

## **PART II**

## PART II

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

	<i>Page</i>			
Accounts and Banking Operations	...	...	...	(I)
Currency Issue	...	...	...	(VI)
Banking Development	...	...	...	(VII)
Bank Supervision	...	...	...	(X)
Supervision of Non-Bank Financial Institutions	...	...	...	(XII)
Development Finance	...	...	...	(XIV)
Rural Credit	...	...	...	(XVII)
Financial Markets	...	...	...	(XXIII)
Research Activities	...	...	...	(XXV)
Statistics and Field Surveys	...	...	...	(XXVI)
Employees' Provident Fund	...	...	...	(XXVIII)
Exchange Control	...	...	...	(XXX)
Public Debt	...	...	...	(XXXI)
The Centre for Banking Studies	...	...	...	(XXXVII)
Secretariat	...	...	...	(XXXVIII)
Legal	...	...	...	(XXXIX)
Premises	...	...	...	(XXXIX)
New Buildings	...	...	...	(XXXIX)
Security Services	...	...	...	(XXXIX)
Information	...	...	...	(XL)
Information Technology	...	...	...	(XL)
Management Audit	...	...	...	(XLI)
Training	...	...	...	(XLII)
Welfare	...	...	...	(XLIV)
Personnel	...	...	...	(XLIV)

## Accounts and Banking Operations

### Accounts

The total assets/liabilities of the Central Bank as at the end of 1999 stood at Rs.200,586 million registering an increase of 6.3 per cent over the previous year. The international reserves continued to be the largest single asset category of the Bank, although its relative position declined from 67.4 per cent in 1998 to 54.4 per cent. The main contributory factors for this decline in the international reserves were the repayment of foreign public debt, payments to the International Monetary Fund and the net sales of foreign exchange to commercial banks by the Central Bank.

Meanwhile, the domestic assets of the Bank have shown an increase of 54.7 per cent during the year from Rs.40,465 million as at end of 1998 to Rs.62,598 million as at end of 1999. This was mainly due to the increase in the Treasury bills holding of the Bank as a part of its Open Market Operations implemented with a view to reduce the tightness of rupee liquidity associated with Y2K concerns and the end-year seasonal factors. The medium and long-term credit facilities granted to commercial banks and other credit institutions, on the other hand, declined by 32.9 per cent in 1999, partly due to repayments of such loans and partly due to the provisions made for non-performing loans. Short-term advances to commercial banks also declined by 51.2 per cent in 1999.<sup>1</sup>

On the liability side, currency in circulation, which was the largest category of liabilities increased by 16.8 per cent to Rs.70,210 million from Rs.60,087 million due to seasonal demand and Y2K related issues. Deposits accounted for 30.7 per cent of the total liabilities of the Bank during the year. Within this category, the deposits held by the government decreased by 20.7 per cent, while the deposits maintained by commercial banks under the Statutory Reserve Requirement (SRR), on their deposit liabilities with the Central Bank declined by 7.7 per cent due to the reduction of the SRR. Deposits of international organizations, foreign governments and foreign banking institutions declined by 4.0 per cent. A comparison of major components of assets and liabilities of the Bank is shown in Table II-2.

The total gross income of the Bank for the year 1999 was Rs.18,675 million compared with Rs.17,897 million in 1998. Around 71 per cent of the income of the Bank was generated through the management of foreign reserves of the Bank, while interest earned from domestic sources accounted for about 29.4 per cent. The 'asset-turnover ratio' i.e. total income as a percentage of average total assets, which reflects the operating efficiency of the Bank, continued to remain around 9.6 per cent during 1999.

The gross expenditure of the Bank also increased to Rs.15,475 million from Rs.14,897 million in 1998. Of this amount, 14.2 per cent was on account of administrative expenditure, while 68.4 per cent had been for interest payments. After making allowances for expenditure, allocation to reserves, provisions for depreciation, bad debts etc., the balance net profit of Rs.3,200 million was earmarked to be applied in liquidation of any outstanding government obligations to the Central Bank or be paid and credited to the Consolidated Fund of the government in terms of Section 39(c) of the Monetary Law Act.

### Accounting Policies

#### General

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

#### Foreign Currency Conversion

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

#### Investments

All investments are valued at cost.

#### Advances

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

Period of Loans overdue (Months)	Provision (%)
6 – 12	20
12 – 18	50
Over 18	100

#### Fixed Assets

Fixed assets are shown at cost less depreciation. Depreciation is calculated on the reducing balance method, at the following rates :

Item	% p.a.
Buildings	2
Fixtures and Fittings	10
Office Furniture and Equipment	10
Motor Vehicles	10
Automated Equipment	20
AS/400 Main-Frame Computers	20
Personal Computers	25
Library Books	33 1/3

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

<sup>1</sup> The Balance Sheet of the Central Bank as at 31 December, 1999 together with the Profit and Loss Account of the Bank for the year ended 31 December 1999 is presented in Table II-1.

**CENTRAL BANK  
BALANCE SHEET AS AT**

31 December, 1998	LIABILITIES	31 December, 1999
15,000,000	<b>Capital Accounts</b>	15,000,000
985,000,000	Capital	985,000,000
	Surplus	1,000,000,000
57,770,936,107	<b>Currency in Circulation</b>	67,642,019,005
2,315,883,092	Notes	2,567,837,948
	Coins	70,209,856,953
3,108,459,238	<b>Deposits</b>	2,462,875,895
31,180,173	Government	14,693,408
32,747,901,779	Government Agencies and Institutions	30,219,690,513
29,678,306,986	Commercial Banks	28,464,527,121
1,836,362	International Organisations, Foreign Government and Foreign Banking Institutions	1,245,562
601,826,176	Compulsory Savings Fund excluding Rs. 63,194,400/- invested in Treasury Bills	502,643,702
	Others	61,665,676,201
66,169,510,714	Medium and Long Term Credit Fund	4,925,000,000
4,925,000,000	Capital Contribution Account	561,822,500
560,112,500	Other Liabilities and Accounts	62,223,703,560
55,931,648,947		
188,673,091,360		200,586,059,214

**PROFIT AND LOSS ACCOUNT FOR THE**

1998	1999
14,897,153,928	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.
3,000,000,000	Net Profit for the Year
17,897,153,928	To be paid and credited to the consolidated fund in terms of Section 39(c) of the Monetary Law Act.
	15,474,917,309
	3,200,000,000
	18,674,917,309

**Note of the Auditor-General**

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1999, 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

24 April 2000.

S. M. Sabry  
Auditor-General

**OF SRI LANKA**  
**31ST DECEMBER, 1999.**

**Table II-1**

		<b>A S S E T S</b>	Rs.	
31 December, 1998		31 December, 1999		
59,381,277,514		International Reserve	20,840,344,684	
67,716,713,296 *		Cash and Balances Abroad	87,315,952,047 *	
76,010,468	127,174,001,278	Foreign Securities and Treasury Bills	66,259,739	108,222,556,470
		Holdings of Special Drawing Rights		
30,545,099,947		<b>Domestic Assets</b>	35,665,869,959	
1,098,294,677		Loans and Advances to Government	736,673,603 **	
23,200,000		Others – Medium and Long Term		
		Short Term	11,318,501	
8,238,376,231		Government and Government Guaranteed		
560,112,500	40,465,083,355	Securities	25,622,731,925	62,598,416,488
	21,034,006,727	Contributions to Financial and Other Institutions	561,822,500	29,765,086,256
		Other Assets and Accounts		
		* Including Securities acquired from Government Institutions on 1st February, 1964 at a face value of Rs. 5,527,675/= and on 24th May, 1965, at a face value of Rs. 57,450/= (the estimated market value of these Securities were Rs. 2,933,697/= and Rs. 34,340/=, respectively, as on these dates).		
		** The amount outstanding is net of Rs. 2,180,683,507/= being provisions for loan losses.		
	188,673,091,360			200,586,059,214

**YEAR ENDED 31ST DECEMBER, 1999**

Rs.

1998		1999
17,897,153,928	By Interest, etc. earned	18,674,917,309
17,897,153,928		18,674,917,309

**A. S. Jayawardena**  
*Governor*

**M. B. Dissanayake**  
*Chief Accountant*

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

LIABILITIES				ASSETS			
ITEM	At end 1998 Rs. Mn.	%	At end 1999 Rs. Mn.	%	ITEM	At end 1998 Rs. Mn.	%
Capital and Surplus	1,000	0.5	1,000	0.5	International Reserve	127,174	67.4
Currency in Circulation	60,087	31.9	70,210	35.0	Domestic Assets	40,465	21.4
Deposits	66,169	35.1	61,666	30.7	Other Assets	21,034	11.2
Medium and Long Term Credit Fund	4,925	2.6	4,925	2.5	Of which		
Capital Contribution Account	560	0.3	562	0.3	Liability of Constituents for Guarantees Issued	3,502	1.9
Central Bank Securities	-	-	-	Foreign Currency Deposit A/cs of Commercial Banks	3,993	2.1	
Other Liabilities	55,932	29.6	62,223	31.0	Adjusting Account (Amounts Receivable)	2,137	1.1
Of which				Other	11,402	6.1	
Guarantees issued on account of Constituents	3,502	1.8	8,790	4.4		14,431	7.2
Control Accounts Reserve	22,559	12.0	24,363	12.1			
Allocation of Special Drawing Rights	6,051	3.2	6,693	3.3			
International Reserve Revaluation A/c	7,262	3.8	2,727	1.5			
Profit & Loss Account	5,102	2.7	5,480	2.7			
Asian Clearing Union Account	6,247	3.3	8,689	4.3			
Other	5,209	2.8	5,481	2.7			
Total	188,673	100.0	200,586	100.0			
						188,673	100.0
						200,586	100.0

Source : Central Bank of Sri Lanka

### 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.

### Income Recognition

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

### Net Profit

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

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

### Banking Operations

The Banking Department continued its activities in the management of the Bank's international reserves, the management of the exchange rate, the implementation of domestic monetary policy measures mainly through open market operations and the Statutory Reserve Requirement (SRR), the maintenance of accounts of the government,

government departments and agencies, licensed commercial banks, non-bank primary dealers and international organisations, and the preparation of Central Bank balance sheets and the final accounts.

### Foreign Exchange Operations

The Central Bank of Sri Lanka continued to engage in foreign exchange operations with the licensed commercial banks (LCBs) by way of spot purchases and sales of US dollars against Sri Lanka rupees.

**TABLE II - 3**  
**Foreign Exchange Transactions with  
Commercial Banks in Sri Lanka - 1999**

in '000

Month	Spot Purchases		Spot Sales	
	US \$	Rs.	US \$	Rs.
January	-	-	26,350	1,793,191
February	-	-	12,850	882,412
March	-	-	4,600	316,894
April	400	27,956	-	-
May	-	-	-	-
June	-	-	5,750	407,535
July	-	-	-	-
August	-	-	4,980	354,500
September	-	-	3,700	263,366
October	-	-	-	-
November	-	-	-	-
December	-	-	-	-
Total	400	27,956	58,230	4,017,898

Source : Central Bank of Sri Lanka

The total rupee value of foreign exchange purchased by the Bank from the LCBs during the year amounted to Rs.28 million compared with Rs.3,845 million during the previous year, while the sales of foreign exchange amounted to Rs.4,018 million as against Rs.13,695 million during 1998.

The Central Bank invested its foreign exchange reserves in fixed income assets denominated in five major currencies and in short-term money markets in nine currencies.

## **Open Market Operations**

The sale (discounting) of Treasury bills at the secondary window of the Central Bank amounted to Rs.6,982 million in 1999 compared with Rs.11,934 million in the preceding year. This drop of Rs.4,952 million or 42 per cent was mainly due to the tight liquidity situation, particularly during the latter part of the year under review.

The purchase (re-discounting) of Treasury bills by the Central Bank also decreased significantly from Rs.14,969 million in 1998 to Rs.1,443 million in 1999 or by 90 per cent, as LCB and non commercial bank primary dealers could meet their immediate cash requirement by borrowing against Treasury bills and Treasury bonds under the reverse repo facility of the Central Bank of Sri Lanka. The total value of transactions through the reverse repo facility provided by the Bank during 1999 amounted to Rs.137,829 million compared with Rs.1,446 million in 1998.

The Central Bank's secondary market yield rates moved in line with trends witnessed in the primary market yield rates during the year. The yield rates on 3-month and 6-month Treasury bills in the secondary window of the Central Bank decreased from 11.86 per cent and 12.19 per cent, at the beginning of the year to 11.57 per cent and 12.09 per cent, respectively, at the end of the year. The rates on 12-month Treasury bills increased marginally from 12.39 per cent to 12.54 per cent during the year, with the increase in the yield rates of 12-month Treasury bills from 12.54 per cent to 12.69 per cent at the primary auctions over the same period.

## **Repurchase Market (Repo)**

The total volume of Treasury bills sold under repurchase agreements during the year declined from Rs.728,757 million during 1998 to Rs.307,795 million (by 58 per cent) during 1999, indicating a significant drop in the market's excess liquidity.

The overnight Repo rate, which was 11.0 per cent at the beginning of the year, was gradually reduced to 9.25 per cent towards the end of the year. The continued decline in inflation and the drop in the primary Treasury bill market yields have enabled the Central Bank to reduce the Repo rate. This was another reason for reduction in the volume of transactions under repurchase agreements by LCBs and non-bank primary dealers with the Central Bank during 1999.

## **Reverse Repurchase Market**

In 1999, the Reverse Repo transactions of the Central Bank amounted to Rs.137,829 million against Treasury bills and Rs.75,520 million against Treasury bonds. On December 21 1999, the Central Bank extended the tenor of reverse repo facility, on a temporary basis, from overnight up to 30 days with the intention of easing the expected tight liquidity situation due to Y2K related problems.

## **Bank Rate**

The Central Bank's rate of interest (Bank Rate) on short-term advances to LCBs stipulated under Section 87 of the Monetary Law Act was reduced from 17 per cent to 16 per cent with effect from 13 August 1999.

## **Short-Term Credit**

LCBs which provided a roll-over credit facility to farmer borrowers prior to the termination of the New Comprehensive Rural Credit Scheme (NCRCS) with effect from April 1994 were granted a refinance facility only on the roll-over amount. The outstanding amount under this facility at the end of 1999 amounted to Rs.12 million compared with Rs.23 million at the end of 1998.

## **Medium and Long-Term Credit**

The Medium and Long-Term Credit Fund (MLCF) remained unchanged at Rs.4,925 million during 1999. The amount repaid during the year stood at Rs.145 million, while there was a disbursement of Rs.41 million to the People's Bank under the Finance Companies Act, No. 78 of 1988. Thus, the total amount of outstanding credit released from the MLCF before the provision for bad debts was Rs.2,605 million at the end of 1999.

## **Statutory Reserve Requirement (SRR)**

The SRR against the deposit liabilities of LCBs, both rupee and foreign currency deposits, was reduced from 12 per cent to 11 per cent with effect from 20 August 1999.

## **Foreign Currency Loan Facility to Non-BOI Exporters**

This scheme introduced in 1997, in order to extend comparatively low cost credit facilities to Non-BOI exporters, continued to be implemented during 1999. Total loans granted during the year 1999 through both the Domestic Banking Units (DBUs) and Foreign Currency Banking Units (FCBUs) under the scheme amounted to US dollars 124 million, compared with US dollars 177 million granted in 1998. This was a drop of 30 per cent. Lending through the DBUs dropped from US dollars 166 million in 1998 to US dollars 119 million in 1999, while through the FCBUs it dropped from US dollars 11.5 million in 1998 to US dollars 4.75 million in 1999. Almost all the loans were granted with a maturity period of less than one year. At the end of 1999, the outstanding amount of loans granted under

the scheme was US dollars 35 million. These loans were provided at interest rates ranging between 6.00 per cent and 10.50 per cent (Table II-4).

**TABLE II - 4**  
**Foreign Currency Loans Granted to**  
**Non-BOI Exporters**  
**1997 – 1999**

	US \$ Mn.		
	1997	1998	1999
Lending below one year			
DBUs	241.6	163.2	119.2
FCBUs	8.7	11.4	4.7
Lending above one year			
DBUs	2.8	2.7	0.1
FCBUs	0.1	...	-
Total			
DBUs	244.4	165.9	119.3
FCBUs	8.8	11.5	4.7
Grand Total	253.2	177.3	124.1
Average Interest Rate (%)	6.5	6.2	6.0
Total Outstanding	70.7	44.1	24.6

Use of the facility by the Non-BOI enterprises in 1999 declined by more than 50 per cent compared with 1997. The main factor attributed to this sharp drop appears to be the deceleration of the domestic interest rates.

### **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.73,750 in 1999 compared with Rs.148,231 in 1998. Ex-gratia payments amounted to Rs.3,300 in 1999 compared with Rs.15,675 in 1998.

### **Import Duty Rebate to Exporters**

The Bank reimbursed a total sum of Rs.349 million in 1999 to LCBs in respect of import duty rebates paid to exporters on behalf of the government, compared with Rs.768 million in 1998.

### **Asian Clearing Union**

The total value of the transactions routed through the Asian Clearing Union (ACU) in 1999 amounted to Rs.42,724 million compared with Rs.44,240 million during the previous year. The rupee value of the net settlements made in foreign currency in 1999 amounted to Rs.36,685 million compared with Rs.34,257 million in 1998.

### **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 1999, there was a balance of Rs.63 million in the Fund maintained with the Bank.

### **Government Accounts**

As banker to the government, the Central Bank continued to maintain accounts of government departments, government agencies and institutions and certain statutory boards. The total number of accounts maintained by the Bank stood at 163 as at the end of the year 1999 compared with 159 in 1998. While nine accounts of government departments and agencies were closed, thirteen new government accounts were opened during 1999.

### **Foreign Finance**

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

### **Currency Issue**

The Central Bank of Sri Lanka as the sole currency issuing authority continued to perform the functions of issuing legal tender currency for the use of domestic transactions during the year 1999. The volume of currency in circulation by the end of 1999 stood at Rs.70,209.9 million as against Rs.60,087 million at the end of 1998. Notes in circulation comprised 96.3 per cent of the total currency in circulation.

The Central Bank made arrangements to issue three commemorative coins during the year 1999 to commemorate two occasions. A silver proof coin in the denomination of Rupees 1,000 and a nickel brass circulation coin in the denomination of Rupees 5 were issued to mark the winning of the 1996 Cricket World Cup by Sri Lanka and to mark the 1999 Cricket World Cup tournament held in U.K. in May/June 1999. The third coin in nickel plated steel was issued in the denomination of Rupee 1 in frosted proof and brilliant uncirculated condition to mark the golden jubilee of the Sri Lanka Army which was celebrated in October 1999.

The Currency Department of the Bank participated in an exhibition organised by the Royal Commonwealth Society, Sri Lanka Branch, on 12 September 1999. A wide collection of currencies was displayed at this exhibition. The Currency Department also participated in two school exhibitions in July and October. Currencies of Sri Lanka and foreign countries and commemorative coins issued by the Central Bank were displayed at the exhibitions. The Department conducted a seminar at Matale on 'Identification of Counterfeit Notes' for school children, the Police and the public.

The Numismatic Association of the Central Bank of Sri Lanka was established mainly to create an awareness and

interest in the field of numismatics among the Bank staff. A series of lectures on numismatics was organised by the Association as a part of its activities. The Bank has also made arrangements to establish a modern Money Museum in the Central Bank and to publish a book titled 'History of Coins and Currency in Sri Lanka' meant for students and the general public.

The Administration Division of the Currency Department was shifted to the new Headquarters Building of the Central Bank in November 1999. The currency operations section continued to function from the Secretariat Building during 1999. The cash exchange counters also continued to function at the Moors Islamic Cultural Home (MICH) Building. The Anuradhapura and Matara Regional Offices of the Bank continued to provide currency services to the banks and the public in the respective regions.

## Banking Development

During 1999, the Central Bank issued licences under Section 5 of the Banking Act to establish two locally incorporated commercial banks (Nations Trust Bank Ltd. and National Mercantile Bank Ltd.) and a branch of a foreign bank (Bank of Nova Scotia) to carry on domestic and off-shore banking business in Sri Lanka. The Nations Trust Bank commenced operations in July 1999 and acquired the business of the Sri Lanka branch of Overseas Trust Bank which ceased its operations in Sri Lanka. In September 1999, the Bank of Nova Scotia (BNS) commenced its operations. It acquired selected assets and liabilities of the Sri Lanka branch of Societe Generale. Societe Generale ceased its operations in Sri Lanka at the end of 1999. BNS is the first Canadian bank to establish

a branch in Sri Lanka. The National Mercantile Bank Ltd. is expected to commence operations in mid 2000. Meanwhile, the banking licence issued to the Korea Exchange Bank, a foreign bank, was cancelled during 1999 as the bank ceased its operations in Sri Lanka. With the commencement of business by Nations Trust Bank and Bank of Nova Scotia, and the closure of banking operations of Overseas Trust Bank, Societe Generale and Korea Exchange Bank, the number of commercial banks operating in the country was 25 by the end of 1999.

The activities undertaken by the Central Bank through its Banking Development Department for the establishment of Regional Development Banks (RDBs) in terms of the Regional Development Banks Act, No. 6 of 1997, were concluded in 1999 with the commencement of operations of the Sabaragamuwa, Wayamba and the Uva Development Banks in the first quarter of the year. These banks were licensed as specialised banks. The business of the Regional Rural Development Banks (RRDBs) in the districts of Kalutara, Ratnapura and Kegalle was vested in the Sabaragamuwa Development Bank on 31 December 1998, while the business of the RRDBs in the Gampaha, Kurunegala and Puttalam districts was vested in the Wayamba Development Bank also on 31 December 1998. Similarly, the business of the RRDBs in Badulla, Moneragala and Ampara districts was vested in the Uva Development Bank on 17 March 1999. With the commencement of business of these three RDBs, the number of RDBs increased from 3 to 6. Thus, the number of licensed specialised banks rose to 12 by the end of 1999. With these changes, the number of commercial and specialised banks as at 31 December 1999 was 37. Table II-5 gives the number of banks for each year since 1994 together with a breakdown of the categories of banks.

The Banking Development Department of the Bank continued to process and make recommendations in relation to requests for opening, closing, relocation, etc. of branches and other offices made by commercial banks and specialised banks in terms of the provisions of the Banking Act. During the year 1999, approvals were granted for the opening of 29 branches, 57 student savings units, and one representative office abroad of commercial banks, 6 branches of specialised banks and for the closure of 5 extension offices of commercial banks. Changes of location of 45 commercial bank branches and 23 specialised bank branches were also approved during the year.

Several requests made by commercial banks for approval for investments in subsidiaries and for alterations to their Memoranda and Articles of Association were also processed by the Banking Development Department.

With the completion of the establishment of RDBs in 1999, the Banking Development Department took several initiatives to strengthen its new task of monitoring the RDBs. Further, auditors were appointed in terms of Section 47 of the Regional Development Banks Act to ascertain the net worth of each RRDB at the time its business was vested in a RDB. The RDBs were also assisted in the preparation of their

**TABLE II – 5**  
**Composition of Banking Institutions 1994 – 1999**

Category	1994	1995	1996	1997	1998	1999
No. of Institutions	44	47	48	49	44	37
Commercial Banks	23	26	27	26	26	25
Domestic Commercial Banks	6	8	8	8	8	9
Foreign Banks	17	18	19	18	18	16
RRDBs (a)	17	17	17	17	9	—
Specialised Banks (b)	4	4	4	6	9	12
Savings Banks	1	1	1	1	1	1
Development Banks	3	3	3	5	5	5
Regional Development Banks (c)	—	—	—	—	3	6

Source : Central Bank of Sri Lanka

- (a) Regional Rural Development Banks established under the Regional Rural Development Banks Act, No. 15 of 1985
- (b) Banks requiring licences as Specialised Banks in terms of the Banking Act as amended by the Banking (Amendment) Act.
- (c) Regional Development Banks established under the Regional Development Banks Act, No. 6 of 1997.

corporate plans and annual budgets and a training programme was organised with the assistance of the Employees' Provident Fund Department to train the Fund Managers of the RDBs in the area of Treasury Management.

The Banking Development Department also continued to carry out its function of co-ordinating the activities of the three Regional Offices of the Central Bank and monitoring their performance.

## Regional Offices

The main activities of the three Regional Offices of the Central Bank at Matara, Anuradhapura and Matale include the provision of currency exchange facilities to the public, and currency deposit and withdrawal facilities to commercial banks in the respective regions (at Matara and Anuradhapura only); collecting socio economic data; conducting beneficiary training programmes, investor education programmes and educational seminars for students; conducting research and carrying out surveys; assisting in the implementation of the rural credit loan schemes; co-ordinating the development work in the respective regions with government departments, agencies, commercial banks and other organisations; and the sale of Central Bank publications.

### Matara

The Matara Regional Office continued to carry out its activities relating to the implementation of the Small Holder Tea Development Project (SHTDP), Perennial Crops Development Project (PCDP), Small Farmers and Landless Credit Project, Southern Province Rural Development Project Credit Scheme and the 'Arunalu' village adoption programme. During the first half of the year, the Regional Office actively assisted in the recovery of loans granted under the SHTDP. With the assistance of the Rural Credit Department, the Regional Office carried out field investigations to recommend large loans under the Southern Province Rural Development Project Credit Scheme. Loans aggregating to Rs.21 million in respect of 87 selected applicants were recommended by the Regional Office.

Initiatives were taken by the Regional Office to arrange Forward Sales Contracts (FSCs) where producers of agricultural commodities agree to supply their produce at a determined price to the buyers beforehand. The Regional Office collected information on fruit production in the region and conducted workshops on a proposed plan by the Regional Office to establish a marketing centre for fresh fruits.

With a view to expanding the market for Government Debt Securities, a seminar was conducted for officers of financial institutions and prospective investors with the assistance of the Public Debt Department. Educational seminars were also conducted for around 2,200 students in the region. Workshops were conducted for officers of commercial banks, the Tea Small Holdings Development Authority and other participating agencies in the Galle and Matara districts.

The Regional Office also participated in the island-wide data collection programme of the Central Bank and collection of data for a Regional Consumer Price Index and for a district-wise data base on Socio-Economic Statistics.

The Currency Unit of the Regional Office continued to provide currency exchange facilities to the public as well as deposit and withdrawal facilities to commercial banks in the region. During the year, 206,273 cheques amounting to Rs.4,095 million were cleared through the Regional Cheque Clearing House at Matara.

### Anuradhapura

During the year 1999, the Anuradhapura Regional Office continued to monitor the North Central Province Participatory Rural Development Project (NCP-PRDP) and the North Central Province Rural Development Project (NCP-RDP). Under the NCP-RDP, 56 persons were granted loans amounting to Rs.1.9 million, while 25 persons were granted loans amounting to Rs.0.7 million under the NCP-PRDP.

With the assistance of several Government departments and institutions, the Regional Office conducted 51 training programmes during the year. These programmes were in the fields of self-employment, entrepreneurship development, improvement of cultivation systems, environmental education, savings mobilisation and marketing. Public awareness programmes on debt securities and counterfeit currency notes were conducted and a total of 2,443 persons participated in these programmes. Further, 3 educational seminars were held by the Regional Office for 890 G.C.E. Advanced Level students in the Anuradhapura, Polonnaruwa and Kurunegala districts. As an initial step in the introduction of Forward Sales Contracts (FSCs), the Regional Office conducted several awareness programmes to educate the members of companies formed by farmers on the procedures and the benefits of FSCs, and discussions were held with 13 such farmer companies in the districts of Anuradhapura and Polonnaruwa with a view to promoting FSCs in the region.

During the year, the Regional Office, with the assistance of the Employees' Provident Fund Department, provided information on Employees' Provident Fund members' balances by issuing statements to members of the Fund. The Anuradhapura Regional Office too participated in the island-wide data collection programme of the Central Bank. The Regional Office also continued to provide currency exchange facilities to the public, and currency operation facilities to the commercial banks in the region. The Anuradhapura Regional Clearing House, established in the Regional Office, cleared 236,864 cheques valued at Rs.2,498 million during the year.

### Matale

During 1999, the Matale Regional Office carried out several development activities in addition to conducting the traditional central banking functions assigned to it. The Regional Office continued the identification of micro enterprises for grant of

financial assistance. 16 viable enterprises were identified, and total financial facilities amounting to Rs.1 million were recommended. With the assistance of the Ministry of Forestry and Environment, the Regional Office selected the village, Dollewa, for adoption and to provide assistance in the control of soil erosion.

Several seminars, training programmes, workshops and exhibitions were conducted, in which 1,533 persons participated. Important among these were the training programme on the credit delivery system and the recovery of loans for Managers of Regional Development Banks, the programme to train data investigators of the 'Kandurata Consumer Price Index', and the programme to train farmers in dairy development and hydroponic technology for agriculture. In addition, with the assistance of the Public Debt Department, a special seminar to popularise Treasury bonds was held in Kandy for businessmen in the region. The Regional Office continued the mobile sale of Central Bank publications and visited 45 schools and universities.

Seedlings of pepper, banana and coconut were distributed to selected groups of farmers. The Regional Office was also involved with the introduction and promotion of Forward Sales Contracts (FSCs) in the region. Under the FSCs, 95 farmers in Morayaya in the Kandy District were selected to sign contracts with Chemical Industries (Colombo) Ltd for the supply of seed paddy. Further, discussions were held with the Dambulla Farmers Company, farmers organisations and vegetable suppliers in Dambulla to supply vegetables to the Northern and Eastern provinces. Financial assistance to the Nalanda milk village was also arranged through the People's Bank and the Kandurata Development Bank during the year.

The Regional Office continued to collect and update socio-economic data relating to the districts of Kandy, Nuwara Eliya, Kegalle and Matale, and data on prices for the island-wide data collection programme. The Regional Office compiled the 'Kandurata Consumer Price Index' for the year 1999 based on the data collected from six data collection centres in Dambulla, Matale, Kandy, Gampola, Nuwara Eliya and Hatton.

Further, the Regional Office continued to provide cheque clearing services. The Matale Regional Clearing House cleared 121,497 cheques amounting to Rs.2,106 million, and the Kandy Regional Clearing House cleared 796,013 cheques amounting to Rs.23,684 million, during the year.

## Regional Development Banks

During 1999, the Regional Development Banks (RDBs) provided financial assistance for the establishment and development of viable projects within their respective regions, bearing in mind the need to assist the weakest segment of the population in keeping with the objectives of the RDBs. In order to achieve the performance targets set for each bank in its corporate plan, several credit schemes and deposit mobilisation schemes were introduced by the RDBs.

The Ruhuna, Rajarata, Wayamba and Sabaragamuwa Development Banks introduced several housing loan schemes with a view to improving the living standards of the poorest segment of the population in the respective regions, and pledge loan schemes for the purchase and storage of paddy. Most RDBs have introduced self-employment loan schemes to provide financial assistance to unemployed youth and to women. The Yovun Prathibha (by Ruhuna DB), Ranpath, Kapruka, Isurumaga (by Sabaragamuwa DB) and Sramabimani (by Wayamba DB) are among those schemes. Special emphasis was placed on the implementation of village adoption programmes under the Arunalu Scheme, which was initiated by the Central Bank. During 1999, each RDB had identified several villages in the region, which were to be developed under this scheme.

The RDBs introduced special deposit schemes targeted at youth, school children, women and institutional employees. Some of these schemes are the Ruhunu Vanitha and Ruhunu Kekulu (by Ruhuna DB), savings scheme for Mahaweli settlers and Paramitha (by Rajarata DB), Lama Diriya, Thurunudivya and Sanwardhana Diriya (by Sabaragamuwa DB) and Piyawara (by Uva DB).

The performance of RDBs during the years 1998 and 1999 is given in the table below. The satisfactory financial performance of the RDBs in 1999 is reflected in their aggregate profit of Rs.297 million. This achievement could be mainly attributed to the recovery of past due loans of RRDBs which passed on to the RDBs, through an aggressive and successful recovery drive launched by the RDBs during 1999.

The total deposits mobilised by the RDBs during 1999 was Rs.3,412 million.

Loans and advances outstanding as at the end of 1999 amounted to Rs.4,474 million as against Rs.3,772 million as at the end of 1998. The total loans and advances disbursed by RDBs during the year 1999 amounted to Rs.3,613 million, registering a significant increase of 61 per cent compared with Rs.2,247 disbursed during the preceding year. Loans were disbursed in 1999 to over 500,000 borrowers with the average

**TABLE II – 6**  
**Performance of Regional Development Banks**

	Rs. Mn.	
	1998 (a)	1999
As at the end of year		
Total Deposits	3,077	3,412
Loans and Advances	3,772	4,474
During the year		
Loans and Advances	2,247	3,613
Profit (Loss)	43	297

Source : Banking Development Dept.

(a) Data for 1998 include the performance of RRDBs whose business was vested in the RDBs.

size of a loan being Rs.6,950. This indicates that, in keeping with the objectives of the RDBs; a large number of small loans had been released to needy customers in the respective regions.

## **Bank Supervision**

The regulatory and supervisory function of the Central Bank relating to banking institutions is undertaken by the Department of Bank Supervision (BSD). BSD discharges its functions and responsibilities through periodic on-site examinations and continuous off-site surveillance of all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). The latter includes Regional Development Banks (RDBs). The principal objective of supervision is to safeguard the interests of depositors by ensuring the stability and soundness of the banking system in Sri Lanka.

During the year under review, two new banks that commenced operations, Nations Trust Bank Ltd. and Bank of Nova Scotia, came under the supervision of BSD. BSD also supervised the winding up of the operations in Sri Lanka of three banks, viz., Korea Exchange Bank, Overseas Trust Bank and Societe Generale. Nations Trust Bank Ltd. commenced operations on 1 July 1999 and took over the operations of Overseas Trust Bank whose closure took place on 30 June 1999. Bank of Nova Scotia commenced operations on 9 August 1999 and took over most of the operations of Societe Generale. The closure of Societe Generale took place on 31 December 1999. The closure of Korea Exchange Bank took place on 24 February 1999.

The number of Licensed Specialised Banks that came under the regulatory authority of the Central Bank in terms of Part IX A of the Banking Act increased to 12 with the establishment of three Regional Development Banks viz., Wayamba Development Bank (WDB), Sabaragamuwa Development Bank (SDB) and Uva Development Bank (UDB) under the provisions of the Regional Development Banks Act No. 6 of 1997. Both WDB and SDB commenced operations as Licensed Specialised Banks on 1 January 1999, while UDB commenced operations on 18 March 1999.

### **On-site Examination**

It is mandatory to carry out an on-site examination of each bank during each examination period, which is currently two years. The nature and scope of on-site examinations vary, but hitherto the emphasis has primarily been on carrying out an appraisal of the quality of assets of the bank and to determine the overall assessment of the financial condition of the bank. Other key aspects such as capital adequacy, earnings, liquidity, management quality, internal controls and systems and procedures are also examined. The extent of a bank's compliance with statutory requirements is also carefully examined as a part of the scope of on-site examinations. For such examinations, the Examiners visit the Head Offices and selected branches of banks, depending on the nature and scope

of the on-site examination and the emphasis placed on the different aspects referred to above. In the case of branches that are not visited by the Examiners, the necessary information is obtained from the Head Offices of the banks.

Currently BSD uses a standard CAMEL (Capital, Asset quality, Management, Earnings, Liquidity) analysis as a basis for evaluation. During 1999, action was taken to develop a risk based supervisory approach which has been adopted by BSD in keeping with the internationally accepted practice of banking supervision. This was done under Phase II of an on-going Technical Assistance Project funded by the Swedish Government (SIDA Project) to upgrade the supervisory capabilities of BSD. Risk based supervision focuses on risks that are associated with banking operations such as credit risk, liquidity risk, market risk and operational risk.

During the year under review, BSD commenced 13 on-site examinations in respect of 11 LCBs and 2 LSBs of which 4 were concluded in 1999. In addition, on-site examinations of 8 LCBs and one LSB which commenced in previous years were concluded in 1999.

### **Off-site Surveillance System**

The off-site surveillance system is a continuous supervision process conducted by BSD on the basis of the monthly, quarterly, half yearly and annual returns that are furnished by LCBs and LSBs to BSD. During the year under review, BSD continued to monitor the financial condition of all LSBs (including RDBs) and LCBs through the off-site surveillance system. The main returns that are furnished by LCBs and LSBs include, monthly statements of assets and liabilities and liquid assets, quarterly statements of capital adequacy, income and expenses, the advances portfolio, including non-performing advances, investments in equity and share ownership in the banks and the annual audited financial accounts of the banks.

With a view to improving timeliness in the submission of returns and the completeness and accuracy of the information therein, BSD has required each LCB and LSB to appoint a Compliance Officer who is responsible for submission of periodic returns and for liaising with BSD in this regard. At the same time, each LCB and LSB is assigned to an Examiner in BSD for the purpose of off-site surveillance. BSD conducted a seminar for all Compliance Officers in September 1999 to explain their role and their functions and responsibilities.

The information provided in the returns is analysed using the CAMEL components, on a quarterly basis, to ascertain the strength of capital, quality of assets, management quality, profitability and financial strength and liquidity of each LCB and LSB in relation to its own peer group and the industry. The analysis is also expected to identify significant changes or symptoms of weaknesses that could have an adverse impact on a bank, on the basis of which prompt remedial action could be taken. Consequent to the analysis, where considered necessary, BSD communicates to the management of the relevant bank, in writing or by interview, its views and suggests the remedial action to be taken by the management.

BSD is also engaged in the off-site monitoring of Foreign Currency Banking Units of Licensed Commercial Banks on the basis of periodic returns furnished to BSD relating to assets and liabilities, income and expenses and the maturity profile of assets and liabilities.

Under the on-going SIDA Project, work is currently under way to improve the off-site supervision system by linking risk factors identified in the respective CAMEL components to the present system of CAMEL Rating. The upgrading of the off-site surveillance system through the Diskette Submission System implemented under a USAID Technical Assistance Programme has been completed with the installation of the Electronic Reporting System in all 26 Licensed Commercial Banks, and with the development of an in-house Report Generating System. It is proposed to expand this reporting system to LSBs, including the RDBs, in the future.

## **Regulatory Requirements**

During the year under review, BSD continued to monitor compliance by banks with the regulatory requirements under the provisions of the Banking Act. These requirements include: (1) the maintenance of minimum capital adequacy ratios in relation to risk weighted assets (2) the maintenance of a minimum liquid assets ratio (3) adherence to the single borrower limit (4) limits on share ownership in a bank (5) limits on investment in equity in public quoted and private companies by a bank (6) classification of non-performing advances, suspending of interest on such advances and adequate provisioning for bad and doubtful debts (7) restrictions on accommodation to directors, their close relations and their interests (8) submission of annual audited financial statements in a prescribed format within the stipulated statutory period and (9) acquisition and purchase of immovable property.

## **Disclosure Requirements**

The Core Principles for Effective Banking Supervision introduced by the Basle Committee on Banking Regulations and Supervisory Practices recognise that sound accounting practices and transparent financial information are fundamental pillars of a sound financial system. BSD, in adhering to the core principles, has taken steps to introduce a disclosure regime which would improve market discipline. Accordingly, the following were introduced in 1999:

- (a) A format for all LCBs to publish their unaudited half-yearly accounts and annual audited accounts in newspapers. Banks were required to commence publication in the newspapers with the annual audited accounts for the financial year ending on or after 31 December 1998.
- (b) Following on the revised prescribed accounting format for LCBs introduced in 1998, a prescribed accounting format for the publication of annual audited accounts of LSBs incorporating the Sri Lanka Accounting Standards. In terms of the prescribed format, LSBs are required to disclose, inter alia, the following:

- (i) an analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
- (ii) significant concentrations of assets and liabilities in terms of different sectors.
- (iii) accounting policy based on which uncollectable loans, advances and finance leases are recognised as an expense or are written off, details of the movements in the provision for losses on loans, advances and finance leases during the period and the aggregate amount of provision for such losses.
- (iv) information on the bank's systems and controls for managing risk and the capital available to support its risk exposures.
- (v) the aggregate amount of secured liabilities, and the nature and the amount of the assets pledged as security.
- (vi) trust activities.
- (vii) exposure of the bank to directors, related parties and connected concerns in whatever manner related.

All LSBs were required to adhere to this format in the publication of their annual audited accounts for accounting periods ending on or after 31 December 1999.

## **Y2K Issue**

To ensure a smooth business transition in the banking and financial sector during the year 2000 roll-over, BSD, together with the Department of Information Technology (DIT) of the Bank, monitored throughout the year, the preparations for Y2K readiness of each institution coming under the purview of BSD. BSD and the DIT provided the necessary guidance by issuing Circular instructions, visiting each institution regularly to monitor the progress made, conducting workshops regularly and monitoring the contingency plans which were modelled on international requirements to ensure that all banking institutions were Y2K compliant. BSD also played a key role, together with the DIT, in the activities of the Event Management Centre (EMC) which was set up in the Central Bank during the critical period from 30 December 1999 to 3 January 2000 to liaise with the National Y2K Event Management Centre at the Computer and Information Technology Council of Sri Lanka (CINTEC) and with the financial institutions to ensure a smooth transition in each institution. The roll-over to the new millennium was successfully carried out.

## **Directions issued under the Banking Act in 1999**

During the period under review, the following Directions were issued by the Bank to LCBs and LSBs.

### **(a) Directions issued to LCBs**

- (i) Direction No. 1 of 1999 dated 5 March 1999 relating to limits on share capital ownership in a

LCB in terms of Section 46(1)(d) of the Banking Act.

- (ii) Direction No. 2 of 1999 dated 11 October 1999 relating to the Single Borrower Limit of LCBs under Section 46(1)(c) of the Banking Act.
- (iii) An amendment dated 27 December 1999 to the Notice relating to maintenance of Capital Adequacy Ratios (CAR) dated 22 August 1997 issued under Section 19(2) and 19(7) of the Banking Act, increasing the CAR from 8 per cent to 10 per cent and the Core Capital or Tier I Capital Ratio from 4 per cent to 5 per cent with effect from 1 January 2001.

#### **(b) Directions issued to LSBs**

- (i) The Bank issued the prescribed accounting format dated 15 December 1999 for the publication of annual audited accounts of LSBs under the provisions of the Banking Act.
- (ii) Direction No. 3 of 1999 dated 23 November 1999 in respect of Share Capital Ownership of LSBs, under Section 76 J(1) of the Banking Act.
- (iii) On 27 December 1999, LSBs, other than the National Savings Bank, were informed of an amendment to the Direction issued by the Monetary Board on 21 November 1997 relating to maintenance of Capital Adequacy Ratios (CAR) in terms of Section 76(J)(1) of the Banking Act. By this amendment, the CAR was increased from 8 per cent to 10 per cent and the Core Capital or Tier I Capital Ratio was increased from 4 per cent to 5 per cent with effect from 1 January 2001.

#### **(c) Instructions issued to LCBs and LSBs**

Having regard to the provisions of Section 77 of the Banking Act, the Central Bank issued instructions dated 1 December 1999 to both LCBs as well as LSBs cautioning them to take appropriate steps to maintain secrecy in respect of all banking transactions, particularly in the context of innovations in the field of information technology.

### **Deposit Insurance Scheme**

The Department continued to administer the Deposit Insurance Scheme established under the Monetary Law Act, which commenced operations in 1987. Membership in the scheme is voluntary. At present, only four Multi-purpose Co-operative Societies (MPCSSs) are registered under the scheme. The premium payable is 3.75 cents per quarter for every Rs.100, and the amount collected to the Deposit Insurance Fund by way of premia in 1999 was Rs.0.93 million. The Fund stood at Rs.90.4 million on 31 December 1999, which included Rs.50 million allocated to the Fund by the Central Bank. These funds have been invested in Treasury bills with a face value of Rs.101.7 million.

## **Supervision of Non-Bank Financial Institutions**

The Department of Supervision of Non-Bank Financial Institutions of the Bank continued to carry out regulatory and supervisory functions in respect of registered finance companies (FCs) with the objective of ensuring that FCs are adequately capitalised, prudently managed and financially sound. The Department strove to achieve these objectives mainly through off-site surveillance and on-site examinations:

### **Brief Overview of FCs**

The consolidated balance sheet of the 25 registered FCs at 31.03.98 and 31.03.99 are given in Table II-7. Total assets of registered FCs have increased by Rs.4,531 million or 19.7 per cent during the year. The increase in assets was reflected mainly in the growth of advances by Rs.3,467 million or 24 per cent, and the liquid assets by Rs.334.6 million or 12.2 per cent. There has been no significant change in the distribution of the major asset categories. However, the increasing trend towards lease financing observed in the previous year continued during this year too. The growth in assets has been funded mainly by a growth in deposits by Rs.2,197 million or 14.8 per cent and a growth in borrowings by Rs.1,593 million or 205.3 per cent and a growth in capital funds by Rs.343 million or 10.2 per cent.

### **Regulation and Supervision of Registered FCs**

During 1999, the Department continued its off-site surveillance of the 25 registered FCs by analysing periodical statements furnished by these companies, to ascertain compliance with the Directions and Rules issued under provisions of the Finance Companies Act. These include minimum capital requirement, liquidity ratio, single borrower limits, adequacy of provisions for bad and doubtful debts etc. For this purpose, the Department continued to obtain from registered FCs weekly statements of liquid assets, monthly statements of large advances granted, and statements of assets and liabilities, quarterly statements of non-performing advances and the annual audited balance sheets. The profit and growth trends of registered FCs were also monitored closely to identify and arrest any adverse developments.

The Department also conducted on-site examinations of four FCs during the year. The books of accounts and other records were scrutinised and discussions were held with officers of these companies in order to make an appraisal of the adequacy of capital, quality of assets, capability of management, volume and quality of earnings and the liquidity position. The efficacy of internal systems and controls to provide timely and accurate management information was also assessed.

In addition to comprehensive on-site examinations, FCs were also subjected to spot examinations where critical areas

**TABLE II – 7**  
**Consolidated Balance Sheet of Registered Finance Companies**

Category	At end March 1998		At end March 1999		Change %
	Rs. '000	%	Rs. '000	%	
<b>LIABILITIES</b>					
Capital Funds					
Issued Share Capital	620,882		658,587		
Share Premium	190,546		190,546		
Capital Reserve	843,104		892,553		
General Reserve	1,094,003		1,317,166		
Reserve Fund	474,114		543,740		
Other Reserves	58,145		47,469		
Profit & Loss A/c	96,099		67,736		
Gross Capital Fund	3,376,893		3,717,797		
Less : Deferred Expenditure	8,664		6,775		
Net Capital Funds	3,368,229	14.63	3,711,022	13.47	10.18
Provision for Bad & Doubtful Debts	937,940	4.07	1,072,820	3.89	14.38
Public Deposits	14,773,980	64.15	16,970,850	61.58	14.87
Borrowings					
Bank Overdraft	389,766		882,742		
Others	386,249		1,485,925		
Total Borrowings	776,015	3.37	2,368,667	8.59	205.23
Other Liabilities	3,173,670	13.78	3,437,024	12.47	8.30
<b>Grand Total</b>	<b>23,029,834</b>	<b>100.0</b>	<b>27,560,383</b>	<b>100.0</b>	<b>19.67</b>
<b>ASSETS</b>					
Liquid Assets					
Cash & Due from Bank	331,431		408,663		
Fixed Deposits	613,589		575,544		
Govt. Treasury bills	1,800,127		2,095,626		
Total Liquid Assets	2,745,147	11.92	3,079,833	11.17	12.19
Investments					
Shares in Subsidiaries & Associated Companies	382,560		724,817		
Shares in Related Companies	256,653		281,291		
Shares in Other Companies	705,663		627,878		
Share Trading	224,915		251,362		
Total Investments	1,569,791	6.82	1,885,348	6.84	20.10
Advances					
Loans	872,845		1,240,181		
Hire Purchase	3,421,408		2,232,039		
Leasing	7,783,084		11,117,742		
Real Estate	1,110,212		1,648,635		
Other Advances	1,314,454		1,730,795		
Total Advances	14,502,003	62.97	17,969,392	65.20	23.91
Fixed Assets					
Freehold Land & Building	1,565,737		1,725,353		
Furniture, Fittings & Office Equipment	200,217		242,163		
Motor Vehicles	177,048		188,677		
Plant & Machinery	5,567		1,998		
Leased Assets	47,025		57,811		
Others	21,802		60,014		
Total Fixed Assets	2,017,396	8.76	2,276,016	8.26	12.82
Other Assets	2,195,497	9.53	2,349,794	8.53	7.03
<b>Grand Total</b>	<b>23,029,834</b>	<b>100.0</b>	<b>27,560,383</b>	<b>100.0</b>	<b>19.67</b>

No. of Companies Reporting

25

25

Source : Central Bank of Sri Lanka

were covered. The area of examination depended on the findings from the off-site examinations. Spot examinations of the FCs were also conducted prior to the issue of annual licences.

### **Failed FCs**

Of the nine failed finance companies, the administration and management of which had earlier been vested in the Monetary Board under the provisions of the Finance Companies Act, four companies were under liquidation as at end 1999. The Bank continued to administer and manage the remaining five companies. Relief payments to depositors of some of these FCs under the 'Relief Scheme for Depositors of Registered Finance Companies in Distress' continued during this year too.

The relief payments were made from funds obtained through loan recoveries and sale of assets of these companies. In the case of one failed finance company, the entire balance capital outstanding to its depositors was repaid. The same company also repaid the entire refinance loan of Rs.12.68 million granted to it by the Central Bank to implement the 'Relief Payment Scheme for Depositors of Registered Finance Companies in Distress'. Another failed finance company commenced payment of an enhanced relief payment of 15 per cent of the balance capital outstanding to its fixed deposit holders, thereby increasing capital repayment to fixed deposit holders to 45 per cent as at the end of 1999. This Company also repaid 15 per cent of the refinance loans granted to it by the Central Bank, thus reducing the liability to Central Bank from Rs.48.5 million to Rs.41.2 million.

In 1999, the Monetary Board decided to apply to the relevant District Courts to liquidate three failed finance companies. An application for liquidation in respect of one failed finance company was submitted to court. Further, a liquidator was appointed to liquidate one failed finance company which was not vested in the Monetary Board, but to which refinance loan facilities had been granted by the Central Bank. An application for liquidation of another such company was pending in the court at the end of 1999.

### **Policy Initiatives**

During the year, the Department conducted a workshop organised by the Finance Houses Association of Sri Lanka for directors and senior management of finance companies on corporate governance. The topics discussed included the duties and responsibilities of directors, prudential requirements, disclosure standards and transparency of financial statements. Regulatory aspects discussed at the Workshop included the introduction of a minimum capital ratio based on risk weighted assets, more stringent income recognition standards, investments in shares in associate companies and provisioning for bad and doubtful debts.

## **Development Finance**

The activities of the Development Finance Department of the Bank further expanded in 1999. The Plantation Reform Project recorded considerable progress by disbursing more refinance during the year. There was also an increase in the credit guarantee covers issued by the Department in respect of loans granted by Participating Credit Institutions under the Small and Medium Enterprise Assistance Project.

Consequent to the successful conclusion of negotiations with the Asian Development Bank on a new housing credit scheme aimed at low income households in Urban and Semi Urban areas, a new housing loan scheme named the Urban Development and Low Income Housing Sector Project commenced operations in March 1999.

Project inspections and follow-up work in regard to current credit schemes as well as already concluded schemes were successfully carried out during 1999.

### **Current Credit Schemes**

#### **Plantation Reform Project (PRP)**

The total approvals of refinance under the PRP amounted to Rs.1,512 million during 1999, whereas in 1998 it amounted to Rs.2,564 million. The lower level of approvals in 1999 was mainly due to the depressed demand for refinance from Regional Plantation Companies (RPCs) owing to the decline in tea and rubber prices in the world market. However, the total fund disbursements in 1999 recorded a considerable increase of about 55 per cent over 1998 and amounted to Rs.1,810 million. This sum included disbursement of refinance approved in 1998.

As in previous years, the largest portion of the loan, totalling Rs.841 million, was approved for tree crop development. However, disbursement of funds for tree crop development totalled Rs.985 million, which included a part of refinance approved during previous years. Under the processing and improvements and pollution control component, 15 loans amounting to Rs.425 million were approved, while Rs.575 million was disbursed which is a 45 per cent increase over 1998. Similarly, under the component purchasing of service vehicles and equipment, Rs.249 million was disbursed in 1999, an increase of about 72 per cent over 1998. Details of refinance approvals and disbursements are given in Table II-8.

Among the Participating Financial Institutions in the scheme, the National Development Bank (NDB) accounted for 46 per cent of the total disbursements to RPCs during 1999, amounting to Rs.837 million. DFCC Bank (30 per cent), Bank of Ceylon (BOC) (13 per cent), Commercial Bank of Ceylon (CBC) (10 per cent) and Sampath Bank (1 per cent) accounted for the balance disbursements. Although refinance amounting to Rs.260 million was approved to the Seylan Bank, it did not disburse any funds during 1999.

The total liability of the Central Bank on account of credit guarantee cover issued against PRP loan disbursements in 1998

**TABLE II – 8**  
**Plantation Reform Project**  
**Refinance Approvals and Disbursements by**  
**Purpose**

Rs. Mn.

Purpose	1998		1999		1996-99	
	A	D	A	D	A	D
Tree Crop Development	1,072	550	841	985	2,293	1,781
Processing, Improvement & Pollution Control	1,005	259	425	575	1,895	1,031
Service Vehicles & Equipment	486	181	247	249	987	564
<b>TOTAL</b>	<b>2,564</b>	<b>991</b>	<b>1,513</b>	<b>1,810</b>	<b>5,175</b>	<b>3,377</b>

Note: A = Approvals  
D = Disbursements

Source : Central Bank of Sri Lanka

which was Rs.605 million, increased to Rs.1,048 million in 1999. The total liability of the Bank on account of issue of guarantees under this scheme from 1996-1999 amounted to Rs.1,991 million. Premia collected on credit guarantees under the PRP amounted to Rs.37 million in 1999, while total premia collected for the period 1996-1999 amounted to Rs.56 million.

Details are given in Table II-9.

industries and services. Loans granted to this sector increased considerably by about 55 per cent in 1999 when compared with 1998. An industry-wise classification of loans granted under the scheme as at end 1999 is given in Table II-10.

#### Urban Development & Low Income Housing Sector Project (UDLIHSP)

After the conclusion of the Housing Guarantee Low Income shelter Programme (HGLISP) (1992 – 1998, Phase IV) funded by USAID under which loans were granted to low income households, a new housing loan scheme named Urban Development & Low Income Housing Sector Project (UDLIHSP) commenced operations during the first half of 1999. The project is financed by a soft loan from the Asian Development Bank amounting to US dollars 20 million (SL Rs.1,400 million approximately). Households in urban and semi-urban areas, whose monthly income is less than Rs.8,500, are eligible to obtain loans under this scheme. The Central Bank acts as the apex lender, while the Hatton National Bank Ltd. and Commercial Bank of Ceylon act as Participating Credit Institutions under the scheme. Loans are given for construction of houses, improvements to existing houses, infrastructure development viz; obtaining of electricity and water,

**TABLE II – 9**  
**Plantation Reform Project**  
**Refinance Approvals, Disbursements and Central Bank's Credit Guarantee Liability**

Rs. Mn.

Project	1998				1999				1996 – 1999			
	A	D	GL	PC	A	D	GL	PC	A	D	GL	PC
NDB	1,147	407	251	7	428	837	504	19	2,122	1,600	965	29
DFCCB	994	419	257	3	460	538	283	11	1,723	1,051	595	15
BOC	286	85	47	2	109	237	157	3	516	398	245	6
CBC	39	80	50	1	255	173	92	4	456	304	173	6
Sampath	98	–	–	–	0	25	13	0	98	25	13	0
Seylan	–	–	–	–	260	–	–	–	260	–	–	–
<b>TOTAL</b>	<b>2,564</b>	<b>991</b>	<b>605</b>	<b>13</b>	<b>1,512</b>	<b>1,810</b>	<b>1,048</b>	<b>37</b>	<b>5,175</b>	<b>3,377</b>	<b>1,991</b>	<b>56</b>

A = Approvals

D = Disbursements

GL = Central Bank's Credit Guarantee Liability

PC = Premia Collections

Source: Central Bank of Sri Lanka

#### Small and Medium Enterprise Assistance Project (SMAP)

Under the SMAP Credit Guarantee Scheme which became effective in 1997, 817 credit guarantee covers amounting to Rs.653 million were issued in 1999 in respect of loans amounting to Rs.1,187 million granted by PCIs to the small and medium enterprises. During the year under review, 33 guarantees were withdrawn and 8 guarantees were fully paid. The Central Bank's liability under this scheme has increased from Rs.509 million in 1998 to Rs.653 million during 1999.

A majority of the loans disbursed under SMAP was for financing investments under the 'other' category which includes service industries such as passenger and commercial transport, vehicle servicing, restaurants, service stations, electronic related

construction of latrines etc., and land acquisition. Total refinance approvals during the year amounted to Rs.2.9 million, of which Rs.0.7 million has been disbursed. Out of the approved amount of Rs.2.9 million, 55 per cent was for improvements to existing houses.

Details of approvals and disbursements of refinance are given in Table II-11.

#### Investment of Credit Guarantee Funds

The total value of investment of credit guarantee funds in Treasury bills amounted to Rs.1,696 million at end 1999. The total interest income from the investment amounted to Rs.141 million in 1999. The funds for these investments are derived

**TABLE II – 10:**  
**SMAP Credit Guarantee Scheme**  
**Industry-wise Classification of Loans (a) as at 31 December 1999**

Industry Category	No. of Loans Granted			Loan Amount			CBSL Liability 97-99	Value in Rs. Mn.
	1998	1999	1997-1999	1998	1999	1997-1999		
Food-Beverages & Tobacco	112	97	209	186	165	351	174	
Textile-Wearing Apparel & Leather Products	63	21	84	87	52	139	68	
Wood & Wood Products	23	29	52	18	45	63	34	
Paper & Paper Products	13	21	34	25	67	92	36	
Chemical, Petroleum Rubber & Plastic Products	16	33	49	23	65	88	46	
Basic Metal Products	8	28	36	12	36	48	19	
Non-Metalic Mineral Products	47	29	76	52	39	91	54	
Fabricated Metal Products; Machinery & Transport Equipment	28	—	28	22	—	22	17	
Agro-Industries	70	102	172	80	164	244	154	
Other (b)	323	457	780	357	555	912	561	
<b>TOTAL</b>	<b>703</b>	<b>817</b>	<b>1,519</b>	<b>863</b>	<b>1,187</b>	<b>2,050</b>	<b>1,162</b>	

(a) Based on guarantee issued.

Source : Central Bank of Sri Lanka

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

**TABLE II – 11:**  
**Urban Development & Low Income Housing Sector Project Refinance Approvals and Disbursements as at 31 December, 1999**

Participating Credit Institution	Approvals	Disbursements	Rs. Mn.
Hatton National Bank	1,540,000	615,000	
Commercial Bank of Ceylon	1,415,000	86,250	
<b>TOTAL</b>	<b>2,955,000</b>	<b>701,250</b>	

Source: Central Bank of Sri Lanka

from premia collected under the SMI<sup>1</sup>, BPL<sup>2</sup>, SMAP<sup>3</sup> and the PRP<sup>4</sup> credit schemes and funds advanced by the Central Bank to the Credit Guarantee Fund.

### Concluded Credit Schemes

Operations of the SMI credit schemes I-IV (1979 – 1997), Bus Purchase Loans Scheme (1990-1992), HGLISP Phase IV (1992-1998) have been concluded. A summary of the performance of concluded schemes is given in Tables II-12 and II-13. Since the Central Bank's credit guarantee liabilities on SMIs and BPL schemes are still in force, project inspections and follow up work in respect of non-performing loans are being carried out.

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

**TABLE II-12:**  
**Housing Guarantee Low Income Shelter Programme – Phase IV Refinance Approvals & Disbursements by Purpose**

Category	Approvals & Disbursements (a) 1992-98		Total
	Urban	Rural	
<b>Purpose</b>			
Construction	58	444	502
Improvements	51	243	294
Land Acquisition	71	582	653
Infrastructure	1	5	6
<b>TOTAL</b>	<b>180</b>	<b>1,274</b>	<b>1,454</b>

Source : Central Bank of Sri Lanka

(a) Approvals have been fully disbursed

**TABLE II – 13**  
**Summary of Performance of Central Bank's SMI Credit Guarantee Schemes as at 31.12.1999**

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	1,520	2,050
1.2 Loans Guaranteed	1,670	158	2,531	714	3,130	1,313	9,072	4,772	1,520	1,162
2.1 Loans Fully Repaid	1,235	184	2,003	1,125	1,950	1,209	5,016	1,386	9	17
2.2 Guarantee Withdrawn or Lapsed	113	31	456	232	890	590	337	245	36	32
3.1 Total Claims Received	338	76	228	119	170	97	220	167	7	8
3.2 Central Bank Liability on ClaimsReceived	–	34	–	66	–	66	–	113	–	5
3.3 Settlement of Claims –										
Fully Settled	232	19	126	32	92	24	75	28	2	19
Partly Settled	27	2	5	1	–	–	–	–	–	–
Claims Rejected	32	7	46	13	44	16	55	22	1	...
Claims Returned	–	–	1	...	–	–	–	–	2	1
Loans fully paid after Submission of claims	36	2	7	2	10	4	24	13	–	–
Claims Deferred	8	2	21	8	6	5	8	4	–	–
Claims Pending	–	–	10	3	11	7	51	29	2	–
Claims Withdrawn	3	1	12	4	7	4	7	7	–	–
4.1 Loans Outstanding (f)	35	4	22	5	245	75	3,615	2,193	1,475	1,094
4.2 Central Bank Liability on Guarantees Outstanding	–	3	–	4	–	61	–	1,798	1,475	662
5. Premia Collected	–	12	–	30	–	45	–	163	–	13
6. Post Claim Recoveries	–	10	–	19	–	18	–	6	–	–

Source : Central Bank of Sri Lanka

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

## Rural Credit

The Central Bank continued to function as the executing agency of the credit component of donor-funded projects and its own credit schemes. As the executing agency, the Bank's functions involved admitting Participating Credit Institutions (PCIs), issuing Operating Instructions to PCIs, disbursing refinance to PCIs in respect of loans eligible under projects, monitoring and co-ordinating loan schemes, maintaining loan records and giving publicity to loan schemes with the assistance of the relevant project offices and other agencies.

The following projects were implemented by the Bank during 1999:–

### (a) ADB<sup>1</sup> Funded projects:–

- (i) Small Holder Tea Development Project;
- (ii) Tea Development Project;
- (iii) First Perennial Crops Development Project;
- (iv) Second Perennial Crops Development Project;
- (v) Agriculture Rehabilitation Project;
- (vi) Southern Province Rural Development Project;
- (vii) North Western Province Water Resources Development Project;
- (viii) North Central Province Rural Development Project;

### (b) IFAD<sup>2</sup>/CIDA<sup>3</sup>/SIDA<sup>4</sup>/Japanese Govt.<sup>5</sup>/WFP<sup>6</sup>/USAID<sup>7</sup>/JBIC<sup>8</sup> Funded Projects:–

- (xi) Small Farmers and the Land-less Credit Project (IFAD, CIDA);
- (x) North Central Province Participatory Rural Development Project (IFAD, SIDA & WFP);
- (xi) Food and Nutrition Promotion Credit Scheme (Japanese Govt.);
- (xii) Japanese U-ko Microfinance Poverty Alleviation Project (JBIC)
- (xiii) Matale Regional Economic Advancement Project (IFAD)

### (c) Government Funded Projects:–

- (xiv) Kegalle District Integrated Rural Development (Revolving Fund) Project;
- (xv) Perennial Crops Development (Revolving Fund) Project;
- (xvi) Surathura Program;

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

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

The credit component of the SHTDP was closed in December 1998. However, the Bank continued to monitor recoveries, attend to credit guarantee claims and claim reimbursements from the ADB in respect of disbursements made by PCIs in 1999. A total of 6,579 sub-loans amounting to Rs.645.9 million (approximately US dollars 11.9 million) had been refinanced by the Project upto its termination, recording a loan utilisation rate of 94.4 per cent. A Benefit Monitoring and Evaluation Survey which was conducted by two consultants engaged by the Tea Small Holding Development Authority (TSHDA) reported that the facilities provided under the Project had improved the overall performance of the sector, contributing to improve the average yield and income levels of the smallholders.

The project has maintained a satisfactory overall recovery rate of 90 per cent in 1999.

### **Tea Development Project (TDP)**

The TDP is a follow-up of the SHTDP to continue the lending programme in the tea sector. The government entered into a loan agreement with the ADB in January 1999 to obtain assistance to the extent of SDR 26.326 million for the implementation of the TDP over a period of six years from June 1999. The broad objectives of the Project are to increase smallholders' income on a sustainable basis, and to improve the natural environment in tea growing areas. The Project consists of four major components, viz., (a) institutional reforms and strengthening; (b) tea development; (c) social infrastructure and afforestation; and (d) project management.

The credit component of the Project amounted to SDR 15.4 million and was to be used for refinancing sub-loans granted by Participating Financial Institutions (PFIs) to sub borrowers. The Project funded loans for the following purposes:-

- (a) Re-planting of tea;
- (b) Establishment of nurseries;
- (c) Rehabilitation and modernisation of tea factories;
- (d) Purchase of vehicles and construction of green leaf collection centres.

A salient feature of the TDP was the elongated loan maturity taking into account the long gestation of the projects and the need for relieving borrowers of cash flow problems. Accordingly, the following loan maturities were allowed: re-planting, upto a maximum of 17 years with a grace period upto 7 years; factory rehabilitation and nursery development, upto 10 years with a grace period of 5 years. In refinancing, PFIs were also given matching loan maturity periods.

During the year under review, PFIs approved 55 loans amounting to Rs.95 million and disbursed 35 loans amounting to Rs.36 million.

### **First Perennial Crops Development Project Credit Scheme (FPCDPCS)**

#### ***Agriculture Rehabilitation Project Credit Scheme (ARPCS)***

The Bank continued monitoring of recoveries, conducting field inspections and meetings, corresponding with sub-borrowers, collecting credit guarantee premia and accepting credit guarantee claims in respect of the above two credit schemes during 1999. As per the terms and conditions of the credit guarantee scheme, the Bank commenced the payment of guarantee claims for eligible loans under the ARPCS. During 1999, 22 guarantee claims amounting to Rs.3.7 million were paid by the Bank.

### **Second Perennial Crops Development Project (SPCDP)**

The SPCDP, a continuation of the First Perennial Crops Development Project (FPCDP), completed its first year of operations in 1999. This Project which covered the entire island, except the Northern and Eastern Provinces, is scheduled to be completed by 2004. 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 Bank handles the credit component, while the Ministry of Agriculture and Lands handles the other components.

A sum of SDR 11.562 million has been allocated for the credit component to provide medium and long-term credit through PFIs for cultivation of perennial crops. Accordingly, the PFIs, viz., DFCC Bank, National Development Bank, Hatton National Bank, Commercial Bank of Ceylon and the Sampath Bank disbursed a sum of Rs.110 million for eligible sub-projects and claimed refinancing from the Bank in a sum of Rs.78 million during 1999.

The maximum individual sub-loan under the Project has been set at US dollars 150,000 or its equivalent in Sri Lanka rupees. The PFIs are allowed to approve loans upto US dollars 50,000 or its Sri Lanka rupee equivalent, while loans exceeding that amount should receive ADB approval. Sub-loans under the Project can be granted with a maximum maturity of 12 years, including a grace period of upto 6 years. In deciding the repayment period, lending banks are expected to take into account the economic life of the assets financed, the gestation period of the crops and the sub-borrower's repayment capacity as reflected in the cash flow projections.

During the year under review, the ADB approved the participation of Bank of Ceylon as a PFI of the project, thereby increasing the number of PFIs to 6. Further, the ADB has started a technical assistance (TA) project to establish a private entity for farm advisory, marketing and technical services etc. which are now being handled by the Ministry of Agriculture and Lands. This move is considered as the first attempt in Sri

Lanka to rely on the private sector to provide extension services on a 'user-payment' basis.

### **Perennial Crops Development Project (Revolving Fund) Credit Scheme (PCDPCS)**

PCDPCS (Revolving Fund) Credit Scheme was introduced in order to provide PCIs with refinance in respect of the remaining loan instalments of the First Perennial Crops Development Project (FPCDP) after the Project was closed in December 1997. Funds for operating the credit scheme were drawn from the loan recoveries of the FPCDP. The Bank entered into an Administration Agreement in respect of the above credit scheme with the government on 15 March 1999 and Subsidiary Loan Agreements with PCIs subsequently. A total of Rs.39.4 million had been released to PCIs as refinance under the Project upto end-1999. The terms and conditions of lending under this credit scheme were more or less the same as those of the FPCDP.

### **Southern Province Rural Development Project (SPRD)P**

The Southern Province Rural Development Project (SPRD) funded by the ADB commenced operations in 1992 and was to be terminated in December 1999. However, the ADB subsequently extended the period upto June 2000 to enable the Bank to claim reimbursements of the remaining funds. The main objective of the Project was to raise 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 area.

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 Bank by the Ministry of Plan Implementation and Parliamentary Affairs to refinance loans granted by the PCIs for rural micro and small and medium scale industries. The balance was provided to the Thrift and Credit Co-operative Societies (TCCSs) to facilitate the financing of micro-level self-employment activities.

The on-lending rate and the refinance rate under the project remained unchanged at 14 per cent and 6 per cent per annum, respectively, during 1999. The Bank had provided a sum of Rs.352 million by way of refinance to PCIs upto the end of 1999. Inclusive of refinance in the pipeline, the utilisation rate by the Bank during the entire Project period has been approximately 100 per cent of the allocation made by the Ministry. Upto the end of 1999, a sum of Rs.399 million had been disbursed by the PCIs, of which 20 per cent was contributed from their own funds. Ruhuna Development Bank (RDB) and DFCC Bank were actively engaged in this credit scheme disbursing around 7,400 loans during the project period. Out of the total loan disbursements, 85 per cent was disbursed by the RDB. In terms of the number of loans, RDB had funded 98 per cent of the loans indicating that the entirety of loans had been micro-loans.

### **NWP-Water Resources Development Project (NWP-WRDP)**

The ADB funded North Western Province Water Resources Development Project completed its sixth year of operation in 1999. The ADB has allocated US dollars 1.8 million (approximately Rs.108 million) for the credit component of the Project. The credit component consisted of three major areas of lending, viz., (a) construction of agro-wells; (b) lift irrigation and (c) self-employment for rural women. The Regional Rural Development Banks of Kurunegala and Puttalam (whose business has now been vested in the Wayamba Development Bank (WDB)) and the Hatton National Bank participated in the credit scheme from its inception. Later in 1996, the People's Bank (PB) and the Bank of Ceylon (BOC) were also admitted as PCIs in the Scheme.

Although the credit component was scheduled to be terminated by end June 1999, the ADB, considering the satisfactory progress, subsequently extended the period by one more year upto end June 2000.

At end 1999, PCIs had disbursed Rs.31 million for the construction of 918 agro-wells and Rs.74 million for self-employment projects by 3,201 women. Under the lift irrigation component, which commenced operations in late 1996, 148 projects to a value of Rs.4 million have been financed.

The cumulative total of refinance provided to PCIs by the Bank under the scheme upto the end of 1999 amounted to Rs.100 million.

### **North Central Province – ADB Funded Rural Development Project and IFAD Funded Participatory Rural Development Project**

The ADB funded North Central Province Rural Development Project (NCP-RDP) and the International Fund for Agricultural Development (IFAD) funded North Central Province Participatory Rural Development Project (NCP-PRDP) commenced operations in 1996 and 1997, respectively. Both these projects aim at poverty alleviation through the improvement of productivity of farmers and the development of infrastructure facilities in the Anuradhapura and Polonnaruwa districts.

The Bank functions as the apex co-ordinating agency for the credit component of both projects and operates through its Regional Office at Anuradhapura. Though PCIs were expected to finance sub-loans out of their own funds, the disbursement of credit did not take place as planned by the project management. Hence, the total loan disbursements from the inception of the projects amounted to only Rs.1.6 million. Considering this poor performance, a team of consultants engaged by the ADB to study the issues involved had reported that PCIs should be provided with refinance to fund sub-loans. Accordingly, the possibility of refinancing sub-loans by using the funds of the National Development Trust Fund (NDTF) was explored by the Bank during 1999. The negotiations with the NDTF for this purpose proved successful and refinancing sub-loans through the NDTF is expected to commence shortly.

## **Urban Environmental Infrastructure Development Project (UEIDP)**

The Bank commenced this Project in early 1999 as the programme administrator and the apex lender. This Project is funded by the government through a loan of US dollars 4 million raised from the US private sector under the Housing Guarantee Loan No.383 HG006 and guaranteed by the USAID. The objective of the project is to promote private sector activities in environmental development, particularly in urban and semi-urban areas, throughout the country.

The Project was started with the SANASA Development Bank (SDB) and the National Development Bank (NDB) as its PCIs to grant loans for eligible sub-projects. The SDB was expected to fund community based environmental projects such as safe drinking water, sanitation and waste disposal methods through the Primary Thrift and Credit Co-operative Societies (PTCCS). NDB, on the other hand, was to finance large scale urban waste disposal schemes implemented by local authorities.

During the year under review, the preliminary activities in respect of project implementation were completed by the Bank. The SDB went into action by preparing sub-project proposals, identifying borrowers of some PTCCS and assessing their requirements to be financed under the Project. Also, a few awareness programmes on the project were conducted by the Bank for the officials of some Local Authorities and community groups.

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

The SFLCP, inaugurated in 1990 and jointly funded by IFAD (a loan of US dollars 6.7 million), CIDA (a grant of US dollars 6.6 million) and the Government of Sri Lanka (a contribution amounting to US dollar 4.1 million by the Central Bank), aims at establishing a cost effective credit delivery system for the alleviation of poverty among the poorest of the poor in the Galle, Matara, Kandy and Puttalam districts. The project relies on the credit plus approach which includes the linkage banking system, strengthened by the group lending strategy to achieve its objectives. The Central Bank functions as the executing agency of the Project on behalf of the Government. Although foreign funding for the Project was closed in December 1997 as originally scheduled after achieving the targets set for the Project at the design stage, the Project activities continued to be carried on by the Bank during 1999 by recycling the loan recoveries as provided for in the Loan Agreement signed with IFAD.

At end 1999, the Project had covered 2,397 villages in the four project districts forming 9,234 self-help groups as the vehicle for providing assistance to the project beneficiaries. The beneficiaries who were reached through these groups numbered 55,895 and were 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 38,140 women, amounting to 68 per cent of the total beneficiaries. As at the

end of the year, a sum of Rs.477 million had been advanced as micro-loans to borrowers to enable them to undertake income generating self-employment activities. The average size of a loan amounted to Rs.9,579. The Project has consistently maintained a cumulative recovery rate of over 93.7 percent. In addition, the beneficiaries had saved Rs.63 million as group savings up to the end of 1999 under the savings mobilisation scheme of the Project.

In 1999, as in the previous years, the loan recoveries were recycled to provide refinance to the RDBs, while the interest income earned by investing excess funds was used to meet the administration and beneficiary training expenditures of the Project.

The Bank continued to set up Isuru Development Societies by allowing the self-help groups (SHGs) to amalgamate themselves into formal corporate bodies during 1999. This was a scheme inaugurated in 1997 to facilitate the SHGs that had come of age 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 an SFLC Development Society and registered with the Registrar of Companies as a limited liability society under the Societies Ordinance. At end 1999, 177 such limited liability societies had been formed, recording an increase of 17 societies during the year. Action was also taken to form four district federations in the project districts of Matara, Galle, Puttalam and Kandy by federating the individual societies at the district level. The members of the federations were elected by the society members from among themselves (three members from each society). The federations were to be registered under Section 21 of the Companies Act as non-governmental organisations. The issued share capital, savings and the loans granted from their own funds by the Development Societies amounted to Rs.4.1 million, Rs.10.6 million and Rs.30.7 million, respectively, as at the end of 1999. The Development Societies will function as informal savings and loan associations at the grassroots level which, on a future date, may enter the formal banking business, if they achieve the required level of maturity.

## **Japanese U-ko Microfinance Poverty Alleviation Project**

The Government of Sri Lanka entered into a loan agreement with the Japan Bank for International Co-operation (JBIC) (formally known as OECF) on 4 August 1999 for the implementation of a micro-credit project titled the Poverty Alleviation Micro Finance Project (PAMP). The project is expected to adopt the credit plus approach which has been successfully used by the SFLCP in the districts of Kandy, Matara, Galle and Puttalam. The project aims at setting up an effective credit delivery mechanism for channelling institutional credit for income generating activities for the rural poor who have no access to credit from formal 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. On the basis of the poor socio-economic conditions and high incidence of poverty, 6 districts, viz., Badulla, Nuwara Eliya, Matale, Kalutara, Kurunegala and Hambantota, have been selected for the implementation of the project in the first stage.

The total project cost has been estimated at US dollars 12.4 million (Rs.821 million) for credit, training, technical assistance and project administration. The JBIC will provide a loan of US dollars 9.68 million (Rs.640 million), while GOSL will be required to finance US dollars 2.74 million. (Rs.181 million) to cover the project costs. The GOSL component will be funded by the Bank on behalf of the Government.

The Bank will implement the Project through a Project Central Office (PCO) set up in its Rural Credit Department and a Project District Office in each of the Project districts. The project will initially admit the RDBs operating in the six districts in which the Project is to be implemented as its PFIs. Other development banks will be admitted later, if such banks are willing to participate in the Project under its terms and conditions.

#### **Food and Nutrition Promotion Scheme**

This Project was inaugurated in 1997 at the request of the Ministry of Agriculture and Lands. Under this Project, loans are granted through PCIs for crop production, storage of agricultural produce, food processing, marketing of agricultural products and dairy and livestock development. Financial assistance under the project is limited to co-operatives, farmers' organisations and individuals who are members of the co-operatives and farmers' organisations. The Project had financed 19 sub-projects to a value of Rs.19 million as at the end of 1999.

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

This project is a continuation of the Integrated Rural Development Project of Kegalle (IRDP-K) which was completed in 1995. Hence, the new project drew its funds from the loan recoveries of the IRDP-K. The Bank continued as the refinance agency, while the IRDP District Project Office of the Ministry of Plan Implementation attended to other project activities.

In the implementation of the Project, two new mechanisms were used. First, 15 business development officers (BDOs) were engaged on a commission basis to assist PCIs to market the project, identify potential borrowers, help them prepare project proposals, link them to banks and conduct field supervision and monitoring. The engagement of BDOs helped to maintain a continuous flow of loan applications to PCIs. Second, a Project Evaluation Committee (PEC) consisting of the representatives of the Central Bank, PCIs and the District Project Office was set up to evaluate and approve loans exceeding Rs.50,000. These two measures were successful in generating a smooth implementation of project activities.

The Project had financed 2,500 sub projects amounting to Rs.101 million by end 1999. During the year under review, the total loans granted to the target groups under the Project amounted to Rs.57 million. The Project has maintained an overall recovery rate of 90 per cent, while some PCIs had recorded a rate as high as 97 per cent.

#### **Surathura Programme – Self Employment Promotion through Micro Enterprise Credit**

The Surathura Phase I Programme was completed in 1996/97. The second phase of the project was started in 1997/98 and continued during 1999. Under the second phase of the Project, credit facilities were provided by PCIs out of their own funds to the unemployed, especially to the educated youth, to enable them to undertake income generating activities or microfinance projects. The government paid an interest subsidy of 10 percentage points per annum to the PCIs to maintain the on-lending rate of 10 per cent per annum. At the end of the year under review, the Project had financed 16,433 sub-projects to a value of Rs.614 million throughout the island. Considering the higher demand for credit facilities for micro enterprises, the credit target was increased from Rs.1,000 million to Rs.1,300 million in October, 1999.

A Fact Finding Survey was conducted in respect of borrowers whose repayments were in arrears of 12 instalments or more. This survey was carried out in the districts of Colombo, Kalutara and Gampaha. While the data from the survey are presently being processed, the preliminary findings have revealed that the loan defaulting has been mainly due to the poor identification of the borrowers.

#### **Matale District Regional Economic Advancement Project (REAP)**

The Regional Economic Advancement Projects (REAPs) are the new generation regional development projects that have been evolved by the government on the basis of its experience with the earlier Integrated Rural Development Projects (IRDPs). REAPs differ from IRDPs in the sense that they pay a greater attention to the need for advancing the economic conditions of the people in the region by getting the private sector and the community based organisations actively engaged in the developmental process. Thus, the economic advancement brought about by the project would be self-propagating and sustainable in the long-run, even after the withdrawal of the governmental authorities from project activities. The first REAP was inaugurated by the government in the Matale District in 1999 with the Central Bank as the executing agency for the credit component.

The Loan Agreement for the REAP-Matale was signed by the government with the IFAD in early 1999. IFAD agreed to make available a loan amounting to SDR 8.35 million to the government, which consisted of a credit component amounting to SDR 2 million to be used for funding micro and medium-scale entrepreneurs in the District. The Bank implements the credit component through its Regional Office

**TABLE II – 14**  
**Credit Schemes Operated by the Rural Credit Department during 1999**

Name of the Project	Funding Agency	Broad Mission	Original Allocation	Interest Rate to the Borrowers (%)	Credit Disbursement upto 31.12.1999 (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)	35.8	n.a.
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	110.3	65
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	399.3	85
4. North-Western Province Water Resources Development Project (1999-2000)	– do –	Improve economic, social and nutritional well-being of the people living in the project area.	US \$ 2.7 Mn.	14	108.7	90
5. North-Central Province Participatory Rural Development Project (1996-2002) 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	1.6	n.a.
6. 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	0.2	n.a.
7. 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)	477	94
8. 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	19.1	n.a.
9. New Comprehensive Rural Credit Scheme	PCIs with govt. interest subsidy	Upliftment of rural farmers who cultivate short-term food crops.	–	12	464 (b)	84 (Overall)
10. 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	101	95
11. 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	736	n.a.
12. Japan U-Ko Micro-finance Project (Poverty Alleviation Micro-finance Project)	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.

(a) Average Weighted Deposit Rate

(b) 1998/99 Maha &amp; 99 Yala

Source : Central Bank of Sri Lanka

at Matale. The Kandurata Development Bank (KDB) has been admitted as Participating Financial Institution (PFI) with a few selected Non-Governmental Organisations (NGO) functioning as link organisations.

A summary of the rural credit projects currently being implemented by the Bank is presented in Table II-14.

## Financial Markets

The Central Bank, through its Financial Markets Department, 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 Department 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 Reforms 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 coordinating a number of activities. Some of them are set out below.

### Credit Rating Agency

As part of the strategy to promote the development of financial markets, the Central Bank took the initiative in making arrangements to set up a credit rating agency.

Duff & Phelps Credit Rating Lanka Limited (DCR Lanka), the first credit rating agency in Sri Lanka, was established during the year. DCR Lanka was registered as a public limited liability company under the Companies Act in August 1999, and commenced operations in October 1999. DCR Lanka is a joint venture of the Duff and Phelps Credit Rating Company of the USA, the International Finance Corporation, the Central Bank of Sri Lanka and several leading local financial institutions, such as banks, provident funds, insurance companies and finance companies. The Duff & Phelps Credit Rating Company USA (DCR USA), which is a leading global rating agency with a presence in more than 50 countries, is the major shareholder and is also the technical partner of the Sri Lankan credit rating company.

The initial share capital of DCR Lanka is Rs.35 million. DCR USA, the International Finance Corporation and the Central Bank of Sri Lanka hold 45 per cent, 20 per cent and 10 per cent respectively of the equity capital. The balance 25 per cent of the equity capital is divided equally among the other local shareholders, namely Bank of Ceylon, People's Bank, National Development Bank, DFCC Bank, State Mortgage and Investment Bank, Hatton National Bank Ltd, Commercial Bank of Ceylon Ltd, Sampath Bank Ltd, the Employees' Provident Fund, Employees' Trust Fund Board, Sri Lanka Insurance

Corporation Ltd., National Insurance Corporation Ltd., Union Assurance Ltd. and the Central Finance Company Ltd. The Board of Directors of the DCR Lanka comprises seven members, of whom three are nominees of the DCR USA. The rating operations will be undertaken by a Rating Committee consisting of representatives of the DCR USA, and the DCR Lanka staff and will not be subject to direction by the Board of Directors of the company.

The Subscription and Shareholders Agreement which sets out the rights and obligations of shareholders of the company was executed in October 1999. The Know-How and Technical Assistance Agreement and the Trademark and Corporate Name Licence Agreement were signed between DCR Lanka and DCR USA during the year.

The credit rating company is expected to play an important role in the overall development of the capital market in Sri Lanka. (See Box Article 10)

### Scripless Government Securities System and the an Electronic Funds Transfer System

The Central Bank proposes to introduce a scripless trading system for Treasury bills and Treasury bonds and an electronic funds transfer (payments) system in the year 2000. The preparatory work on the procedures, systems design and the development of computer software has been completed, and the testing of the system commenced during the year.

### Tax Incentives for the development of the Debt Market

Several tax incentives have been provided over the past few years to develop the government and private debt market. The reforms were also aimed at removing the tax bias that discriminated against debt securities vis a vis equities, thereby establishing a level playing field for debt and equity securities. The following measures were implemented in 1999.

- (a) The removal of stamp duty on debt instruments, such as debentures, bonds and commercial paper listed on the Colombo Stock Exchange.
- (b) The removal of stamp duty on repurchase agreements relating to Treasury bills.
- (c) The removal of withholding tax on interest paid on debt securities listed on the Colombo Stock Exchange.
- (d) The removal of capital gains on share warrants and derivative instruments.

The Central Bank has also recommended that the stamp duties on mortgages and other taxes affecting asset securitisation should also be reduced.

### Legislative Enactments and Proposed Legislation

The National Savings Bank (Amendment) Act, No. 22 of 1999 became law in 1999. The amendments introduced by this Act

specify the range of activities the NSB could engage in as a specialised savings bank, and also remove the impediments to the creation of a capital base for the bank by capitalizing its dormant accounts.

Several draft bills and regulations were prepared during the year. The bills are expected to be finalised and presented to Parliament in 2000. The following are the draft bills and regulations.

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

The objectives of the Central Bank, as stated in the Monetary Law Act, are to be amended to emphasise the maintenance of price stability as its principal object, in order to avoid any policy conflicts that may arise due to the pursuit of multiple objectives. The other proposed amendments relate to increasing the effectiveness of monetary policy by broadening the definition of 'money supply' and eliminating certain anomalies with regard to the requirement to maintain statutory reserves.

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

The proposed amendments would strengthen the supervisory and regulatory powers of the Central Bank relating to licensing procedures, revocation of licenses, 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 for the Regulation of the Insurance Industry**

The new insurance law will provide for the establishment of a regulatory authority for the insurance sector. The insurance regulatory body will supervise the operating environment of insurance companies as well as insurance brokering companies and agents. The minimum share capital and prudential requirements, such as solvency margins and reserves for insurance companies, will be specified in the law. The new law will also provide 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 insurance and brokering companies will be specified in the law. There will also be requirements relating to actuarial valuations and audited accounts. The proposed legislation will replace the Control of Insurance Act, No. 25 of 1962.

**(d) Draft Bill for Finance Leasing**

The proposed finance leasing law will define the rights and obligations of parties to a finance leasing transaction and also provide a regulatory and supervisory framework for the finance leasing industry. The Central Bank will license

and supervise establishments engaged in finance leasing business under the proposed legislation.

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

The proposed legislation will provide for the establishment of a regulatory authority for private pension and provident funds.

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

New regulations under the Registered Stocks and Securities Ordinance and the Local Treasury Bills Ordinance which will require primary dealers in Treasury Bills and Treasury Bonds to set up separate companies with dedicated capital have been prepared, and will become effective in early 2000. The regulations will also establish an operating and supervisory framework governing the conduct of primary dealer business.

**Accounting and Auditing Standards**

The accounting and auditing standards adopted by the Institute of Chartered Accountants of Sri Lanka were gazetted in 1999. The 'specified business enterprises' as defined in the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 have been required to prepare their accounts and have them audited in terms of the accounting and auditing standards. The Accounting and Auditing Standards Monitoring Board, established by that statute, will monitor and enforce compliance with the standards.

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

The Central Bank continued to monitor the performance of the Bank of Ceylon and the People's Bank under the Agreements signed with the Government of Sri Lanka (GOSL) on 16 July 1998.

The objectives of the Agreements are 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.

The Agreements seek to improve the banks' internal governance and financial performance by providing the management with operating autonomy and by specifying annual quantitative performance targets. These include profitability targets, such as return on assets and return on capital, efficiency targets such as staff costs and overhead costs to average assets, and financial soundness targets for loan recovery and non-performing loans. The Agreements are also aimed at reducing administrative and intermediation costs through

branch rationalisation and restrictions on staffing levels. The banks are required to submit quarterly performance reports to the GOSL and the Central Bank on the achievement of targets and on other requirements.

The Bank of Ceylon introduced a new branch accounting system during the year to assess the profitability and viability of its branch network. The new system is based on a uniform transfer pricing and cost allocation methodology which was recommended for the two banks by a working group consisting of officers from the Central Bank, Bank of Ceylon, People's Bank and a firm of chartered accountants. The People's Bank is expected to implement the new branch accounting system in 2000.

Special audits of the current loan and investment portfolios of Bank of Ceylon and People's Bank were conducted in 1999 to determine the overall quality of the banks' loan and investment portfolios and the necessary levels of loss provisioning based on international standards. The audits were conducted by international auditors.

Bank of Ceylon and People's Bank have engaged the services of consultants to assist in the preparation of strategic and structural reorganisation plans.

### **Technical Assistance Projects**

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

#### **(a) Developing the Portfolio Management Expertise of the Employees' Provident Fund (EPF)**

A team of consultants assisted the EPF in improving its portfolio management capacity. The technical assistance included the preparation of investment guidelines for the EPF and the training of staff in fund management techniques.

#### **(b) Automation of the Central Bank Payments System and the Government Debt Securities Market**

A study on automating the Central Bank's payment systems and a scripless system for Treasury bills and bonds was undertaken by consultants during 1999. The consultants also prepared the technical specifications of the computer hardware and software required for a 'real time gross settlement system'.

#### **(c) Surveillance of Primary Dealers**

The Central Bank has prepared a new legal framework for the supervision of Primary Dealers. Consultants were identified to assist the Central Bank in setting up the surveillance mechanisms and to provide staff training. The consultancy is expected to begin in January 2000.

#### **(d) Computerisation of the Off-site Surveillance of Banks**

The Department of Bank Supervision developed a software package for the off-site surveillance of banks. The project

involves the preparation of formats for obtaining financial data from banks on diskettes. The system would also have an early warning mechanism. The system became operational in 1999.

#### **(e) Upgrading the supervisory capabilities of the Bank Supervision Department**

The project involves upgrading the on-site and off-site supervisory capacity of the Bank Supervision Department. The project will focus on introducing a risk based approach to bank supervision and expanding the automation of the off-site surveillance system, including staff training.

#### **(f) Private Sector Development Programme**

A technical assistance grant was provided to assist in formulating a programme of policy reforms to support private sector development in Sri Lanka. The project focused on the following areas – privatisation and commercialisation of public enterprises, private investment in infrastructure, competition, corporate governance and consumer protection, labour market reform, capital market development and insurance regulation. The consultants have prepared a policy matrix covering a set of reform proposals that will comprise a programme to support private sector development. The consultants completed the technical assistance in 1999 and a project is scheduled for 2000.

#### **(g) Pension Reform Project**

Technical assistance has been obtained to engage consultants to assist in introducing pension reforms. The technical assistance will be used to set up a regulatory authority for insurance and private superannuation funds, and to make proposals for reforming the pension and provident fund system and for modernising the insurance industry. The consultants will begin the assignment in early 2000.

### **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. The Department 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 further economic research work. It improved and enhanced the supply of economic information to the public, that being one of the major responsibilities of the Central Bank. The Department directly co-ordinated Sri Lanka's relationships with the IMF and the Intergovernmental Group of Twenty Four (G-24) on International Monetary Affairs, while also helping the Ministry of Finance in the co-ordination of its work with other international organisations such as the World Bank, the Asian

Development Bank and other multilateral and bilateral donors. The Department was also involved in providing technical support in the coordination and maintenance of some of the international relations by the Ministry of Foreign Affairs and the Ministry of Trade. 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 post-graduate degree aspirants of the Bank and for dissemination of knowledge through guidance of research work, public lectures, seminars and work shops.

The ERD compiled the weekly and monthly economic indicators and made these available, to the public expeditiously through the Internet and newspapers. The lag in the publication of the Monthly Bulletin was shortened. A new interest rate index called the Sri Lanka Inter-bank Offered Rate, 'SLIBOR' was introduced to give an indication on the likely rates for rupee transactions among commercial banks for different maturities. (see Box Article 9). The objective is to help the domestic money market to use this as a base to determine yield rates for innovative money market instruments.

The Department contributed to and co-ordinated the publication of the 1998 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, to be used in the preparation of the government budget, was completed and submitted to the Hon. Minister of Finance. Similarly, the Department published the report 'State of the Economy 1999' to be used in the preparation of the Budget. Subsequently, this was updated with an analysis of the prospects of the economy, giving scenarios of the possible trends 'with' and 'without' war. The latter was published with the presentation of the Budget 2000.

The publication of a monthly 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. The Department conducted a survey on the 'Payment of Goods and Services Tax (GST) by Eating-Houses in the Colombo Municipal Area'.

The ERD coordinated two major international seminars, the 'G-24 Technical Group Meeting' and the seminar on 'Ageing Population and Social Security Systems', in 1999. Senior research officers of ERD participated as resource persons in several internal seminars and some public seminars arranged by the Centre for Banking Studies. The officers of ERD undertook a number of research studies, some of which were on their own initiative. These included policy oriented research as well as studies which are largely of academic interest, covering macro and micro economic issues, including a study on the likely impact of the Indo-Sri Lanka Free Trade Agreement. Some of these were published in the last two issues of the 'Staff Studies' of the Central Bank.

The Department provided inputs for the on-going research and training programme of the South East Asian Central Banks (SEACEN) Research and Training Centre while a few officers were directly involved in collaborative research projects undertaken by the SEACEN Centre. As the Central Bank of Sri Lanka is to host the 23rd SEANZA Central Banking Training Course and the SEANZA Governors' Symposium in year 2000, the Department was involved in the development of the Training Course and the co-ordination work for the two events. The SAARC cell, established in the Department, co-ordinated the activities of the Network of SAARC Central Bank Governors and Finance Secretaries.

A number of Board Papers were submitted to the Monetary Board advising on the monetary implications of various foreign loan agreements to be entered into between the Government of Sri Lanka and donors, and the decisions of the Monetary Board were conveyed to the Ministry of Finance. The Department also helped in the preparation of guidelines for a contributory pension scheme for new Central Bank employees.

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 (GTS) and the Sub Committee on Anti-Dumping and Countervailing Duties, the Balance of Payments Committee, the Exchange Rate Committee, the Treasury Bills and Treasury Bonds Tender Committees and the Monetary Operations Unit which was replaced in late 1999 by three committees namely, the Liquidity Assessment Committee, the Open Market Operations Committee and the Domestic Debt Management Committee. The Department represented the Central Bank in some of the preparatory meetings on bilateral trade relations such as the Sri Lanka-China joint Commission, the Commission on Pakistan Sri Lanka Trade Relations, the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMST-EC) Round Table Conference held in Bangkok and the BIMST-EC Tourism Conference held in Colombo.

The financial programming framework used in the conduct of monetary policy was further improved by incorporating the broad monetary survey (i.e. monetary survey with FCBUs included) in the projection of monetary aggregates.

## Statistics and Field Surveys

The Statistics Department continued to carry out its functions of compilation, analysis and dissemination of (a) macro level socio economic data, including national accounts, prices and wages and (b) micro level data on the household and corporate sectors. In addition, the Department undertook a special project to formulate a scheme to promote a forward market for agricultural commodities.

The collection of wholesale and retail price data of food commodities in key market centres was continued. The frequency of collection of retail price information from some markets was increased from a weekly basis to a daily basis. At the same time the dissemination of price and wage data was

expanded. Daily price information was disseminated to the print and electronic media and also to relevant institutions.

The major tasks accomplished by the Department during the year, included publication of the report on the Consumer Finances and Socio Economic Survey 1996/97, and the launching of the Forward Market Scheme for agricultural commodities. Several awareness programmes were conducted on the Forward Market Scheme to implement identified pilot projects. The first project commenced in December 1999, where a group of farmers at Morayaya in Mahiyanganaya entered into forward sales contracts to sell paddy from the crop to be harvested in Maha 1999/2000 to CIC Seeds Pvt. Ltd. at a contracted price negotiated in advance.

### **Consumer Finances and Socio Economic Survey - 1996/97**

The report on the Consumer Finances and Socio Economic Survey conducted in 1996/97 by the Statistics Department was published in 1999. The survey is regarded as a landmark survey for several reasons. Firstly, the survey coincided with the fiftieth anniversary of independence of Sri Lanka. Secondly, it also coincided with the completion of twenty years of economic liberalisation. Thirdly, the survey was conducted at a time when Sri Lanka was reaching the middle income country group and thus, the survey reveals the socio economic conditions of the country during the transition period. Fourthly, the survey findings will be useful to visualise the socio economic prospects of the country in the 21st century.

The findings of the survey are discussed under seven chapters, namely; (1) Objectives and Methodology (2) Demographic Features (3) Socio Economic Conditions (4) Labour Force, Employment and Unemployment (5) Income (6) Expenditure and Consumption and (7) Savings, Investments and Loans. During the year under review, the Department acceded to requests made by both public and private sector institutions by providing specially tabulated data.

While strengthening its data base pertaining to a series of socio economic variables, the national accounts database was also updated by using the statistical results derived from the consumer finances and socio economic survey as benchmark estimates; The survey data were also used to construct new consumer price indices for several districts, *i.e.* Colombo, Anuradhapura, Matara and Matale.

### **A Scheme for Forward Markets in Agriculture Produce**

The Department has formulated a scheme to promote trading in agricultural commodities under forward sales contracts. The objective of this scheme is to ensure a stable price to the farmer and to assure a stable supply to traders, agro-processing industries and exporters according to quality specifications required by the trade. Under this scheme, the conventional systems of informal forward sales could be

transformed to formal contracts by introducing a Forward Sales Contract document. Accordingly, the contracted price, the quantity, the quality, period of delivery, along with the terms and conditions negotiated and agreed upon between the two parties are recorded, with banks assuming the role of facilitators.

The banks as facilitators are expected to bring the buyers and the sellers together. As both buyers and sellers could assign the contract document to a bank as collateral, the scheme provides greater access to credit facilities from the banking sector for agriculture production, agro processing and marketing. The Regional Development Banks and Bank of Ceylon have already formulated credit schemes to grant loans under this system. Other banks have expressed strong interest to formulate similar schemes in due course.

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

The Country Wide Data Collection System which was commenced by the Statistics Department in 1978 completed 21 years of operation in 1999. Under this programme, information on retail prices of consumer goods, producer prices of agricultural commodities and wage rates pertaining to the informal sector continued to be collected regularly. The scheme is also used to monitor the performance of agriculture in major producing areas. Data collection is accomplished through an island-wide network of school teachers who function as statistical investigators. The sub sectors of paddy, tea, rubber, coconut cultivation and small-scale construction are covered by the scheme. Information collected is published regularly through the print and electronic media. In order to improve the quality of data collected through the investigators, and with the intention of using these data for the computation of regional consumer price indices, seminars were conducted in Colombo, Anuradhapura, Kandy and Matara in 1999 to provide training for the data collectors.

The Department continues with its scheme of collecting wholesale and retail prices of major food items from the Pettah market and from other centres like Maradagahamula rice market and the Dambulla market on a daily basis. Information so collected is published daily in the newspapers and through electronic media with a view to disseminating the information to farmers, traders and consumers. The data are also provided for carrying out forward market transactions and for use by government and private sector agencies.

### **Computation of District-wise Consumer Price Indices**

The Department continued to compute the Colombo District Consumer Price Index (CDCPI) which was introduced in 1998 as a supplement to the Colombo Consumers' Price Index (CCPI) computed by the Department of Census and Statistics. The target population for this index is the lowest 40 per cent of the district population ranked by income. It has a

broader coverage than the CCPI. The information for the computation of the index is obtained from 11 centres in the Colombo District, namely Hanwella, Homagama, Moratuwa, Avissawella and the Pettah market which are established under the Country Wide Data Collection System and newly introduced centres of Kolonnawa, Nugegoda, Dehiwala, Piliyandala, Maharagama and Padukka from January 1999. The information from these centres is collected by officers of the Statistics Department and appointed teacher investigators.

The Department also computed three regional consumer price indices for the districts of Anuradhapura, Matara and Matale. The commodity weights for the indices are based on the expenditure patterns of respective districts derived from the Consumer Finances and Socio-economic Survey 1996/97 conducted by the Central Bank. The target population used to construct the weights of the indices consisted of the lowest 40 per cent of households in the district ranked by income. These indices are useful to analyse regional price variations. Information on regional price movements is useful for forward trading in agricultural commodities.

Further, the Statistics Department has engaged in the computation of a new index for the Western Province on an experimental basis, with a wider coverage than the CDCPI. This index covers the lowest 80 per cent of the households ranked by the level of income. Weights are based on the expenditure pattern revealed by the Consumer Finances and Socio Economic Survey 1996/97 conducted by the Central Bank of Sri Lanka. Data collection centres have been extended beyond major trading centres of the CDCPI to selected super markets in the city so as to capture changing consumption patterns.

## National Accounts

The Department continued the activities in connection with the estimation of national accounts. These included the collection and compilation of primary and secondary data for the estimation of National Accounts on a quarterly and annual basis. The Department commenced publishing national accounts on a quarterly basis (in constant terms) in 1998. The estimation procedure of the quarterly series was further strengthened in 1999. In addition to the constant series of quarterly accounts which have been published since June 1998, the Department compiled the series at current factor cost prices which are published for the first time in this Annual Report.

In 1999, the Department endeavoured to strengthen the estimation procedures of national accounts, in general, giving wider coverage to informal and emerging economic activities. These activities included retail trade, light engineering, restaurants and catering services, automobile maintenance, air conditioning, computer assembly and the software industry, personal services, entertainment services, advertising etc.

Meanwhile, the Department continued to disseminate the quarterly national accounts data to the general public and the users through the media in 1999. These data are now accessible through the Central Bank web-site.

## Publications

The Department released two volumes of its annual publications, titled 'Sri Lanka Socio-Economic Data 1999 – Volume XXII' and 'Economic and Social Statistics of Sri Lanka 1999 – Volume XXI' which provide comprehensive time series and cross-sectional data on socio-economic variables, including demography, labour force and employment, national income and expenditure, agriculture, industry, external trade and finance, prices and wages, money, banking, capital market, government finance and socio-economic services. The data in these publications also include comparative statistics for regional economic groups. The coverage and presentation of both publications were improved in the volumes in 1999. In addition, the Department contributed to several other publications of the Central Bank.

## Employees' Provident Fund

The Monetary Board continued to perform its functions as the custodian of the Employees' Provident Fund (EPF) during 1999 in close co-operation with the EPF Division of the Department of Labour. In terms of the EPF Act, the functions of the Monetary Board in relation to EPF consist of receiving contributions, surcharges and income from investments, maintaining proper accounts of registered employments and members of the Fund, investing excess funds in suitable investments and paying benefits to the Fund's members.

The modernisation programme of the EPF that commenced in 1996 was continued by the Bank during 1999. According to this programme, internal operations of the Fund were fully computerised with software developed in-house by the Bank's software developers. It facilitated the Fund to update its accounts, automate the refund process and service the members and employers promptly. In addition, the diversification of the investment portfolio of the Fund was also continued during 1999, taking into account recent developments in the country's money and capital markets. The aim of the diversification programme was to raise the Fund's incomes to enable it to pay the highest possible rate of return to members, while ensuring the safety of the investments.

The following are the salient features of the new developments in the EPF under the modernisation program :-

## Automation of the Refund Recommendation Process

Ever since the Fund was set up, the refund recommendations (Letters of Determination) from the Commissioner-General of Labour have been received by the Bank in documentary form. This process was fully computerised in 1999, facilitating the Commissioner-General of Labour to send refund recommendations via electronic media directly to the computer system of the Fund in the Central Bank. This not only facilitated the processing of refunds, but also resulted in a significant reduction in the time taken to effect a refund.

## External Terminal Facilities at the Labour Department

A service terminal of the main computer system of the Fund was provided to the Department of Labour enabling the Commissioner-General of Labour to have access to the main database in the computer system to verify names, member numbers and contributions. This facility helped the Commissioner-General of Labour to advise members who applied for refunds of any discrepancy in names or numbers or contributions, so that applications for refunds could be corrected at the inception, thereby avoiding subsequent delays and inconvenience. Thus, a large number of refund recommendations that were earlier returned to the Commissioner-General of Labour on account of discrepancies could now be expeditiously dealt with in this manner. In addition, several outstation offices of the Department of Labour, viz., Kandy, Kegalle, Hatton, Ratnapura, Gampaha, Galle and Matara have also been provided with terminal facilities linking the outstation offices to the main computer system of the Fund. The Central Bank Regional Office at Anuradhapura has also been provided with this facility. This has permitted the members to verify their balances without having to call at the Central Bank in Colombo, and also enabled Labour Department officials to check on defaulting employers on line.

## Commencement of Issuing Half Yearly Member Statements

For the first time in the history of the Fund, arrangements were made to issue statements to members half yearly with a detailed breakdown of monthly contributions paid to their accounts. The statements pertaining to the first half of 1999 were issued in November 1999, and action is being taken to issue the statements for the second half before the end of April 2000. The new format of the statement which provides more up-to-date information to members is expected to serve as a self policing system to detect omission in paying contributions, since the monthly breakdown of the contributions reported in the statement will indicate any default in payment by employers.

## The Collection of Contributions through Electronic Media

Employers have been paying their EPF contributions since the establishment of the Fund in 1958 by filing with EPF a schedule containing the details of the members (*i.e.*, name, number, contribution etc.) with their payments. To input these data into the computer system, the EPF in turn, had to undertake laborious data entry work increasing costs and causing delays in issuing member statements. Hence, after studying the feasibility and developing the necessary software, EPF commenced in 1999, the collection of contributions from large employers with a computerised pay-roll through diskettes, in the first instance, and via e-mail, once the system became

established. In the programme, an option was also given to employers to make payments through the Sri Lanka Interbank Payments System, thereby obviating the necessity for making payments by cheque. At end 1999, 70 employers, mainly BOI sponsored garment factories, had joined the new scheme. In the years to come, the programme will be expanded to cover all employers with computerised pay-rolls.

## Streamlining Investments

In order to streamline the investment process of the Fund, 12 fund management trainees were recruited to the Fund to be trained as fund managers with financial assistance from the World Bank. The objective of the training programme was to develop the in-house fund management capacity of the EPF, so that it could progressively diversify its portfolio into non-government sectors, and also acquire the capacity to monitor the performance of external fund managers, if the EPF chooses to engage the services of external fund managers to manage a part of its portfolio in the future.

## Investments in the Equity Market

The EPF also commenced investing in the equity market in 1998 as a part of its strategy to diversify its investment portfolio. These investments were continued during the year under review on a very modest scale, selecting only good stocks for investment. Table II-15 below presents the position of the equity investments as at the end of 1999, together with the return from them. Though the operation was very modest, the equity portfolio yielded a rate of return of 28 per cent during the year.

**TABLE II – 15**  
**EPF : Performance of Equity Portfolio during 1998 and 1999**

Item	1998 (24.04.1998 to 31.12.1998)	1999 (01.01.1999 to 31.12.1999)	Total Rs. Mn.
Average Portfolio	279	466	
Total Dividends	5	27	32
Total Capital Gains	5	15	20
Bonus Shares (at 31.12.99 value)	–	91	91
Total Dividends, Capital Gains & Bonus Shares	10	133	143

Source : Employees' Provident Fund

## Secondary Market Trading

The EPF was also actively engaged in the secondary market in Treasury bonds and Treasury bills. The secondary market operations enabled the EPF to enhance the, otherwise fixed, rate of return on Treasury bonds and Treasury bills. Table II-16 below gives the details of the secondary market operations of the EPF during the year under review.

Table II-17 presents salient features of the EPF during 1999 with comparable data for the previous year.

**TABLE II – 15**  
**EPF : Secondary Market Activities**  
**during the year 1999**

Item	Volume	Capital Gain	Rs. Mn.
Treasury Bonds	9,514	115	
Treasury Bills	1,451	2	
Equity	427	15	
Total	11,392	131	

Source : Employees' Provident Fund

**TABLE II – 16**  
**EPF : The Salient Features**

Item	1998	1999 (a)
1. Total Number of Members (No.)		
Active	1,790,044	1,900,000
Non-Active	5,926,932	6,150,000
2. Value of the Portfolio (Rs. bn.)	161	186
3. Annual Contributions (Rs. mn.)	12,039	13,679
4. Investment Income (Rs. mn.)	20,690	22,596
5. Average rate of return on the portfolio (%)	13.89	13.12
6. Normal interest rate declared on member balances (%)	12.25	11.50
7. Effective interest rate declared on member balances (%)	12.46	11.72
8. Real effective interest rate declared on member balances (%)	3.06	7.02
9. Income Tax Paid (Rs. mn.)	2,080	2,271
10. No. of Refunds (No.)	68,928	99,386
11. Value of Refunds (Rs. mn.)	6,402	7,691
12. Administration Expenditure (EPF, Central Bank & EPF/Labour Dept.)	176	185
13. Administration Expenditure as a % of Investment Income (%)	0.8	0.8
14. Housing Loan Applications Despatched (No.)	7,005	8,000

\* Provisional

Source : Employees' Provident Fund

## Exchange Control

In 1999, the Exchange Control Department (ECD) took several policy measures for further liberalisation of exchange control, while intensifying the monitoring of foreign exchange transactions with a view to avoiding any exchange malpractices and abuses. The grant of general permission to all banks licensed under the Banking Act to extend rupee credit facilities to non-resident controlled companies other than companies approved under Section 17 of the Board of Investment Act (BOI Act), the withdrawal of the requirement of a minimum balance of US dollars 500 or its equivalent in any other foreign currency to maintain a Resident Foreign Currency Account, and the grant of permission to earn interest and repatriate such interest on blocked funds held by Sri Lankan emigrants and non-nationals were some measures taken for further

liberalisation of exchange control. The requirement to indicate the income tax file number in applications for purchase of foreign exchange in excess of US dollars 5,000 or its equivalent in other designated foreign currencies for travel abroad, and the introduction of a reporting system to monitor foreign exchange payments in respect of expenditure incurred abroad by Sri Lankan residents on Electronic Fund Transfer Cards (EFTCs), were some measures taken to intensify the monitoring scheme.

As in the previous year, the ECD continued its activities in the areas of certain capital transactions, foreign investments, blocked funds held by Sri Lankan emigrants and non-nationals, private foreign borrowings, monitoring of current international transactions, registering freight forwarders, granting and renewing of permits of Money Changers and of hoteliers, jewellery shops and others who are permitted to accept payment in foreign currency for goods and services provided to foreigners.

### (1) Capital Transactions

#### a. Rupee Lending to Non-resident Controlled Companies

In a bid to further liberalise access to rupee credit facilities to non-resident controlled companies, the Central Bank (with effect from 14 February 1999), granted general permission in terms of the provisions of the Exchange Control Act to all banks licensed under the Banking Act, to grant accommodation, including loans and advances, to Sri Lankan companies with a majority of non-resident shareholdings, other than such companies approved under Section 17 of the BOI Act. Requests of non-resident controlled companies approved under Section 17 of the BOI Act for rupee credit facilities were considered by the ECD on a case-by-case basis.

#### b. Borrowings from Abroad by Resident Companies

The ECD continued to consider applications by companies, other than companies approved under the Section 17 of the BOI Act and exempted from the provisions of the Exchange Control Act, to obtain foreign currency loans from abroad. During the year, three applications to borrow in foreign currency from sources abroad were approved.

#### c. Non-resident Investments in Sri Lanka

The ECD continued to grant permission, where appropriate, for capital transfers such as sale proceeds of shares in respect of investments made by non-residents in Sri Lanka, where such transfers did not fall within the terms of the general permission granted by the notice published in the Government Gazette No. 721/4 of 29 June, 1992.

#### d. Investments Abroad by Sri Lankan Residents

Capital transfers for investments in projects abroad by Sri Lankan residents were continued to be permitted by the ECD, on a case by case basis, with the approval of the Hon. Minister of Finance and Planning. During 1999, twelve applications for

investments in projects in several foreign countries were permitted. The total value of these investments was US dollars 24.4 million.

#### **e. Blocked Funds Held by Sri Lankan Emigrants and Foreign Nationals**

Funds realised from the sale of capital assets belonging to Sri Lankan emigrants and non-nationals were continued to be kept in blocked accounts and the release of such funds were permitted through commercial banks up to Rs. 750,000 per person, subject to a ceiling of Rs.1 million per family. During the year 1999 ECD permitted capital transfers in a sum of Rs.48 million from blocked funds on the basis of 86 applications for such transfers. In 1999, the commercial banks were permitted to pay interest in respect of blocked funds in accounts maintained with them, and to remit the accrued interest to the account holders.

### **(2) Registration of Freight Forwarders and Issue of Permits for Foreign Exchange Transaction**

ECD continued to register freight forwarders, issue/renew permits to Money Changers, issue/renew permits to establishments such as hotels, duty free shops, travel agents, to accept payment in foreign currency for goods sold or services provided by them to tourists. The activities of freight forwarders and the foreign exchange transactions carried out by establishments to which permits were issued were monitored by ECD as in the previous years.

#### **a. Authority for Travel Agents to issue Travellers' Cheques**

During the year no new permits were issued to travel agents to issue travellers cheques to residents of Sri Lanka who travel abroad. Hence, the number of travel agencies permitted to issue travellers cheques remained at 6.

#### **b. Appointment of Money Changers**

The criteria for appointing Money Changers were revised during the year under review. Accordingly, only the companies incorporated in Sri Lanka with at least an issued and paid-up capital of Rs.1 million with a good track record qualified to be considered for appointment as Money Changers. At the end of 1999, there were 30 approved Money Changers.

### **(3) Monitoring**

With the liberalisation of exchange control, Authorised Dealers (ADD) and approved Travel Agents were permitted to release foreign exchange without restriction for current transactions, exercising their judgement and discretion and after satisfying themselves with the *bona-fides* of the requests.

All ADD and approved travel agents are required to report to ECD foreign exchange releases, on a regular basis, to enable ECD to monitor the transactions. In the absence of a specific

procedure laid-down with regard to Electronic Fund Transfer Cards (EFTCs), the ADD had not reported to ECD, the releases of foreign exchange in respect of payments made abroad by residents of Sri Lanka through EFTCs. Therefore, in order to monitor such transactions, the ECD introduced a reporting system, similar to the reporting procedure which was in operation in respect of releases of foreign exchange in the form of foreign currency, travellers' cheques etc. for travel abroad. Accordingly, ADD were required with effect from 17 December 1999 to report to ECD all issues of EFTCs to Sri Lankan residents for use abroad. ADD were also required to furnish a monthly report on expenditure in foreign exchange incurred abroad by each cardholder in excess of US dollars 5,000 or its equivalent in any other foreign currency per month.

ECD continued to monitor payments made in advance for imports in order to ensure the receipt of goods and services in the country against such advance payments. Credits and debits made in rupee current 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 by ECD.

### **(4) Investigations**

The ECD conducted several investigations into violations of provisions of the Exchange Control Act by some resident and non-resident companies as well as individuals. Penalties were imposed where offences had been committed, and the total amount of such penalties imposed during the year amounted to Rs.28 million. Several major investigations which were carried out in 1999 have not been concluded as yet.

### **Public Debt**

In terms of Section 113 of the Monetary Law Act, the Central Bank is entrusted with the issuance, management and servicing of domestic debt and the servicing of foreign debt of the Government of Sri Lanka (GOSL). These activities are handled by the Public Debt Department (PDD) of the Central Bank. In discharging its responsibilities, the PDD continued to issue domestic debt instruments, namely Rupee loans, Treasury bills and Treasury bonds in 1999. In addition to the issuance and servicing of public debt, the PDD handles the activities relating to issuance and servicing of Central Bank securities (CBSs), a monetary policy instrument. However, there were no CBSs issued in 1999. The PDD also handled the 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).

### **Development Activities**

During 1999, the PDD took several steps to further develop the domestic debt securities market. Regular meetings were held

with Primary Dealers (PDs) with a view to maintaining a continuous rapport between the Central Bank and PDs on current developments in the debt securities market.

The electronic bidding system, which was introduced on a trial basis in June, 1998, commenced operations in May 1999. The releasing of results of primary Treasury bill auctions was also done through this system.

Arrangements were made to introduce a semi-scripless system with a view to activating the secondary market for government debt securities. Software for this system was developed by the Department of Information Technology of the Bank. The system would facilitate transactions such as outright sales and purchases, repos and reverse repos and lending and borrowing of securities. The Central Depository System (CDS) which will be installed at the PDD will operate on-line with the settlement system of the Banking Department. Test runs of the system using dummy portfolios commenced in November 1999 to test the software. Operating instructions on the semi-scripless Depository and Trade Recording System were prepared and circulated by the PDD among PDs during the year. Further, the PDD jointly with PDs took initial steps to introduce an Electronic Front-end Trading (Screen Broker) System for PDs.

During the year under review, the PDD engaged in developing the modalities to improve the primary issue and trading of debt instruments in the secondary market. One such activity relates to issue of Treasury bills, effective from October 1999, on a day count basis in conformity with international practice. Accordingly, an actual/364 days basis for Treasury bills was adopted both in the primary and the secondary markets. The issue of Treasury bills on this basis commenced with maturities of 91 days, 182 days and 364 days in place of 3 month, 6 month and 12 month maturities hitherto issued. In order to adopt this uniform practice in the market, PDs were expected to comply with the new day count basis (actual/364 days) in their secondary market transactions relating to Treasury bills as well. Treasury bills which had been issued in the past, will remain in the market with 3, 6 and 12 months maturities until maturity. The procedures for calculating yield rates etc. in the primary market were amended accordingly.

The database on the activities of the government debt market continued to be updated and maintained. Data were analysed and published by the PDD for the information of the public. In order to improve public awareness of government debt securities, information was released regularly to the market in the form of press releases through both print and electronic media. The data were also used to compute indicators on performance of PDs as well as market activities. This information, among other things, enabled the PDs to ascertain their positions in relation to total market activities. The database has also been used to prepare the Annual Review of Performance of PDs since 1995.

As a part of the public and investor awareness programme, the PDD jointly with the three Regional Offices of the Bank,

organised workshops on government debt securities during 1999. Further, two half day work-shops were conducted by the PDD in collaboration with the USAID for the PDs and institutional investors.

The PDD obtained the services of a foreign consultant who conducted several training sessions for the Bank staff, PDs and institutional investors, during 1999. Further, initial steps were taken by the PDD to obtain a consultancy service with World Bank assistance to design a framework and system for PD surveillance.

In order to improve the Central Bank's open market operations and domestic debt management, the Monetary Operations Unit (MOU) was replaced by three committees, namely the Liquidity Assessment Committee (LAC), the Open Market Operations Committee (OMOC) and the Domestic Debt Management Committee (DDMC). These were established in November 1999. The DDMC, chaired by the Superintendent of Public Debt, was assigned the responsibility of making recommendations on issues relating to the management of domestic public debt. This Committee met once a week to review the Treasury cash flow with a view to ascertaining the borrowing requirements and determining the volume, composition and the maturity structure of the issues of domestic public debt securities.

With the objective of further developing the government debt securities market, it was decided, in principle, that separate legal entities be set up to undertake PD activities, and that these entities should have an initial capital of Rs.150 million. Accordingly, 14 PDs consisting of 7 commercial banks and 7 non-bank financial institutions agreed to form separate legal entities with dedicated capital. Regulations to be promulgated by the Hon. Minister Finance and Planning in terms of the Registered Stock and Securities Ordinance and the Local Treasury Bill Ordinance were drafted and guidelines to be issued under these Regulations and criteria for appointment of PDs were formulated during the year. The number of PDs remained unchanged at 18 at end 1999, and there was also no change in the composition of PDs which comprised 11 commercial banks and 7 non commercial bank financial institutions.

With a view to making government debt securities more market oriented, a significant proportion of debt was issued in the form of Treasury bonds during 1999. A marketable, coupon bearing, medium to long-term sovereign debt instrument, in the form of Treasury bonds, was first introduced in March, 1997. While Treasury bonds with maturities ranging from two years to six years were issued in 1999, it is significant to note that Treasury bonds with five and six year maturities were issued for the first time in 1999. The issue of Treasury bonds with longer maturities is expected to bring about greater stability to the long-term debt securities market.

Within a short period of time since the first issue in 1997, Treasury bonds have become a popular debt security among dealers for investment and a flexible instrument for trading in

the secondary market. The market determined yield rates of Treasury bonds, both in the primary and secondary markets, have enabled the establishment of a long term yield curve, thus providing bench mark yield rates for corporate debt securities.

## Operational Activities

The total outstanding gross public debt serviced by the PDD at end 1999 amounted to Rs.1,004,822 million. This indicated an increase of Rs.117,271 million or 13.2 per cent as compared with 1998. The public debt outstanding as at end 1999 consisted of Rs.491,937 million (49 per cent) of domestic debt and Rs.512,885 million (51 per cent) of foreign debt. The domestic component of public debt increased by Rs.72,437 million (17.3 percent) whilst foreign debt rose by Rs.44,834 million (9.6 per cent) over the level at end 1998. Table II-18 shows the composition of public debt serviced by the PDD.

**TABLE II – 18**  
**Composition of Public Debt**

Category	At end 1998		At end 1999	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	419,500	47.3	491,937	49.0
Treasury Bills	119,996		124,996	
Rupee Loans	250,570		262,056	
Treasury Bonds	48,915		104,867	
Treasury Certificates of Deposit	12		11	
Tax Reserve Certificates	7		7	
Foreign Debt	468,051	52.7	512,885*	51.0
Total	887,551	100.0	1,004,822	100.0

\* Provisional

Source : Central Bank of Sri Lanka

## Domestic Debt

### Primary Market

#### Treasury Bills

Total Treasury bills outstanding at end 1999 was Rs.124,996 million as compared with Rs.119,996 million at end 1998. This increase was due to new issues of Rs.5,000 million of Treasury bills to the Central Bank during 1999. The authorised limit of Treasury bills remained unchanged at Rs.125,000 million during the year.

The Monetary Operations Unit (MOU) serviced by the Public Debt, Banking and Economic Research Departments, which functioned till end of November 1999, continued to make recommendations on the amounts of Treasury bills to be offered in the weekly primary auctions, their maturity distribution and any advance reservation of Treasury bills to the Central Bank and the maturity structure of Treasury bills purchased by the Central Bank at primary auctions. It also formulated the Rupee loan and Treasury bond programmes on a monthly basis and made recommendations to the Monetary Board. Since December 1999 the functions of the MOU have been performed by the newly formed Domestic Debt Management Committee (DDMC).

Access to primary auctions of Treasury bills was confined to the PDs with the exception of funds managed by the Central Bank who were allowed to purchase Treasury bills at the weighted average yield rate. Total sales of Treasury bills at primary auctions amounted to Rs.214,290 million during 1999. The commercial bank PDs, (the largest single category of buyers of Treasury bills at the primary market) purchased Rs.134,745 million or 62.9 per cent of total sales, followed by non-bank PDs who purchased 14 per cent. In 1999, the Central Bank managed funds accounted for 4.6 per cent of the bids accepted at primary auctions. The total amount of Treasury bills purchased by the Central Bank during the year amounted to Rs.39,725 million or 18.5 per cent of the total. Table II-19

**TABLE II – 19**  
**Bids Accepted at Treasury Bill Auctions by Source – 1999**

Source	Maturity period (months)				Total	%
	3	6	12	Other		
1. Domestic Commercial Banks	58,995	26,739	39,337	–	125,071	58.4
State Banks	46,980	19,317	22,314	–	88,611	41.4
Private Banks	12,015	7,422	17,023	–	36,460	17.0
2. Foreign Banks	5,577	1,220	2,877	–	9,674	4.5
3. Non-Banks (a)	8,344	6,249	15,305	–	29,898	14.0
4. Institutional Investors (b)	4,193	1,753	3,976	–	9,922	4.6
5. Central Bank Purchases	–	–	–	39,725	39,725	18.5
Total	77,109	35,961	61,495	39,725	214,290	100.0

(a) Includes NSB

(b) Funds managed by the CBSL

Source : Central Bank of Sri Lanka.

shows the source wise distribution of bids accepted at primary auctions in 1999.

Of the total bids received amounting to Rs.274,953 million, commercial bank PDs, non-bank PDs and non competitive bids by Central Bank managed funds accounted for 78.5 per cent, 17.9 per cent and 3.6 per cent, respectively.

Of the Treasury bills outstanding as at end 1999, 12 month maturities (364 day) constituted Rs.61,495 million (49 per cent), while 6 month maturities (182 day) amounted to Rs.16,794 million (14 per cent). Of the balance 37 per cent or Rs.46,707 million, 12 per cent consisted of three month (91 day) maturities and 25 per cent consisted of other maturities. The number of scrips of Treasury bills issued during 1999 was 78,806 for all maturities.

The weighted average (w.a.) yield rates for 3 month (91 day), 6 month (182 day) and 12 month (364 day) Treasury bills issued during the year fluctuated between the ranges of 11.28 - 11.96, 11.79 - 12.29 and 12.29 - 12.77 per cent, respectively. The annualised w.a. yield rates of Treasury bills by maturity are given in Table II-20. Total interest commitment on account of Treasury bills issued during 1999 was Rs.13,085 million, when compared with that of Rs.12,398 million during the previous year.

The minimum and maximum w.a. yield rates of bids received during the year 1999 were 11.18 and 12.00 per cent for 3 month (91 day) maturities, 11.60 and 12.36 per cent for 6 month (182 day) maturities and 11.55 and 12.87 per cent for 12 month (364 day) maturities.

**TABLE II – 20**  
**Annualised Weighted Average Yield Rates of Treasury Bills**

per cent per annum

Year	Maturity Period (Months) (a)			Overall
	3	6	12	
1995	16.31	17.43	17.63	16.84
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

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

### Rupee Loans

A total of 15 Rupee loans amounting to Rs.22,986 million was floated during 1999. The Employees' Provident Fund (EPF), the Employees' Trust Fund (ETF) and the National Savings Bank (NSB) continued to be the major subscribers to the Rupee Loan programme in 1999, and these three institutions subscribed Rs.21,934 million accounting for 95.4 per cent of total subscriptions in 1999.

Loans issued during 1999 carried interest rates of 12.00 per cent per annum, 12.25 per cent per annum and 12.50 per cent per annum for maturities of 2, 7-8 and 9-10 years, respectively. Three of these loans were floated with a fixed maturity of 2 years and of the balance 7 loans were floated with optional maturity periods of 7-8 years, and the other 5 loans were with optional maturity of 9-10 years. Information relating to floatation and repayment of Rupee loans in 1999 is summarised in Table II-21.

**TABLE II – 21**  
**Flotation and Repayment of Rupee Loans – 1999**

Interest Rate (% p.a.)	Maturity (Years)	No. of Loans	Amount (Rs. Mn.)
<b>Floated</b>			
12.00	2	3	7,486
12.25	7-8	7	8,500
12.50	9-10	5	7,000
Total		15	22,986
<b>Repaid</b>			
14.00	5	1	3,000
14.00	2	1	3,000
13.10	2	1	2,500
15.00	5	1	3,000
Total		4	11,500

Source : Central Bank of Sri Lanka

A total of 4 loans amounting to Rs.11,500 million were repaid during 1999. Accordingly, net subscriptions to Rupee loans amounting to Rs.11,486 million resulted in an increase in the outstanding stock on account of Rupee loans from Rs.250,570 million at end 1998 to Rs.262,056 million at end 1999. The maturity profile of outstanding Rupee loans is presented in Table II-22.

**TABLE II – 22**  
**Maturity Profile of Rupee Loans (at end 1999)**

Maturity (Years)	Amount (Rs. Mn.)	Percentage
2	7,485	2.9
3	15,000	5.7
4	5,000	1.9
5	10,000	3.8
6	5,500	2.1
10	5,980	2.3
30	24,088	9.2
5-Apr	5,500	2.1
6-Apr	10,317	3.9
8-Apr	3,500	1.3
6-May	20,878	8.0
7-May	53,715	20.5
7-Jun	38,800	14.8
8-Jun	1,000	0.4
8-Jul	26,400	10.1
10-Aug	1,000	0.4
10-Sep	8,500	3.2
10-Jan	19,393	7.4
Total	262,056	100.0

Source : Central Bank of Sri Lanka

Total interest payments at Rs.32,803 million on account of Rupee loans during 1999 showed a marginal decrease of Rs.283 million (0.9 per cent) compared with Rs.33,086 million recorded in the previous year.

### Treasury Bonds

In 1999, Rs.63,452 million of Treasury bonds were issued. These had maturities of 2 - 6 years. During the year, 62 auctions comprising 13 auctions of 2 year maturity, 23 auctions of 3 year maturity, 18 auctions of 4 year maturity, 7 auctions of 5 year maturity and one auction of 6 year maturity were held. The distribution of Treasury bonds issued by maturity is given in Table II-23.

**TABLE II – 23**  
**Treasury Bonds Issued – by Maturity**

Maturity Period (Years)	Amount (Rs. Mn.)	Percentage
2	11,100	17.5
3	26,448	41.7
4	18,904	29.8
5	6,000	9.4
6	1,000	1.6
<b>Total</b>	<b>63,452</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

The coupon rate was announced by the Central Bank prior to each auction. The coupon rates of 2 - 6 year maturities were at the range of 11.00 - 12.00 per cent per annum. All auctions held during 1999 were over-subscribed with bids received amounting to Rs.151,942 million. The non competitive bids received from Central Bank managed funds (Rs.1,600 million in total) were given weighted average yield rates of competitive

bids. Table II-24 presents selected information pertaining to the primary issues of Treasury bonds during 1999.

Interest payments were made bi-annually on surrender of coupons to the PDD by the Treasury bond holders through PDs. Total interest payments on account of Treasury bonds amounted to Rs.7,487 million in 1999, as compared with Rs.2,108 million in the previous year.

Two year Treasury bonds issued during 1997 amounting to Rs.7,500 million, which matured in 1999, were repaid during the year.

The number of Treasury bond scrips issued during 1999 was 5,615. This included 1,281 of 2 year maturity, 2,438 of 3 year maturity, 1,347 of 4 year maturity, 503 of 5 year maturity and 46 of 6 year maturity. The total number of coupons received by the PDD for bi-annual coupon interest payments was 13,747, while the total number of Treasury bond certificates received for repayments during the year was 387.

### Treasury Certificates of Deposit

There were no Treasury Certificates of Deposit (TCDs) issues during 1999. Total payments in respect of TCDs during 1999 amounted to Rs.1.8 million, of which Rs.1.5 million was in respect of capital repayments and Rs.0.3 million on account of interest payments. The TCDs outstanding at end 1999 amounted to Rs.10.6 million.

### Other Domestic Debt Instruments

There were no new issues or repayments in respect of debentures of State Mortgage and Investment Bank (SMIB), the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA) during the year. The amount outstanding of SMIB, NHDA and UDA debentures remained unchanged at Rs.500 million, Rs.109 million and Rs.83 million, respectively, at end 1999.

**TABLE II – 24**  
**Selected Information on Treasury Bonds – 1999**

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.)
11.00%2001A	2	14,415	5,000	13.12-13.52	11.00
11.00%2001B	2	7,655	3,000	12.75-13.17	11.00
11.00%2001C	2	7,516	2,000	12.75-13.15	11.00
11.00%2001D	2	2,885	1,100	12.89-12.97	11.00
11.25%2002A	3	10,157	6,000	13.02-13.43	11.25
11.25%2002B	3	11,841	5,000	13.38-13.77	11.25
11.25%2002C	3	7,708	5,000	13.56-13.80	11.25
11.25%2002D	3	9,338	3,500	13.54-13.97	11.25
11.25%2002E	3	13,554	5,000	12.94-13.41	11.25
11.25%2002F	3	6,672	1,948	12.95-13.39	11.25
11.50%2003A	4	9,751	5,500	13.36-13.53	11.50
11.50%2003B	4	7,530	4,000	13.55-13.79	11.50
11.50%2003C	4	6,201	4,000	13.85-14.06	11.50
11.50%2003D	4	6,420	2,500	13.68-13.71	11.50
11.50%2003E	4	14,111	2,904	13.32-13.74	11.50
11.75%2004A	5	6,815	4,000	13.97-14.03	11.75
11.75%2004B	5	6,632	2,000	13.45-13.75	11.75
12.00%2005A	6	2,741	1,000	13.94	12.00
		151,942	63,452		

Source : Central Bank of Sri Lanka

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 1999.

### Secondary Market

The secondary market for Treasury bills and Treasury bonds expanded considerably during 1999. A substantial amount of outright and repurchase and reverse repurchase transactions on Treasury bills and Treasury bonds took place among the PDs and between PDs and their customers. During 1999, the total volume of outright sales and purchases of Treasury bills by the PDs amounted to Rs.128 billion and Rs.23 billion respectively, while the total volume of outright sales and purchases of Treasury bonds by the PDs amounted to Rs.59 billion and Rs.27 billion respectively. At the end of 1999, the total Treasury bills outstanding held by the PDs amounted to Rs.33 billion or 26 per cent of the total outstanding, while the total Treasury bonds outstanding held by PDs amounted to Rs.38 billion, or 36 per cent of the total outstanding. The total Treasury bills outstanding in the secondary market with the PDs, as at end 1999, in respect of repurchases and reverse repurchases amounted to Rs.20 billion and Rs.7 billion, respectively.

Buying and selling prices that were quoted by PDs in the secondary market for Treasury bonds were collected by PDD for publication for the information of the general public. On the basis of two-way prices quoted by the PDs, the weighted average prices and yield rates were computed by the PDD for this purpose on a daily basis.

### External Debt

The total external government debt outstanding as at end 1999 amounted to Rs.512,885 million, an increase of Rs.44,834 million (9.6 per cent) as compared with end 1998. Of the total outstanding debt at end 1999, bilateral loans amounted to Rs.266,872 million (52 per cent) while multilateral and commercial loans amounted to Rs.228,354 million (45 per cent) and Rs.17,659 million (3 per cent), respectively. Major creditors in the bilateral category were Japan, USA and Germany. These sources accounted for Rs.248,484 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.119,047 million or 52 per cent of the total multilateral debt.

When classified according to the use of funds, the project, programme and commodity loans amounted to Rs.393,814 million (77 per cent), Rs.48,029 million (9 per cent) and Rs.32,289 million (6 per cent), respectively. Table II-25 shows the composition of outstanding external government debt at end 1999 by donor category and use of funds.

The total principal repayments and the interest plus other charges on external government debt in 1999 were Rs.17,449 million and Rs.9,390 million, respectively.

Total disbursements during 1999 amounted to Rs.23,864 million consisting of Rs.13,560 million (57 per cent) from

**TABLE II – 25**  
**Gross External Debt Outstanding (at end 1999)**

Category	Amount (Rs. Mn.)	%
1. Donor	512,885	100
Bilateral	266,872	52
Multilateral	228,354	45
Commercial	17,659	3
2. Use of Funds	512,885	100
Cash	8,607	2
Commodity	32,289	6
Food	29,977	6
Programme	48,029	9
Project	393,814	77
Technical Assistance	169	-

Source : Central Bank of Sri Lanka

bilateral sources and Rs.10,237 million (43 per cent) from multilateral sources and Rs.67 million from commercial banks. The corresponding figures for the previous year were Rs.38,091 million of total disbursements consisting of Rs.16,925 million (44 per cent), Rs.14,437 million (38 per cent) and Rs.6,729 million (18 per cent) from bilateral, multilateral and commercial sources respectively. All disbursements in 1999 were received under project loans. Table II-26 shows the breakdown of disbursements by donor category and use of funds for 1998 and 1999.

**TABLE II – 26**  
**Foreign Loan Disbursements**

Category	1998		1999	
	Amount (Rs. Mn.)	%	Amount (Rs. Mn.)	%
1. Donor	38,091	100	23,864	100
Bilateral	16,925	44	13,560	57
Multilateral	14,437	38	10,237	43
Commercial	6,729(a)	18	67	-
2. Use of Funds	38,091	100	23,864	100
Cash	6,729(a)	18	-	-
Commodity	313	1	6	-
Food	641	2	-	-
Programme	-	-	-	-
Project	30,387	79	23,856	100
Technical Assistance	21	-	2	-

Source : Central Bank of Sri Lanka

(a) Represents FCBU Loan of US \$ 100 million.

During the year, 23 new foreign loans were contracted and the number of operative loans increased to 488 at the end of the year. These loans carried grace periods ranging from 1 to 17 years and repayment periods upto 40 years. Interest rates ranged from 0 to 10.85 per cent per annum. The grant element of the loans ranged between 1 and 91 per cent. Table II-27 shows the range of grace periods, maturity periods, interest rates and the grant element of the external government debt by donor category at end 1999.

**TABLE II – 27**  
**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	0 – 20	4.00 – 10.85	1 – 61

Source : Central Bank of Sri Lanka

## The Centre for Banking Studies

The Centre for Banking Studies (CBS) continued to offer training programmes for officials in the financial sector to equip them with necessary skills to meet the challenges arising from the changing environment. CBS also provided training programmes to public sector officials engaged in financial management. In 1999, CBS conducted 71 training programmes covering 2,328 training hours for 1,842 participants. About half of the participants, numbering 924, were from the Central Bank, while 29 per cent of participants were from commercial banks. The rest of the participants were drawn from the Regional Rural Development Banks and Regional Development Banks (6 per cent) and Ministries and other financial institutions (15 per cent). In the year 1999, several officials of Central Banks in the SAARC region also participated in CBS training programmes.

The focus of the training programmes in 1999 was on banking supervision and regulation to create sound financial systems and management. Accordingly, coverage of the training programmes was expanded to include Banking Supervision Techniques, Risk-based Supervision, Risk Management and Internal Controls. These topics were covered in a series of short-term training courses and seminars. In addition, several other training programmes were offered on new and re-oriented themes.

For the second successive year, CBS conducted its diploma courses on Central Banking and Commercial Banking. In 1999, there were 16 computer training courses designed to train mainly the Central Bank employees on the use of personal computers. These training courses included certificate courses in application software for new recruits to the Central Bank and special programmes for newly recruited trainee fund managers of the Employees' Provident Fund Department. CBS conducted fifteen skills development programmes, of which three were exclusively for the officers of the Currency Department of the Central Bank.

Specially designed programmes were offered primarily for the staff of the Regional Rural Development Banks and Regional Development Banks. These training programmes were on the subjects of Lending on Pledge of Jewellery, Project Appraisal, Identification and Rehabilitation of Sick Projects and

Accounting Procedures. Other training programmes which focused on the training needs of the financial sector in general, covered a wide range of subjects including Investment and Merchant Banking, Fund Management, Hire Purchase and Lease Financing, Effective Loan Management, Commercial Banking Operations and Practices, Forex Operations, Finance of International Trade, Government Debt Securities Market, Determinants and Structure of Interest Rate, Colombo Stock Market: Trends and Prospects, National Economic Management and Recent Developments in the Financial Sector.

In 1999, CBS conducted 16 special programmes. Of these, 7 were conducted by the Bank's consultants on training in Banking and Financial Services. The participants in these courses were officers of the Bank Supervision Dept. The remaining 9 programmes included seminars on Swaps and Derivatives, Taxation and Fiscal Policy, World Bank Procurement Rules, and Money Laundering as well as Orientation Programmes conducted for the new recruits to the Central Bank and the Ministry of Finance. In 1999, CBS also co-ordinated the SEACEN seminar on 'Systemic Financial Sector Restructuring and Macroeconomic Policy in the SEACEN Countries' hosted by the Central Bank in Colombo.

CBS also organised several commemoration lectures and public seminars/lectures in 1999. The commemoration lectures were designed to disseminate new ideas and to provide a forum for professionals and academics in the relevant fields to exchange views and share experiences on issues pertaining to economic and financial sector developments. Three commemoration lectures were conducted in 1999. They were the Republic Commemoration Lecture delivered by Desamanya N. U. Jayawardena on 'Central Banking as Catalyst of Economic Growth', the 49th Anniversary Lecture of the Central Bank delivered by Dr. Bimal Jalan, Governor, Reserve Bank of India on 'International Financial Architecture: Developing Countries' Perspective' and the CBS Anniversary Lecture delivered by Dr. Shankar Acharya, Chief Economic Advisor, Ministry of Finance, India.

A total of six public seminars/lectures were conducted in 1999. They were aimed at enhancing awareness among the general public on current economic policies and issues. A list of seminar topics and key speakers is given below :-

- i. 'Current Debate on International Financial Reforms' by Mr. M. R. Sivaraman, Executive Director, International Monetary Fund.
- ii. 'Information and Knowledge Dynamics in the Next Century: Economy, Technology and Society' by Dr. Susantha Goonatilake.
- iii. 'The New Global Economy and Developing Countries: Making Openness Work' by Prof. Dani Rodrik of Harvard University.
- iv. 'Fiscal Devolution Experiences' by Dr. Ashok Lahiri of the Institute of Public Finance and Policy, India.
- v. 'State of the Economy in 1998 and Prospects for 1999: Highlights of the Central Bank Annual Report'

**TABLE II – 28**  
**Training Programmes conducted by CBS in 1998 and 1999**

	1998				1999			
	No. of Programmes	No. of Central Bank Trainees	No. of Other Trainees	Total No. of Trainees	No. of Programmes	No. of Central Bank Trainees	No. of Other Trainees	Total No. of Trainees
Information Technology and Computer Training	12	111	48	159	16	186	39	225
Commercial Banking	13	30	291	321	12	37	279	316
Merchant and Investment Banking	1	4	19	23	1	5	22	27
Financial and Capital Markets	4	21	62	83	3	22	43	65
Central Banking	5	28	83	111	4	18	87	105
Banking Supervision and Regulation	–	–	–	–	4	105	130	235
Financial Sector:								
Skill Development	8	164	98	262	15	411	5	416
Basic Level	3	58	98	156	10	307	2	309
Middle Level	4	66	–	66	4	59	3	62
Senior Level	1	40	–	40	1	45	–	45
Other Programmes	11	38	160	198	–	–	–	–
Rural Banking	3	–	67	67	–	–	–	–
Management	5	19	69	88	–	–	–	–
Other	3	19	24	43	–	–	–	–
Special Programmes	11	176	87	263	16	140	313	453
In-house Bank Supervision								
Dept. training by Consultants	10	172	51	223	7	68	–	68
International Programmes	–	–	–	–	1	5	14	19
Other	1	4	36	40	8	67	299	366
<b>TOTAL</b>	<b>65</b>	<b>572</b>	<b>848</b>	<b>1,420</b>	<b>71</b>	<b>924</b>	<b>918</b>	<b>1,842</b>

Source : CBS, Central Bank of Sri Lanka

by Mr. R. A. Jayatissa, Director, Economic Research Department, Central Bank of Sri Lanka.

vi. 'The Role of Finance in Reducing World Poverty and Increasing World Welfare' by Prof. R. L. Marris, formerly of Cambridge University, U.K.

A classification of training courses conducted by CBS and the number of persons trained during the years 1998 and 1999 are given in Table II-28.

The Self Access Centre (SAC) of CBS continued to offer its facilities to Central Bank employees to improve their knowledge of English. To supplement these facilities, classes were also held on oral communication and writing reports. The CBS Library continued to provide its services to Central Bank staff, trainees and researchers from other institutions. The library added 325 new books to its collection and subscribed to 52 periodicals.

## Secretariat

The administrative services to the Bank in the areas of finance, supplies and travel etc. were provided by the Bank's Secretariat Department.

In 1999, a system of self-monitoring of departmental expenditure was introduced by issuing guidelines to the departments of the Bank, in addition to the control of expenditure through the Bank's budget. The budget ensures

strict financial controls over expenditure within the framework of the corporate plan of the Bank. Expenditure of the Bank is monitored in relation to the budget in order to achieve efficient use of funds and cost effectiveness.

The preparation of the income and expenditure budget for capital and administrative expenditure is co-ordinated by the Secretariat Department and is based on information furnished by the Bank's departments with regard to expenditure to be incurred by each department during the year. The requests of the departments are reviewed by a Budget Review Committee consisting of senior officers of the Bank before the budget is finalised and the approval of the Monetary Board is obtained for it. Any expenditure that may arise during the course of the year for which no provision is made in the budget could be incurred only with the specific approval of the Monetary Board.

The total administrative expenditure in 1999 amounted to Rs.1,567 million, and notes and coin issue expenses were Rs.772 million. Of the total administrative expenditure, the personnel cost, which includes salaries, allowances, overtime payments and medical benefits, amounted to Rs.1,203 million or 76.8 per cent, while the administrative and the establishment costs amounted to Rs.170 million or 10.8 percent and Rs.194 million or 12.4 per cent, respectively.

The total staff strength of the Bank as end of 1999 was 2026, which included 546 Staff Officers. There were 60 retirees from the Bank service during the year.

Capital expenditure in 1999 was Rs.2,909 million compared with. Rs.1,622 million in 1998. The bulk of the expenditure, amounting to Rs.2,872 million, was for construction of the New Extension Building and the rehabilitation of the Old Building at Janadhipathi Mawatha. The amounts spent on the New and the Old Buildings were Rs.1,275 million and Rs 1,597 million respectively. The Bank met the cost of these building projects out of funds in the Bank's Building Reserve account which had been fed with funds over a period of time by transferring a part of the Bank's annual profit to that account at the time profits were appropriated each year. The other major capital projects undertaken by the Bank were the installation of a new PABX system for the Bank and the establishment of a back up site for the Sri Lanka Automated Clearing House.

## Legal

The Legal Department, which earlier functioned as a division of the Secretariat Department, was established as a separate department on 15 April 2000.

The Department attends to the legal work of the Bank and advises the other Departments of the Bank on legal issues. It also attends to litigation in court and legal matters before other fora. In addition to such work of a routine nature, the Department was associated in 1999 in preparing preliminary drafts of legislation, including those relating to amendments to the Banking Act, No. 30 of 1988, the Monetary Law Act (Cap. 422) and fresh legislation in respect of finance leasing and prevention of money laundering.

## Premises

During the year 1999, the Premises Department continued the maintenance work and up-keeping of the premises taken on lease to accommodate the Bank's Head Office until the completion of the extension building and rehabilitation work of the Old Head Office building, and also the Central Bank's own premises. The maintenance and up-keep of the new extension building was also undertaken by the Premises Department in November/December 1999. In addition, the Department continued to provide support services, such as transport and communication facilities to the Bank.

In the second half of 1999, the department commenced modifications to the second hostel block at the Centre for Banking Studies. The Department also commenced conservation work on the Chatham Street Light House Clock Tower in the last quarter of 1999 in consultation with the Department of Archaeology and the Central Engineering Consultancy Bureau. The maintenance of the Clock Tower by the Bank eliminated a security risk the Bank may have had to face if outsiders were in charge of the work.

## New Buildings

The New Buildings Department which was established on 18 November 1997, is entrusted with the task of attending to work connected with the construction of the Central Bank Extension Building and the rehabilitation of the damaged old Headquarters building at Janadhipathi Mawatha, Colombo.

### Extension to the Central Bank Building

The construction work of the Extension to the Central Bank Building was substantially completed. All departments located in the World Trade Center moved into the Extension Building in November and December 1999.

The Extension Building comprises two main towers each containing fifteen floors (inclusive of basement and mezzanine floors). The building covers a total office and ancillary floor area of approximately 202,360 sq.ft. and is served by four passenger lifts and three other special purpose lifts. The offices in the building are linked to an integrated modern telecommunication system. The Centre for Banking Studies (CBS) and the Sri Lanka Automated Clearing House (SLACH) are also linked to this integrated system. A Money Museum will be established on the ground floor of the building.

### Rehabilitation of the Damaged Building

The rehabilitation work of the damaged Central Bank building, which commenced in December 1997 continued during 1999. The repaired building will be fully integrated with the extension building and will, among other things, have a modern conference hall.

At the end of 1999, the progress in respect of major areas of work were as follows :-

	Progress
Demolition	– 100% completed
Structural Repairs	– 100% completed
New Concrete Works	– 100% completed
Mechanical & Electrical	– 75% completed
Finishing Works	– 80% completed
Overall completion	– 80% completed

The rehabilitation work in the building is expected to be completed by the middle of 2000.

## Security Services

The Security Services Department provided security for all operations of the Bank, including special assignments such as shifting of offices to the new building and the transport of currency to Regional Offices and other locations where currency operations are carried out. On a regular basis, security officers were detailed for duty at various locations where the Bank's operations were carried out, including the Regional Offices at Anuradhapura and Matara.

In addition to the above, additional security measures were taken in liaison with government security and intelligence agencies. Further, a scheme was implemented to provide security for the transport of building materials and water to the construction site at Janadhipathi Mawatha.

## Information

The dissemination of information pertaining to matters of the Bank among the Bank's personnel and the public through the multi-media is the function of the Information Department of the Bank. The Information Department acts as a collector, store and disseminator of information.

In the dissemination of information within the Bank, an Internal Newsletter was published fortnightly throughout the year under review.

In the dissemination of information to the outside world, the department released, on a regular basis, the daily exchange rates, weekly and monthly economic indicators, consumer price indices, information on domestic debt instruments such as Treasury bills, Treasury bonds and Rupee loans, to the print and electronic media. The department was also responsible for the issue of press releases and for organising press conferences on matters of public interest and the issue of the Bank's Annual Report, Consumer Finance and Socio Economic Survey report, Sri Lanka Socio Economic Data, the Monthly Bulletin, Economic and Social Statistics, Satahana and the News Survey. The Department also produced 'Isuru Woman', a documentary video programme on 'Empowerment of Woman' under the Isuru Loan Project undertaken by the Rural Credit Department.

Other services provided by the Information Department includes printing of publications for the Bank and the Government at the Bank's printing press, and providing the services of a photographer and an artist.

The Information Department is also actively involved in the Bank's Heritage Project set up to collect items of historical interest pertaining to the Bank.

The Printing Press of the Central Bank continued to meet the bulk of the printing requirements of the Bank. In addition to the regular Central Bank publications such as the English version of the Annual Report, Satahana and News Survey, the Press undertook the printing of the publication 'Trends in Public Finance' for the Ministry of Finance and Planning. The printing of seven volumes of 'Laws Relating to Banking and Finance in Sri Lanka', which consolidated the laws governing the banking and financial sector, was also undertaken by the press.

## The Library

The Library which had to be rebuilt after its destruction in January 1996, moved into its permanent premises in the new Central Bank Headquarters Building in November 1999. Further, a project launched with assistance from the World Bank to create a new technologically sophisticated modern library and information facility so as to support the research and information requirements of the Central Bank staff as well

as to provide facilities for economic research in the country neared completion at the end of the year.

The library has built up a collection of 7,862 books, 385 periodical titles and over 131 CD ROMs as at December 1999.

The Library provides the following services:

- current articles – titles with abstracts
- web alert service
- current news on banking and finance around the world
- compilation of special bibliographies

The Library also provided reprographic services, reference services, lending services, internet searching to the Bank Staff and inter-library loan facilities.

During the year under review, the services of two consultants were obtained for the programmes on modernisation and capacity building of the Library. A software package named 'LIBSYS' was installed and the Library was connected to a Local Area Network and Library operations were automated.

## Information Technology

The main activities of the Bank's Information Technology Department during the year under review involved the development of required infrastructure for making the day to day operations of the Central Bank more efficient using computer technology, and the monitoring of the Y2K compliance programme of commercial banks, specialised banks and the Central Bank.

The Department continued to develop several AS/400 and personal computer based systems. An on-line real time current account system developed for the Banking Department was made fully operational in January 1999. This system is a prerequisite for the introduction of an Electronic Funds Transfer system for developing the government debt securities market. A monitoring system for the release of foreign exchange was also developed for the Exchange Control Department.

A system was developed and implemented to collect provident fund contributions from employers through the electronic media, where the EPF Department creates a direct debit on information provided by them and using the SLIPS (Sri Lanka Inter-bank Payment System) at the SLACH, debits the employer's account at a bank and credits the proceeds to the employees' accounts at the EPF Department. This is the first time the direct debit facility of the SLIPS has been used and it is expected to improve the efficiency and accuracy of collecting funds and crediting contributions to member accounts.

A computer system was implemented at the Labour Department to process refund applications and trigger necessary action to make payments to the beneficiary. This uses telecommunication lines for data transfer between the Labour Department and the EPF Department. The process of mid-year printing of statements was also implemented for the first time.

## **Y2K Project**

The Y2K compliance project of the Central Bank involved the testing of all AS/400 and PC based computer systems. Some PC based systems were made Y2K compliant by effecting the necessary modifications.

The Department was also responsible for the development of departmental contingency plans and, at a macro level, an overall plan for the Central Bank. This contingency plan can be made use of in the event the main site becomes inaccessible.

Further, the Department together with the Bank Supervision Department monitored Y2K related activities of all commercial and specialised banks to ensure adequate preparations for the year 2000 rollover.

A workshop for 60 officers of all banks was organised to develop standard procedures for Y2K testing, based on Bank of England guidelines. A further workshop was organised for 40 bank officers for contingency planning. The World Bank funded these two workshops for which resource personnel were obtained from a consultancy firm in Ireland. Further, with financial assistance from the World Bank, the services of two reputed international audit firms were obtained to audit the Y2K projects of domestic and specialised banks and the Central Bank and to report periodically on the project status. The Information Technology Department also prepared a contingency plan for the banking sector. An Event Management Centre, for monitoring the rollover to year 2000 of local banks and related events was also established in the Department. The Centre was manned by personnel from the Bank Supervision Department and the Information Technology Department.

## **Sri Lanka Automated Clearing House (SLACH)**

During the year under review, the volume of cheques processed by SLACH was 32,764,350 with a daily average of 134,833, which is an increase of 1,407,810 from 1998. Despite the increase in cheque volumes, SLACH has been able to process them without increasing staff, thereby minimising operational costs.

The Sri Lanka Interbank Payment System (SLIPS) has seen a significant increase of 68 per cent in the transactions processed. Furthermore, the direct debit system, which authorises the debiting of one's funds up to a limit and crediting to a beneficiary account through the SLIPS system was introduced, and is used by EPF for collecting contributions from employers.

In October 1999, in view of the crucial nature of its operations, the SLACH set up a second site to ensure the continuity of operations in the event of a disruption at the main site.

The SLACH achieved Year 2000 compliance and helped the banking sector rollover to Year 2000 successfully.

## **Management Audit**

In accordance with the annual audit programme of the Bank, the Management Audit Department carried out its internal audit and management service functions during 1999 with the objective of increasing the efficiency, economy and effectiveness in the performance of the Central Bank.

During the year, the Department audited about 85 million unserviceable and damaged currency notes of various denominations prior to their destruction. The destruction processes of shredding and burning of unserviceable currency notes were supervised in order to ensure that they were properly carried out.

The Department also carried out the annual verification of stocks of currency notes and coins held in the Central Bank vaults in Colombo and in the Regional Offices. The stock registers of currency were checked and certified by the audit officers after reconciling receipts and issues. In addition, the Department carried out surprise checks on 15 occasions at the public exchange counters of the Currency Department. The Department also supervised the destruction of the remaining waste material after the printing of currency notes by De La Rue Lanka Currency & Security Print (Pvt.) Ltd., and pre-audited the payments made to this Company for supply of currency notes. Operations of the Banking Department were also post audited with a view to ensuring accuracy of transactions and records.

In addition to auditing of all emoluments paid to Bank employees, the annual financial statements prepared by the Secretariat and Welfare Departments relating to the Pension Fund, Provident Fund, Widows' and Orphans' and Widowers' and Orphans' Pension Funds and other welfare schemes of the Central Bank were pre-audited. 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. Deficiencies in the statements were pointed out and rectified and procedural and policy issues that arose in these areas were attended to.

Audits were conducted on the computation of provident fund balances and pensions of Central Bank employees on termination of their employment, to ensure accuracy and recovery of all liabilities due to the Bank. All loans granted under the welfare schemes and records relating to concessionary travel facilities, medical benefit scheme and the activities of the Central Bank canteen were audited.

Further, all refunds made to the beneficiaries of the Employees' Provident Fund (EPF) were pre-audited and statements of annual accounts of the EPF were also audited.

All payments made under the New Extension Building and the Rehabilitation of the Head Office Building Projects of the Central Bank and the expenses incurred by the Secretariat and Premises Departments for purchase of goods and services and for maintenance of vehicles were also audited. Further, leave records of all employees of the Central Bank were also post-audited.

Stocks of gold and motor vehicles, as well as consumables at the Central Bank Press, were physically verified during the year under review.

The computer programme in the Public Debt Department (PDD) for receiving electronic bids for the weekly auction of Treasury Bills was examined and observations were conveyed regarding modifications that were required before the implementation of the scheme. Further, post-audit on the activities of the PDD were continued during the year.

The Management Services Division carried out a number of studies including the work study on the activities and staff deployment at the Regional Office, Matara, promotion of steno/typists to staff class and recruitment of steno/typists to the Central 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.

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, six (06) officers proceeded abroad to follow Masters' Degree programmes in Economics, and one officer followed a Doctoral programme in Economics at the University of Colombo. Also, another officer was sent to India to pursue a postgraduate Diploma course in Statistics at the International Statistical Education Centre, Calcutta.

At the end of December 1999, the Central Bank had fifteen officers pursuing postgraduate studies in Universities abroad. Meanwhile, during the year eight (08) officers returned for work after successfully completing their postgraduate programmes abroad. Table II-29 contains information relating to employees who have been sent for Postgraduate Studies in 1998 and 1999.

**TABLE II – 29**  
**Training of Officers:**  
**Postgraduate Studies 1998/1999**

Year	No. of Officers Sent for Postgraduate Studies	No. of Officers who returned after Postgraduate Studies	No. of Officers pursuing Postgraduate Studies as at end year	
			Doctoral	Masters/Post-graduate Diploma
1998	06	09	04	12
1999	07	08	02	13

Bank officers were nominated for non-academic training too during the year under review. These comprised short-term courses, seminars and workshops conducted both locally and abroad in subject areas relevant to the Bank. During 1999, a

total of 127 officers participated in such short-term training programmes held abroad, while 573 officers participated in 48 programmes conducted by the CBS. The number of employees who have participated in such training programmes/seminars during 1999 with comparable data for 1998 are given in Table II-30.

**TABLE II – 30**  
**Training of Officers:**  
**Short-term Training Programs/Seminars**

Department	No. of Officers Trained			
	Foreign		Local (conducted by the CBS)	
	1998	1999	1998	1999
1. Banking	24	21	39	28
2. Economic Research	17	21	20	29
3. Bank Supervision	17	20	26	104
4. Information Technology	7	15	17	12
5. Secretariat	7	—	39	32
6. Employees' Provident Fund	3	5	13	11
7. Public Debt	2	8	20	23
8. Banking Development (a)	1	6	17	23
9. Rural Credit	—	6	12	24
10. Centre for Banking Studies	1	2	10	6
11. Currency	1	3	16	132
12. Development Finance	1	2	5	10
13. Establishments	1	2	15	12
14. Exchange Control	—	3	6	8
15. Financial Markets	1	1	3	2
16. Management Audit	1	2	4	8
17. Premises	—	1	5	8
18. Statistics	2	5	13	20
19. Supervision of Non-Bank Financial Institutions	2	3	16	37
20. Welfare	1	1	15	11
21. Training	1	—	1	4
22. Security Services	—	—	1	7
23. New Buildings	—	—	1	2
24. Legal	—	—	—	2
25. Information	—	—	8	18
Total		90	127	322
Cost of Training (Rs. Mn.)		25.1	24.1	1.5
(a) Regional Offices included				Source : Central Bank of Sri Lanka

## In-House Training

An in-house training programme on Swaps & Derivatives was organised by the Department. It was conducted by the New York Institute of Finance (NYIF) at the Centre for Banking Studies (CBS) from 9 – 13 August, 1999. This programme was partly funded by the World Bank. Twenty one officers of the Bank and four officers from the Ministry of Finance participated in the programme.

## Training/Local (Other Institutions)

A total of 178 officers attended short-term Seminars/ workshops/Courses conducted by institutions such as CIMA, NIBM, CINTEC, Employers' Federation etc.

Table II-31 provides a breakdown of participation in these programmes on a department-wise basis, together with the relevant fields of training.

## Other Activities:

### (a) Seminars:

During the year 1999, the Training Department conducted six Seminars/Presentations by trainees who had attended Seminars/workshops abroad. These programmes were arranged in order to update the knowledge of officers of the Bank in the relevant subject areas. The titles of these Seminars/Presentations are indicated below:

- Payments systems
- Pension systems in Crisis: Challenges and Options
- Computer Networking for the Financial Sector: Lessons to be Learnt from Singapore
- Government Debt Management
- World Trade Organisation & Its Impact on Sri Lanka

There were also two presentations made by guest speakers:

- World Bank Programme on Distance Learning – Michael Foley (Manager, Distance Learning Unit, World Bank Institute)
- Financial Sector Reform and its Impact on Economic Growth – Dr. Aynul Hassan (Professor of Economics, Acadia University, Canada)

### (b) Select Readings:

A new series on Select Readings was put out by the Training Department during the year under review with latest articles on selected subjects. Under this series the Department issued four numbers incorporating the following articles.

- Systemic Aspects of Recent Turbulence in Mature Markets – Gerry Schinasi (IMF)
- Challenges of Predicting Economic Crises – Sunil Sharma (IMF)
- The Relative Importance of Political and Economic Variables in Creditworthiness Ratings – Nadeem UL Haque, et al (IMF)
- Responding to Economic Crises: Policy Alternatives for Equitable Recovery and Development – Joseph Stiglitz (World Bank)

### (c) Classes for Postgraduate Students:

The Department continued to conduct classes in Economics and Mathematics for the benefit of the officers intending to pursue postgraduate studies abroad. Thirty officers attended these classes which were conducted by officers of the Bank with postgraduate qualifications.

### (d) Familiarisation Programmes:

During the year under review, the Department arranged with the Sri Lanka Automated Clearing House (SLACH) to send officers of the Bank for a familiarisation programme at the SLACH. Fifty four (54) officers from various Departments took part in this programme.

The Training Department will continue to arrange similar programmes at other relevant institutions in the future for the benefit of Bank staff.

**TABLE II – 31**

**Participation in Training Programmes / Seminars / Workshops (Local) Conducted by Private Institutions – 1999**

Department	No. of Officers	Field of Training						
		HRD/ Management	Economic Development	Computer	Accounting & Auditing	Banking	Communication	Law
Banking/Development	3					3		
Banking	20		3	1	4	11	1	
Center for Banking Studies	2	1		1				
Bank Supervision	8	2	1			5		
Development Finance	1		1					
Management Audit	4			1	3			
Exchange Control	3		1			1		1
Employee's Provident Fund	4			1		2	1	
Economic Research	18	2	11	1		3		1
Establishments	14	12				2		
Financial Markets	2		1		1			
Information	5			2			3	
Information Technology	36			36				6
Legal	7			1				
New Buildings	3			1	2			
Public Debt	7	1			1	5		
Rural Credit	6		1			5		
Secretariat	20	8		1	8			3
Supervision of Non-Bank Financial Institutions	2	2						
Statistics	10	1	3			2	4	
Training	1	1						
Welfare	2			1	1			
<b>TOTAL</b>	<b>178</b>	<b>30</b>	<b>22</b>	<b>47</b>	<b>25</b>	<b>34</b>	<b>9</b>	<b>11</b>

## **Welfare**

The welfare facilities provided by the Bank to the staff are administered by the Welfare Department of the Bank. Medical facilities to the staff and their registered dependants and pensioners and their spouses, as well as to victims of the bomb explosion, continued to be provided. Several concessional loan schemes for housing, purchase of vehicles and other purposes were made available to employees. The size of the vehicle loan and the Staff Benefit Scheme (Category B) loan was increased during the year.

The subsidised Railway and Bus Season Ticket Scheme and the Railway Warrant Scheme continued as in the past. However, the provision of canteen facilities remained limited, as the departments of the Bank were located in several places. Canteen facilities were provided, as far as possible, having regard to the circumstances.

The Central Bank Medical Clinic continued to provide in-house medical facilities during working hours.

The computerisation of welfare administration continued with improved facilities in the accounting and payment system. This has improved the efficiency of the department and reduced the cost involved in welfare management.

## **Personnel**

The Establishments Department continued to perform its functions with regard to recruitments, appointments, promotions, retirements and other related matters during 1999 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 unhesitatingly the emerging needs and challenges".

During 1999, a Chief Librarian and two Assistant Librarians were appointed to the Bank service. The services of two Consultants were also secured to undertake specific assignments on the Central Bank Heritage Project and the Central Bank Currency Museum.

The Department organized a workshop for the Deputy Heads of Departments at the Centre for Banking Studies during 16 – 17 January 1999. The workshop highlighted the challenges and prospects for Year 2000 and beyond and matters relating to leading subordinates in organizations and the scientific approach to preparation of job descriptions and performance appraisal.

In October 1999 an Open Competitive Examination was conducted by the Post Graduate Institute of Management of Sri Jayawardenapura University to select suitable persons for appointment to Staff Class from among candidates who had applied in response to a press advertisement.

During the year, the Department continued with the evaluation of the performance of employees on the basis of the new performance evaluation scheme introduced in 1998 on trial basis.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 1999.

1. The World Economic Forum held in Davos, Switzerland from 28 January to 2 February 1999 and the G-15 Summit and Economic and Trade Ministers Meeting held in Montego Bay, Jamaica from 6 to 12 February 1999.
2. The IMF/World Bank Spring Meetings in Washington D.C. USA from 21 to 28 April 1999.
3. The 34th South East Asian Central Banks (SEACEN) Governors' Conference held in Seoul, South Korea from 20 to 22 May 1999.
4. The Commonwealth Symposium on Liberalisation of Financial Services in London, UK from 1-2 June 1999, the Commonwealth Central Bank Governors' Symposium held in London, UK on 4 June 1999 and the Annual Meeting of the Bank for International Settlements held in Basle, Switzerland from 5 to 7 June 1999.
5. The 1999 Annual Meetings of the Board of Governors of the IMF/World Bank Group held in Washington, D.C., USA from 23 to 30 September 1999.

## **Appointments**

1. Mr. C. K. Paranavithana, Additional Secretary was appointed as Director of the Information Department with effect from 1 January 1999.
2. The following officers were promoted to the Staff Class Grade 4 and were appointed to the respective positions with effect from 15 April 1999.
  - (i) Mrs. C. M. Ariyaratne, Manager, Regional Office, Anuradhapura, as Acting Additional Superintendent of Currency.
  - (ii) Mr. M. M. Attanayake, Deputy Director of Economic Research, as Acting Additional Director of Economic Research.
  - (iii) Dr. (Mrs.) Anila D. Bandaranaike, Deputy Director of Economic Research, as Acting Additional Director of Bank Supervision.
  - (iv) Mr. K.G.D.D. Dheerasinghe, Deputy Superintendent of Public Debt, as Acting Additional Superintendent of Public Debt.
  - (v) Mr. P. D. J. Fernando, Deputy Director of Statistics, as Acting Additional Director of Statistics.
  - (vi) Mrs. L. K. Gunatilake, Deputy Director of Economic Research, as Acting Additional Director of Economic Research.
  - (vii) Mr. K. Jeganathan, Deputy Secretary, as Acting Additional Secretary.
  - (viii) Mrs. S. Kadurugamuwa, Deputy Secretary, as Acting Director of the Legal Department.

- (ix) Mr. A.R.A. Mihindukulasuriya, Deputy Superintendent of Employees' Provident Fund, as Acting Additional Superintendent of Employees' Provident Fund and was subsequently appointed as Acting Director of the New Buildings Department with effect from 1 July 1999.
- (x) Mrs. C. K. Nanayakkara, Deputy Director of Rural Credit, as Acting Additional Director of Rural Credit.
- (xi) Mr. J.L.E. Peiris, Deputy Secretary, as Acting Additional Secretary.
- (xii) Mr. N. J. Perera, Deputy Chief Accountant, as Acting Additional Chief Accountant.
- (xiii) Mr. K.A.D. Rupasena, Deputy Director of Establishments, as Acting Additional Director of Information and subsequently appointed as Acting Additional Director of Establishments with effect from 1 July 1999.
- (xiv) Mr. M. G. Senanayake, Deputy Director of Banking Development, as Acting Additional Director of Supervision of Non Bank Financial Institutions.
- (xv) Mrs. P. P. Sirisena, Deputy Controller of Exchange, as Acting Additional Controller of Exchange.
3. Mr. M. S. Siripala, Additional Superintendent of the Employees' Provident Fund was appointed as Additional Director of Training with effect from 15 April, 1999.
4. Miss C.I. Fernando, Additional Director of Bank Supervision was appointed as Acting Director of Bank Supervision with effect from 15 April 1999, and was subsequently appointed as Director of Bank Supervision with effect from 14 July 1999.
5. The following appointments were made with effect from 1 July, 1999.
- (i) Mr. M.R. Fernando, Controller of Exchange, as Superintendent of Currency
  - (ii) Mr. H.A.G. Hettiarachchi, Director of the Centre for Banking Studies, as Controller of Exchange
  - (iii) Mr. J.M.T.B. Jayasundara, Superintendent of Currency, as Director of Premises.
  - (iv) Dr. N. L. Sirisena, Director of Development Finance, as Director of the Centre for Banking Studies.
  - (v) Mr. M. Ramanathan, Additional Director of Establishments, as Director of Development Finance.
6. Miss C. Abeynayake, Director of Banking Development, was promoted to the Special Grade of the Staff Class and was designated as an Assistant to the Governor with effect from 16 September 1999, in addition to her duties as Director of Banking Development.. She was also appointed as Secretary to the Monetary Board with effect from 16 September 1999.
7. Mr. P.M. Nagahawatte, Executive Director, was appointed as a Deputy Governor of the Central Bank with effect from 23 September 1999.

## Retirements

1. Mr. T. G. Savundranayagam, Secretary, retired from the Central Bank service with effect from 09 January 1999.
2. Mr. H.M.R. Ellepola, Executive Director, retired from the Central Bank service with effect from 28 March 1999.
3. Mr. T.H.D. Peiris, Director of the Premises and the New Buildings Department, retired from the Central Bank service with effect from 01 June 1999.
4. Mr. A. Shanmugasamy, Additional Chief Accountant, retired from the Central Bank service with effect from 08 July 1999.
5. Mr. Y. A. Piyatissa, Director of Bank Supervision retired from the Central Bank service with effect from 14 July 1999.
6. Mr. S. Easparathasan, Deputy Governor, retired from the Central Bank service with effect from 23 September 1999.
7. Dr. P. B. Jayasundera, Additional Director of Economic Research, retired from the Central Bank service with effect from 05 November 1999.
8. Mr. G.M.P.D. De Silva, Executive Director, retired from the Central Bank service with effect from 08 November 1999.

## Officers on Release (as at 31/12/1999)

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. Dr. A. G. Karunasena to the International Monetary Fund as Alternate Executive Director.
4. Dr. U. Vidanapathirana to the Ministry of Public Administration, Home Affairs and Plantation Industries as the Director General (Development).
5. Dr. D.J.G. Fernando to the Ministry of Finance and Planning as the Chairman and a Director of People's Bank.
6. Mr. M.J.S. Abeysinghe to the Ministry of Finance and Planning.
7. Mr. A. Abayaratna to the Ministry of Finance and Planning.
8. Mr. R. Dharmakeerthi to the Ministry of Cultural and Religious Affairs.
9. Mr. P.G. Jayatunga to the Ministry of Irrigation and Power.