarantee schemes and establish new schemes especially to assist the small and medium sectors in agriculture, industry, commerce and trade.

(d) The Promotion of Specialized Training in the Sphere of Commercial and Development Banking

The Central Bank was instrumental in the establishment of the Bankers Training Institute in 1964 in close collaboration with other banking institutions; the Institute was later incorporated by an Act of Parliament and is now known as the Institute of Bankers of Sri Lanka. The Institute, which is administered by a Board of Directors with a Deputy Governor of the Central Bank as its Chairman, is financed by contributions from the Central Bank and member banking institutions. It conducts examinations leading to the Diploma in Banking and provides the

banking system with the expertise to meet their expanding needs for qualified personnel.

Committees and Boards Established or Sponsored by the Bank

(a) The Establishments Committee

This Committee which is headed by a Deputy Governor and consists of Executive Directors and Heads of Departments, is responsible for making recommendations to the Governor for promotions to the grades of Staff Assistants, Staff Officers and Deputy Heads of Departments; in addition, the Committee also makes recommendations with regard to extension of service beyond the stipulated age of retirement for essential personnel in the aforementioned grades. The Committee is also empowered to make recommendations in matters connected with employee discipline, emoluments and related matters.

(b) The Treasury Bill Tender Committee

This Committee is headed by a Deputy Governor and the membership consists of an Executive Director and certain Senior Heads of Departments. The functions of the Committee are to formulate policy guidelines pertaining to Treasury bill tenders and to determine the acceptability of offers made by the public for the weekly Treasury bill issues.

(c) The Regional Offices Monitoring Committee

This Committee is headed by a Senior Head of Department and consists of certain other Heads of Departments having responsibilities in activities in which regional offices of the Bank are involved. The objectives of the Committee are to monitor activities of the regional offices and ensure their active participation in regional developmental activities. The regional offices are also expected to coordinate with the other banking and financial institutions in their respective regions and to improve credit flows to the rural sector ; the Committee provides

guidelines for this purpose. In addition, the Committee also looks into matters connected with expenditure and personnel in these offices.

(d) The Board of Trustees of the Central Bank of Sri Lanka Provident Fund

The Board of Trustees is headed by an Executive Director and consists of a few Heads of Departments and an elected representative of the employees. The functions of the Committee are to approve loans granted under the Bank's Provident Fund Housing Loans (Mortgage) Scheme and Provident Fund members' loan scheme. In addition, matters connected with the investment of monies held in trust and sale and transfer of properties purchased under the Housing Loan Scheme are decided by the Trustees.

(e) The Committee Appointed to Administer the Central Bank of Sri Lanka Housing Loan(Mortgage) Scheme

The Committee is headed by a Deputy Governor and consists of certain Executive Directors and Heads of Departments. The functions of the Committee are to establish policy procedures for the implementation of the loan scheme and to consider applications made by employees for the purchase, sale, repairs and renovations of residential property.

(f) The Rural Credit Advisory Board

The Rural Credit Advisory Board is headed by the Governor of the Bank and consists of representatives of the Central Bank and of relevant Ministries. The Board is convened mainly to discuss policy issues relating to rural credit and to enlist the co-operation and assistance of the implementing agencies connected with rural credit and rural sector services.

(g) The Export Credit Plan Committee

This Committee has been established to study and make recommendations on problems relating to credit facilities available to the export sector. The Committee is headed by a Senior Head of Department of the Central Bank. The Export Development Board is also represented on the Committee.

(h) The Committee on Customer Services in Banking

The Committee was established in 1981 consisting of representatives of the Central Bank and of commercial banks. The main objective of the Committee was that of improving the services offered by commercial banks to customers.

Other committees have been established by the Bank for specific purposes, such as the confirmation of non-staff class officers, appointments and confirmation of service in the minor employees class and the promotion of minor employees.