

Annual Report 2006
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Four Lane Southern Expressway



Upper Kotmale Hydro Power Project



Towards a New Sri Lanka....

Moragahakanda Irrigation Scheme



Ministry of Finance and Planning

MINISTRY OF FINANCE AND PLANNING



ANNUAL REPORT

2006



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MINISTRY OF FINANCE AND PLANNING
(as at 31st December, 2006)

His Excellency the President Mahinda Rajapaksa
Minister of Finance and Planning

Hon. Ranjith Siyambalapitiya, MP.
Deputy Minister of Finance and Planning

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Secretary, Ministry of Finance and Planning

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Sumith Abeysinghe

R A Jayatissa

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National Council for Economic Development
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National Insurance Trust Fund	Chairman Chief Executive Officer	J Wickramasinghe U R Arandara
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Securities and Exchange Commission of Sri Lanka	Chairman Director General	G Wickramasinghe C de Silva

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Chapter 1

2006 – A Year Of Many Challenges

An Overview

2006 – the first year of *Mahinda Chinthana* : Vision for a new Sri Lanka - A 10 year Horizon, Development Framework 2006 – 2016, laid a foundation for a new development strategy. This aimed at raising the country's economic growth in excess of 8 percent over the medium term to position Sri Lanka with, a per capita income in the range of US\$ 3,000 by 2016 with the lagging region being connected to a rapid development process. The 10 year development horizon places the national infrastructure (*Randora*) and provincial and rural infrastructure (*Jathika Saviya - Gama Naguma*) development in the centre of this strategy. The strategy also recognizes rapid development in human resources towards creating a knowledge economy, taking advantage of what the country has already achieved in terms of human resource development. The high growth scenario is based on expansion in agriculture, industry, construction and services sector linking the value chain among these activities to create a high domestic value addition. Medium term financial stability with gradual reduction in the long standing Budget deficit below 5 percent of GDP and national debt below 80 percent of GDP provides the underlying macro economic foundation for the 10 year horizon growth strategy. Protecting country's environment, culture, arts and the value system is the prime social structure of this overall development framework.

The new vision was translated in to an immediate action plan with the 2006 Budget presented to the Parliament by His Excellency the President on November 2005. While working on priority issues in 2006, the Government within a 12 month period also formulated the comprehensive 10 year development horizon framework which was placed before the Parliament on 16th November, 2006 with the presentation of the 2007 Budget. The new Development Framework became the

platform theme of the Sri Lanka Development Forum – Galle, attended by the Donor community representing multilateral and bilateral agencies as well as governments.



Mahinda Chinthana: Vision for a New Sri Lanka

At the Sri Lanka Development Forum - Galle, His Excellency the President expressed the underlying broad thinking behind the new development strategy.

“Development will not be wholesome or sustainable unless it is associated with a value system, respect for human rights and democracy, culture and heritage. Therefore, our rural development programme is essentially an initiative to empower the community itself in the planning and development process at grassroot level. This will also facilitate and promote public accountability, transparency and local ownership in development. We need to ensure that overall development will be pro-poor but at the same time pro-growth. Placing emphasis on roads, electricity, irrigation and water supply, housing, and livelihood assistance, we have launched the Jathika Saviya-Gama Naguma, country's rural development initiative within a medium-term development framework aimed at addressing problems in the lagging regions.”

- from the statement of His Excellency the President, Sri Lanka Development Forum - 2007, Galle, Sri Lanka.

Macro Economic Perspectives - 2006

In the midst of several adversities and challenges the overall macroeconomic performance demonstrated several achievements and setbacks during 2006. Within the 2006 – 2009 medium term macroeconomic framework, the country sustained its overall growth momentum well in excess of 7 percent. Many key economic indicators such as investment, exports and the National Budget reflected better performance than in 2005. However, in comparison to the targets set out for 2006, performance in many areas fell below the potential achievements due to the considerable adverse impact of external

shocks, the escalation of terrorist violence and associated risks. The macro economic performance also underscores the inflationary pressure build up in the economy reflecting supply side constraints, cost adjustments and the rapid expansion in demand for goods and services. Several policy initiatives directed at countering inflationary pressures in the economy were initiated in 2006 with primary focus being placed on the further increase in Government revenue, moderating public expenditure and moving to a medium term debt management strategy to sustain the medium term direction of high economic growth and low inflation.

Chart 1.1
The 10 Year Horizon

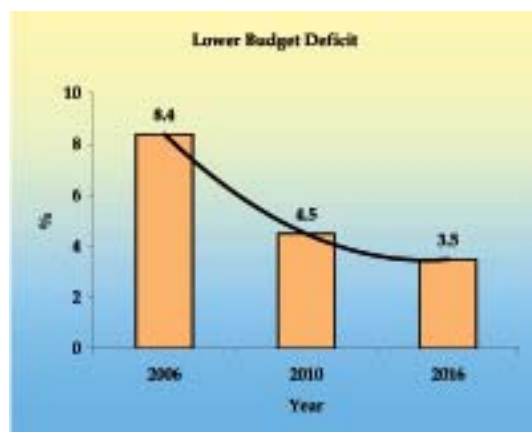
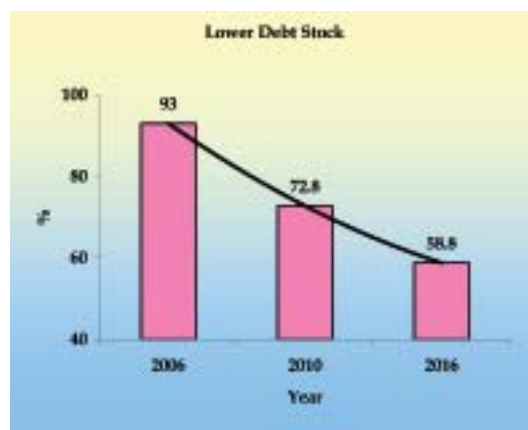
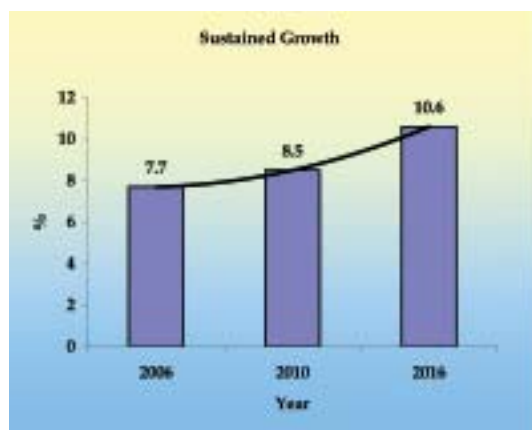


Table 1.1
Medium Term Macro Economic Framework (2006-2009)

Indicator	Target*		Actual	Projections**		
	2005	2006	2006	2007	2008	2009
GDP at Market prices (Rs. Bn)	2,366	2,780	2,802	3,242	3,746	4,301
GDP Growth (%) ¹	6.0	7.4	7.4 ¹	7.5	8.0	8.3
Inflation-GDP deflator (%)	9.9	9.4	10.3	8.5	7.0	6.0
Total Investments	26.5	30.0	28.7	32.0	32.5	33.0
Private Investments	19.7	23.4	22.6	23.5	23.9	25.0
Public Investments	6.9	6.6	6.0	8.5	8.6	8.0
Domestic Savings	17.3	17.5	17.1	19.2	20.3	21.0
National Savings	23.4	25.0	23.4	27.3	28.9	29.5
Exports (US\$ Mn)	6,347	6,923	6,883	7,645	8,478	9,361
Imports (US\$ Mn)	8,863	10,601	10,253	11,837	13,037	14,452
Services (US\$ Mn)(net)	338	334	257	409	551	676
Worker Remittances (US\$ Mn)	1,968	2,311	2,326	2,668	3,114	3,461
Current Account(US\$ Mn)	-650	-1,448	-1,334	-1,538	-1,413	-1,565
Current Account Deficit	-2.8	-5.4	-4.9	-5.2	-4.3	-4.3
Overall Balance (US\$ Mn)	501	150	204	270	458	571
Gross Official Reserves(US\$ Mn)	2,735	2,454	2,837	2,719	3,104	3,577
Revenue	16.1	17.4	17.1	18.5	18.8	19.0
Expenditure***	23.5	25.3	25.0	25.7	24.8	24.0
Revenue (Deficit/Surplus)	-2.7	-2.4	-2.5	0.1	0.7	2.0
Overall Budget Deficit	-7.4	-7.9	-7.8	-7.2	-6.0	-5.0
Government Debt	93.9	91.5	93.0	86.5	82.3	77.6
Reserve Money (%)	15.8	17.8	21.2	17.6	16.5	15.8
Broad Money Supply(%)	19.1	17.8	17.8	17.6	16.5	15.8
Growth in Credit to Private Sector	21.5	16.8	24.0	18.6	17.7	16.0

Source: Department of National Budget
Department of Fiscal Policy
Central Bank of Sri Lanka
Department of Census and Statistics

*Based on the first nine months performance **Based on macro Economic Assumptions

***Excluding fully foreign funded key development projects

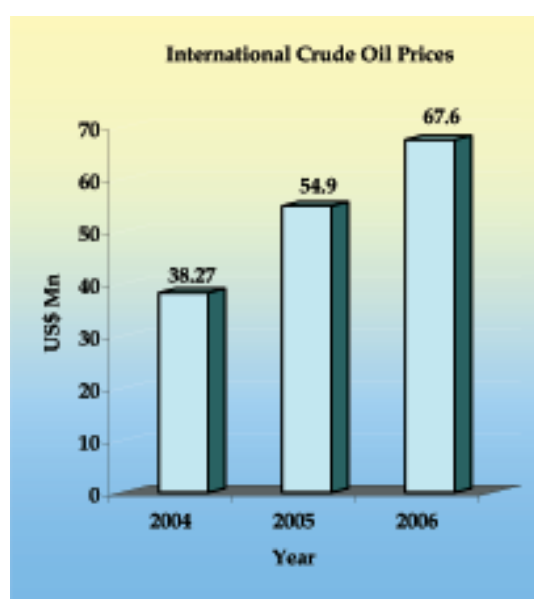
¹ Central Bank of Sri Lanka Figures

Challenges

Historically High Oil Prices

The Sri Lankan economy, being dependent on the importation of oil for its energy requirements faced severe domestic and external pressure to adjust to historically high oil prices. The international oil price rose in excess of US\$ 70/bbl. By March 2006 and remained at that level till September 2006 when it moderated at around US\$ 58 /bbl. For a short period.

Chart 1.2



The country spent US\$ 2,100 million for the importation of petroleum products during 2006 having used US\$ 1,650 million in the previous year. This large outflow of foreign exchange exerted considerable pressure on the trade deficit and foreign exchange reserve management. Domestically it compelled a series of price revisions to prevent the accumulation of large budgetary pressures.



Claymore mine killed 67 people at Kabithigollawa

However, adjustments were made gradually in order to cushion the general public from the consequent impact. Domestic prices increased almost by 100 percent on a gradual basis while the subsidies by the Government amounted to Rs. 26 billion in 2005 and a further Rs. 9.5 billion in 2006.

Escalation of Terrorist Incidents

Beginning January 2006 terrorist activities continued to rise despite the Cease Fire Agreement. Terrorist activities included the claymore bomb explosion at Kabithigollawa, killing nearly 70 civilians including a large number of women and children, failed suicide attacks on the Army Commander and the Secretary, Defence, forced closure of the Mawilaru Anicut, and several other claymore bomb explosions at different locations in the country. These incidents tarnished market sentiments and increased security risks. The government was compelled to intensify a surveillance mechanism and security arrangements to protect civilian and public property. Intensified security surveillance caused an adjustment burden and inconvenience to public life although such measures substantially eliminated the security risks. The deployment of a large number of security personnel to counter terrorism and liberate people in the affected areas increased security related expenditure during 2006.



Suicide attacks on targeted security personnel

Natural Disasters

While the country was blessed with favorable rainfalls that kept the hydropower generation at full capacity and maintained adequate reserves for irrigated and non-irrigated agriculture, heavy floods, cyclones, earth slips in several areas caused severe interruptions to public life and more particularly to the road network and agricultural production. The highest casualties were reported from the Nuwara Eliya district and certain Divisional Secretariat Divisions in Gampaha, Batticaloa and Hambantota districts.



Earth slips and floods

Post MFA Global Competition

Apparel products, the country's main export faced severe competition due to the removal of quota restrictions in the US market. The industry adjustment to the post Multi-Fiber Agreement (MFA) situation together with several other constraints confronted by some enterprises resulted in the closure of about 30 garment factories located in remote areas. Several marginally surviving factories are also confronted with severe competitive pressures.

The overall exports of apparel products which grew by around 8 percent up to 2004 declined to 4 percent in 2005 and marginally improved to 6.4 percent in 2006. The industry demands heavy investments and productivity improvements for consolidation in the future in order to prepare for market competition with new competitors. Securing market access to the European Union and repositioning the industry towards such markets remains a challenge to the country.



A closed garment factory

A Widened Trade Deficit

Value of exports reached US\$ 6,883 million, recording an 8.4 percent increase in 2006. Industrial exports increased by 8.8 percent to US\$ 5,383 million despite stiff competition for export of textiles and the garment particularly after the removal of the Multi-Fiber Agreement. Agricultural exports totaled US\$ 1,293 million witnessing a 12.1 percent growth reflecting a high volume growth as well as favourable commodity prices for Sri Lanka's agricultural exports.

Sri Lanka's total imports in 2006 amounted to US\$ 10,253 million in comparison with US\$ 8,863 million in 2005. Consumer goods imports which totaled US\$ 1,980 million in 2006 recorded an increase of 20.5 percent largely reflecting the demand for motor vehicle imports. Non oil intermediate imports increased to US\$ 3,892 million in 2006 from US\$ 3,662 indicating an increase of 6.3 percent and capital goods imports increased to US\$ 2,246 million from US\$ 1,869 million recording a 20.1 percent increase. The rapid growth in such imports made the import structure, growth conducive.

Table 1.2
External Trade

(US \$ mn)			
Category	2004	2005	2006(a)
Exports	5,757.3	6,346.7	6,882.7
Agricultural Exports	1,065.2	1,153.8	1,292.7
Tea	738.9	810.2	881.2
Other Agricultural Products	326.3	343.6	411.5
Industrial Exports	4,506.1	4,948.4	5,383.4
Textile & Garments	2,808.9	2,894.5	3,080.3
Rubber Products	282.9	394.4	427.5
Machinery & Equipment, Diamond and Jewellery	651.0	607.8	721.3
Food, Beverages and Tobacco	175.1	318.2	363.9
Petroleum Products	99.6	130.9	187.2
Other Industrial Products	488.6	602.6	603.2
Gem & Mineral Products	186.0	244.5	206.6
Imports	7,999.9	8,863.3	10,253.0
Consumer Goods	1,623.5	1,643.9	1,980.2
Food & Beverages	779.1	752.6	956.0
Other	844.4	891.3	1,024.2
Intermediate Goods	4,645.4	5,317.2	5,961.7
Petroleum	1,209.3	1,655.3	2,069.6
Fertilizer & Chemicals	312.6	383.6	424.9
Textiles & Clothing	1,514.1	1,531.0	1,546.2
Other	1,609.4	1,747.3	1,921.0
Investment Goods	1,731.0	1,902.2	2,311.1
Machinery & Equipment	857.4	860.4	1,075.4
Transport equipment	256.6	325.3	373.6
Building Materials	402.0	507.0	546.2
Other	215.0	209.5	315.9
Trade Deficit	(2,242.6)	(2,516.6)	(3,370.3)

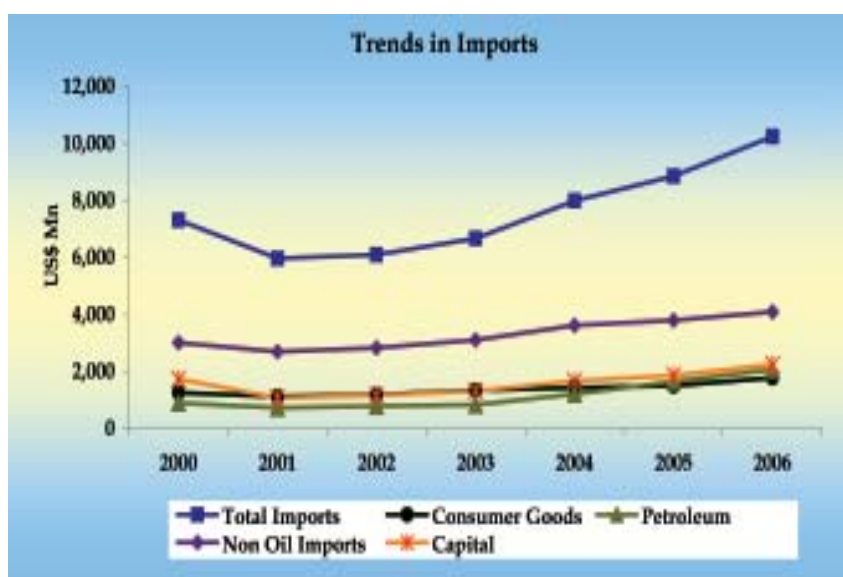
Source: Central Bank of Sri Lanka

The cost of petroleum imports reached US\$ 2,070 million in 2006 which was an increase of US\$ 415 million over 2005 which is a 25 percent increase and virtually more than double the amount spent in 2003.

Trade deficit rose to US\$ 3,370 million in 2006 from US\$ 2,516 in 2005 and in relation to GDP, it increased to 12.5 percent from 10.7 percent which is largely due to the rising cost of oil imports.

Consequently, petroleum imports accounted for 20 percent of total imports in 2006 compared to 13 percent in 2003.

Chart 1.3



Strain on Foreign Assets and Exchange Rates

The overall Balance of Payments (BOP) generated a lower surplus of US\$ 204 million in 2006 compared with a surplus of US\$ 501 million in 2005.

Chart 1.4

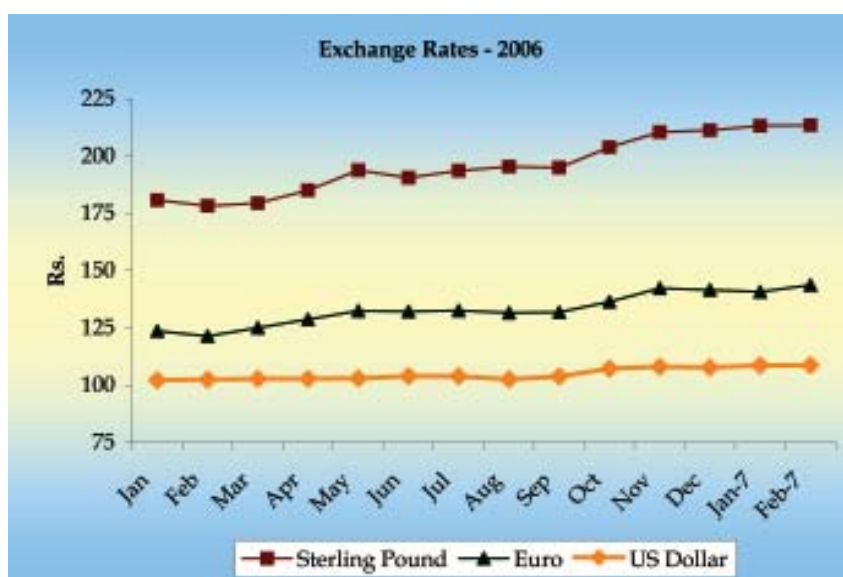
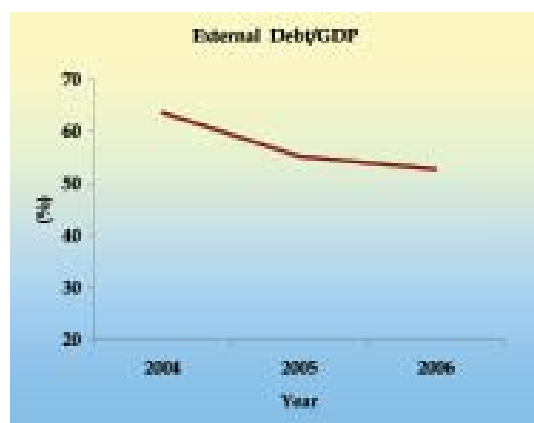


Chart 1.5



Underpinning the pressure on the Balance of Payments, the gross official external assets remained at US\$ 2,837 million and the total external assets of the country stood at US\$ 4,005 million in 2006 in comparison with US\$ 2,735 million and US\$ 4,201 million in 2005 respectively. However, the large inflow of remittance income of US\$ 2,326 million, increased foreign aid utilization of US\$ 1,100 million and enhanced foreign investment of around US\$ 450 million, were conducive to mitigate the pressure from a large trade deficit. The important development is that the external debt in relation to GDP continued to decline, reflecting a high economic growth as well as the moderate growth in net external debt in 2006.

High Cost-of-Living and Inflation

High oil prices that prevailed since 2004 and the adjustment by the economy to a series of price revisions in petroleum products, associated price revisions in transport, electricity, water and other services and supply interruptions due to natural disasters and limited access for fisheries activities resulted in a high cost push impact in 2006. The substantial increase in public sector salaries and pension payments as well as private sector credit expansion by around 20 percent for three consecutive years together with new employment creation and reduction in unemployment caused high demand pressure in the economy. The combined impact of these factors led to a price escalation as measured by Colombo Consumer Price Index on a year on year basis to near 20 percent. The price increase was substantial in key essential commodities.

Chart 1.6



The average annual inflation as reflected in the Colombo Consumer Price Index (CCPI) increased to 13.7 percent in December 2006 from the peak level of 12.8 percent in August 2005. The average annual inflation as measured by Sri Lanka Consumer Price Index (SLCPI) decelerated below 10 percent from 14.5 percent in July 2005. On a year on year basis CCPI increased to 19.2 percent in December 2006 from 8.0 percent a year ago. The same trend was shown in SLCPI which increased to 17.9 percent from 3.6 percent a year ago.

Table 1.3
Cost of Living

	2005 Prices Rs.	2006 Prices Rs.
Rice - Kora (/kg)	32.46	34.79
Coconut (/nut)	16.39	10.59
Fish - Kelawallu (/kg)	275.60	336.66
Beans (/kg)	73.64	101.97
Brinjols (/kg)	45.76	71.20
Eggs	6.71	9.07
Sugar (/kg)	43.66	65.31
Milk powder (/kg)	150.98	160.83
Red dhal (/kg)	75.87	81.99
Wheat floor (/kg)	29.13	45.47
Diesel (/Lt)	50	60
Kerosene (/Lt)	30.50	48.00
Electricity - fixed charge	30	60 - 240
Electricity - unit charge	3 - 4.10	3 - 5.10
Buss fare increase (%)	15	16

Source: Department of Census & Statistics



A protest against the high Cost of Living



Rising retail prices

Chart 1.7



Despite monetary policy action by raising policy rate by 125 basis points and open market operations to contain reserve money growth, Government's actions through higher taxes on motor vehicles and consumer durables and a series of fiscal adjustments in respect of administered prices and reduced demand pressure, private sector credit continued to expand at around 20 percent, reflecting high investment spending associated with the economic expansion.

Economic Highlights

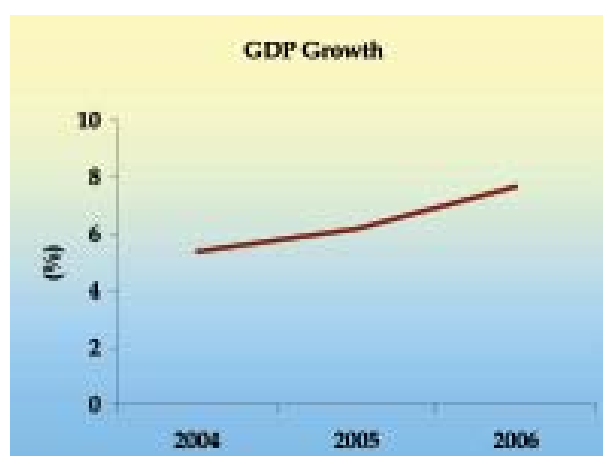
Sustained Growth in GDP

In the midst of many challenges, the Sri Lankan economy witnessed a 7.7 percent growth in GDP in 2006, a further acceleration from 6.2 percent in 2005¹. Despite supply interruptions, each quarter of 2006 recorded over 7 percent growth in GDP. The expansion in the economy was widespread. Agriculture recorded a 6.1 percent increase - a marked improvement from the growth of 1.8 percent witnessed in 2005. While the tea sector recorded a decline of 2 percent from a growth of 3 percent in 2005, paddy sector recorded a 2.9 percent increase over the substantial growth of 23.6 percent witnessed in 2005. Minor export agriculture which is also a wide spread small holder economic activity, recorded a 2.2 percent growth in comparison to 16.2 percent in 2005. However, fruits and vegetable production as well as other highland crops added only a 0.8 percent growth. Livestock increased by 8.1 percent with increased production in poultry and dairy industries. Fisheries sector which suffered a setback in 2005 due to the Tsunami, recovered substantially by 54 percent.

Widespread development in agriculture was due to favourable weather conditions, attractive producer prices for export crops, paddy, fruits and vegetables, fertilizer subsidy for paddy agriculture, expansion in irrigation facilities and reorientation of trade policies to provide necessary safeguards for domestic agriculture.

Industrial sector witnessed an 8.4 percent growth. This expansion benefited from the high growth of agriculture processing and manufacturing sector activities. The value of exports of the garment industry exceeded US\$ 3 billion and contributed to the growth of the factory industry by 5.9 percent, although margins from garment exports narrowed due to intense global competition. The construction industry sustained its growth momentum at 9.2 percent in comparison to an equally high growth rate witnessed in 2005. Urban property development including the completion of 78 condominium development projects and the Tsunami related reconstruction work and substantial public investment on roads and bridges, water supply and irrigation, were conducive to construction sector dynamism.

Chart 1.8



2

The Central Bank of Sri Lanka reports a 7.4 percent growth in GDP in 2006 and 6.0 percent in 2005. The Department of Census and Statistics has compiled its statistics on 2002 base year. Both the agencies are expected to move into a uniform practice in 2008.

Table 1.4
Sectoral Distribution GDP Growth (%)

Sector	2004	2005	2006
Agriculture	-0.3	1.8	6.1
Tea	1.6	3.0	-2.0
Paddy	-14.5	23.6	2.9
Minor Exports	-2.4	16.3	2.2
Livestock	0.5	2.3	8.1
Food Crops	-2.2	7.5	5.1
Fisheries	0.5	-43.0	53.5
Industry	5.7	7.9	8.4
Agri. Processing	4.5	1.4	3.1
Factory Industry	5.5	6.4	5.9
SMEs	8.5	5.7	5.6
Electricity	6.0	13.3	15.1
Construction	5.9	9.0	9.2
Services	6.7	6.4	7.8
Trade	7.3	6.5	7.3
Hotels	21.5	-14.1	2.5
Cargo	8.1	10.3	15.0
Post & Telecommunications	24.9	36.0	24.0
Financial Services	5.8	7.0	8.5
Government services	4.1	5.4	5.0
Private Services	4.6	6.4	7.8
GDP	5.4	6.2	7.7

Source: Department of Census and Statistics

The services economy remained buoyant with a 7.8 percent growth in its output. Export trade increased by 4.2 percent while domestic trade expanded by 8.8 percent. Total cargo handling and increased transshipment activities contributed to a substantial increase in port related activities in GDP. Telecommunications sector grew by 24 percent over and above the growth rate witnessed at 36 percent in 2005. This growth is associated with a 61 percent increase in the use of mobile phones and a 52 percent increase in land phones. Financial services sustained its continued expansion and witnessed an 8.5

percent growth. The growth in government services increased by 5 percent while private and community related services including private hospitals, international schools, recreation services and other self-employment services increased by 7.8 percent. The service sector overall expansion is also associated with the increase in motor car imports by 60 percent, reflecting considerable diversification and linkages with industry and agricultural activities which performed satisfactorily in 2006.

Table 1.5
Gross Domestic Product – Sectoral Composition (2002) Constant Prices

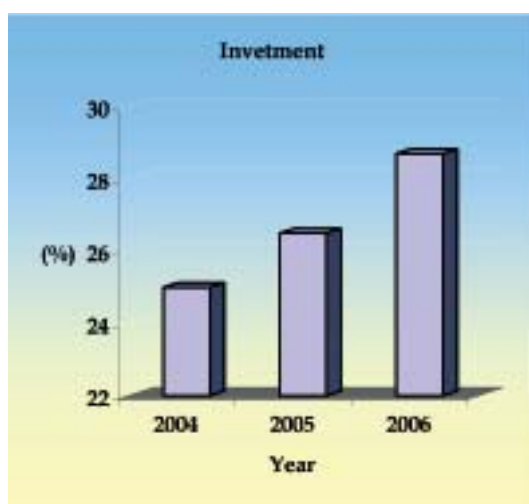
	(Rs. Mn.)		
	2004	2005	2006
Agriculture, Forestry and Fishing	237,537	241,851	256,557
Agriculture, Livestock and Forestry	213,246	228,005	235,297
Tea	26,753	27,544	26,988
Rubber	4,332	4,773	4,993
Coconut	28,012	27,204	28,947
Minor export crops	8,570	9,966	10,187
Paddy	29,567	36,541	37,612
Highland crops	23,939	25,744	27,054
Fruits	1,760	1,829	1,749
Vegetables	49,823	52,012	52,450
Livestock	16,270	16,644	17,992
Other Agriculture	12,898	13,666	14,456
Firewood & Forestry	11,322	12,081	12,869
Fishing	24,291	13,846	21,260
Industry	506,750	546,793	592,654
Mining and Quarrying	24,439	28,791	36,453
Manufacturing	331,079	351,401	371,541
Processing Industries	13,508	13,703	14,125
Factory industry	296,434	315,351	333,809
Small industries	21,137	22,347	23,607
Electricity, gas and water	40,973	46,405	53,412
Electricity	34,717	40,054	46,669
Gas	4,092	4,087	4,399
Water	2,164	2,264	2,344
Construction	110,259	120,196	131,248
Services	1,080,997	1,150,588	1,240,233
Trade hotels and restaurants	458,861	486,286	521,196
Import trade	174,930	182,277	195,128
Export trade	85,639	91,462	95,349
Domestic trade	187,601	203,360	221,309
Hotels and restaurants	10,691	9,186	9,411
Transport and communication	210,495	230,597	259,413
Transport	185,130	198,733	220,920
Cargo handling-Ports and Civil aviation	10,262	11,320	13,018
Post and telecommunication	15,103	20,545	25,475
Financial Services, Real Estate and business Services	223,151	234,612	249,324
Banking and insurance	153,143	163,863	177,791
Real estates , renting and business services	70,008	70,749	71,533
Government and other services	188,490	199,093	210,300
Public Administration & Defence	146,030	153,916	161,611
Community and other services	42,460	45,177	48,689
Gross Domestic Product	1,825,284	1,939,231	2,089,444

Source: Department of Census & Statistics

Rise in Investment

Investment in relation to GDP increased from 26.5 percent in 2005 to 28.7 percent in 2006. This expansion was due to sustained high public investment of around 6.0 percent and private investment of 22.6 percent of GDP in 2006. Domestic demand for consumption was largely due to favorable developments in

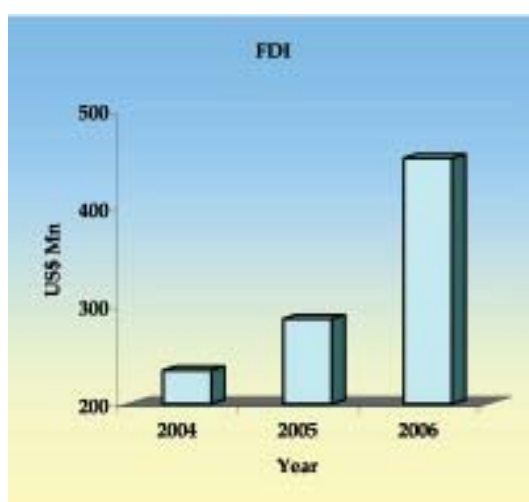
Chart 1.9



agricultural and institutional activities. The buoyant external demand was conducive to export growth. National savings to GDP remained at 23.4. Government fiscal operations which contributed towards reducing the revenue deficit were conducive to the domestic savings efforts. The gradual elimination of the revenue deficit will raise domestic savings, substantially.

Sharp rise in FDIs totaled US\$ 451 million in 2006 the highest ever level of FDIs in Sri Lanka. This was a noteworthy development since FDIs in the previous years were raised largely from privatization of Government enterprises, whereas in 2006 the entire FDIs were new investments.

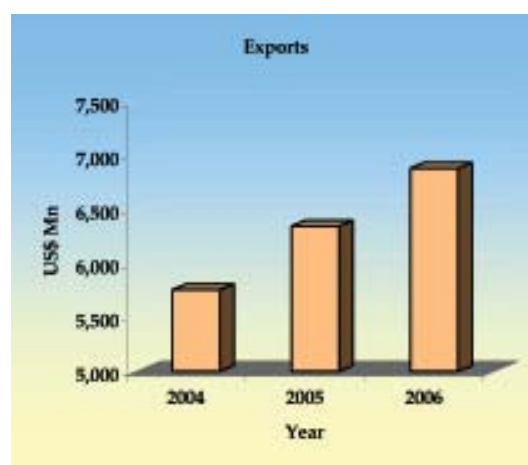
Chart 1.10



Buoyant Exports

Export earnings increased by 8.4 percent to US\$ 6,883 million in 2006 due to quality improvements in Sri Lankan exports, favourable external demand and enhanced market integration with growing economies. Industrial exports grew by 8.8 percent. Although apparel exports to the US declined marginally, a substantial increase in apparel exports to the European Union contributed to

Chart 1.11

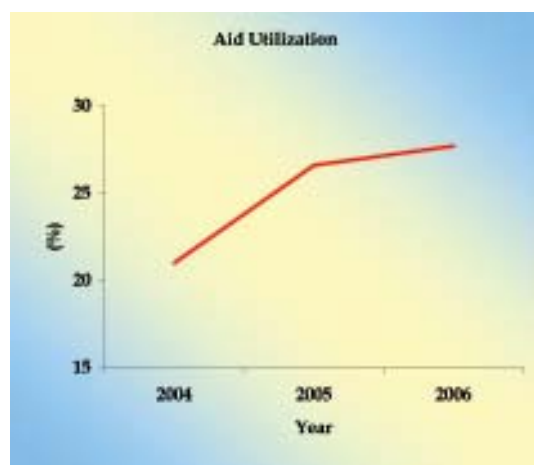


achieve a 6.4 percent growth in apparel exports. Tea exports increased from US\$ 810 million in 2005 to US\$ 881 million while rubber exports reached US\$ 93.1 million reflecting almost a 100 percent growth in 2006. Coconut and other agricultural products, also recorded, a significant improvement. Diamond and jewellery exports increased by 18 percent to US\$ 327 million the while export of rubber products increased by 8.4 percent to US\$ 428 million. Export of ceramics, footwear and leather products and gems did not achieve significant growth.

A Sustained Improvement in Aid Utilization

During 2006, aid disbursements totaled US\$ 1,100 million in comparison with US\$ 1,000 million in 2005 and US\$ 805 million in 2004. The government of Japan accounted for almost 1/3 of the total disbursements registered in 2006. The sustained improvement in aid utilization was due to improved efficiency in procurement, project management and elimination of several bottlenecks affecting the use of foreign aid.

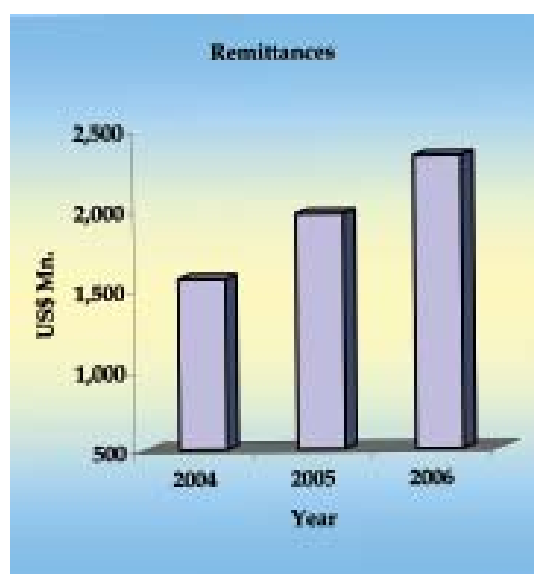
Chart 1.12



A Buoyant Growth in Remittances

Worker remittances in 2006 amounted to US\$ 2,326 million. This reflected the increase in average earnings by migrant workers as well as increased transfer of such earnings through the electronic fund transfer systems that are being popularized by the Sri Lanka banking system. The income from worker remittances provided a considerable protection to the Balance of Payments, particularly at a time the country was spending nearly US\$ 2 billion on oil imports.

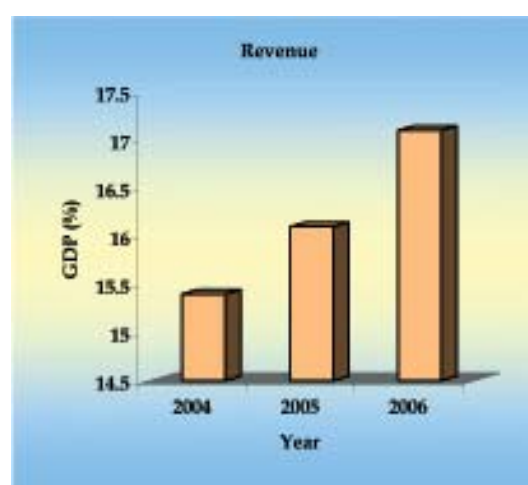
Chart 1.13



Sustained Growth in Government Revenue

Government revenue in relation to GDP increased to 17.1 percent, further consolidating the upward trend sustained during the preceding two years. This level of revenue was realized through the expansion of income tax as well as other tax and non tax revenue sources. The institutional capacity building, skills enhancement and training, improved tax administration and a stronger policy environment contributed towards this sustained improvement.

Chart 1.14

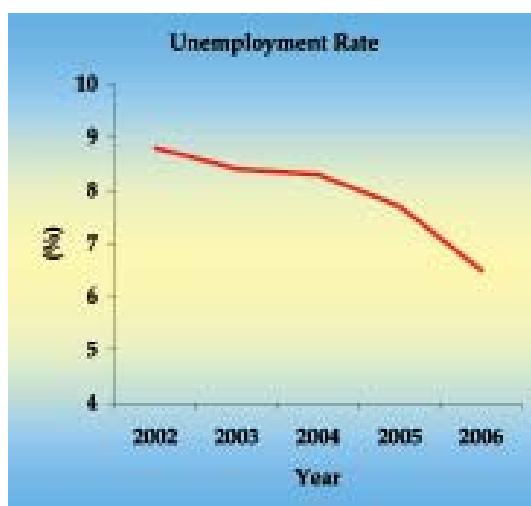


Record Low Unemployment

With the high economic growth sustained over the preceding 3 years, country's unemployment recorded a continued decline during the last 3 years. In 2006, unemployment declined to 6.5 percent from 7.2 percent recorded in the previous year. Further, unemployment among the age group of 15 – 19 also declined to 23.1 percent in 2006 from 33.2 percent in 2005. However, unemployment among the age group of 20 – 29 remained at the 2005 level. Another salient feature in unemployment statistics is the reduction in male unemployment from 5.3 percent to 4.7 percent and in female unemployment from 10.7 percent to 9.7 percent. Unemployment figures in terms of educational categories also recorded a decline during 2006.

Overseas employment continue to remain a major income source. Statistics reveal that 1.5 million people were employed overseas as at the end 2006. Although Middle Eastern region has been a popular destination for foreign employment, there has been a noticeable increase in employment opportunities in South

Chart 1.15

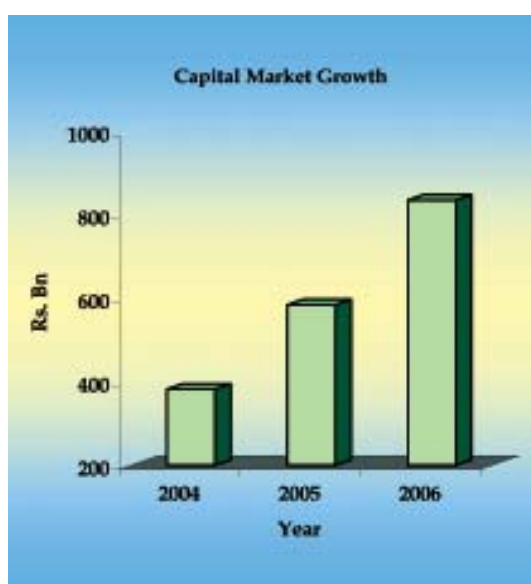


Korea and Malaysia. The government has accorded high priority to increase skill levels of those who are seeking overseas employment in order to provide secured employment and decent earnings.

Resilient Market Conditions

The Capital Market recorded a significant expansion in 2006. The all Share Price Index increased by 42 percent while the Milanka Price Index rose by 51 percent. Market capitalization increased by 43 percent to Rs. 835 billion and accounted for 30 percent of GDP. Strong corporate earnings and significant investments in telecommunications, finance and insurance and diversified.

Chart 1.16



corporate structures contributed to market development. Foreign participation remained active with a Rs. 5.4 billion net foreign injection to the capital market. However, only two Initial Public Offerings (IPOs) took place during 2006.

Financial Markets

Deposit mobilization by the banking system increased by 18 percent, sustaining the recent momentum generated by financial institution to mobilize savings. The annual growth of deposit mobilization has continuously increased from 10.5 percent in 2001 to 18 percent in 2006.

Parallel to the revival of private sector investments, and economic activities, domestic credit to the private sector increased by 24.0 percent in 2006 as opposed to 21.5 percent in 2005. This credit expansion is associated with housing, real estate and a wide range of service activities, construction, agricultural and industrial activities and import financing pertaining to intermediate and capital goods and exports. Consumer related imports have also contributed to the credit expansion.

Although the growth in the money supply declined from 19.1 percent in 2005 to 17.8 percent it was in line with the overall target for 2006. The deceleration in the money supply is attributable to the less than expected improvements in foreign assets in the banking system. The underlying credit expansion by the private sector as well as the public sector was excessive.

Chart 1.17

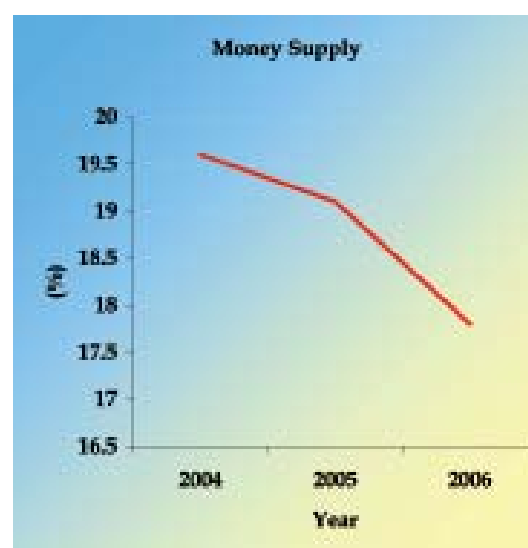


Table 1.6
Monetary Development

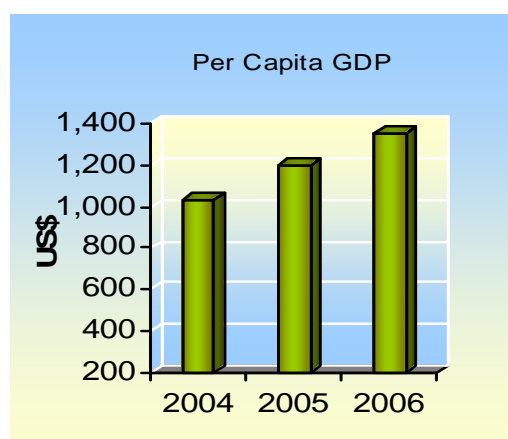
	Rs. Mn.		
Category	2004	2005	2006
Currency	99,669	114,070	135,019
Demand Deposits	88,784	116,632	124,666
Narrow Money Supply (M1)	188,453	230,702	259,685
Quasi Money	499,511	592,230	733,580
Broad Money Supply (M2)	687,964	822,932	993,265
Net Foreign Assets	129,152	167,147	185,005
Net Domestic Assets	558,812	649,287	808,260
Government(net)	181,111	168,048	256,553
Public Corporations	27,258	15,651	25,410
Private Sector	526,236	680,693	856,842
Other items (net)	(175,793)	(215,105)	(330,545)

Source: Central Bank of Sri Lanka

Per Capita Income

In many ways, the country's economy stood at a crossroad. The respectable economic growth, decline in unemployment and the budget deficit to a single digit level, the continued reduction in debt to GDP, increased market capitalization in the stock exchange and rise in FDI underscores the resilience and improved economic environment in the country.

Chart 1.18



The per capita income, which crossed the US\$ 1,000 benchmark in 2004 at which point many countries have witnessed accelerated growth, continued to improve and reached US\$ 1,355 in 2006.

Productivity

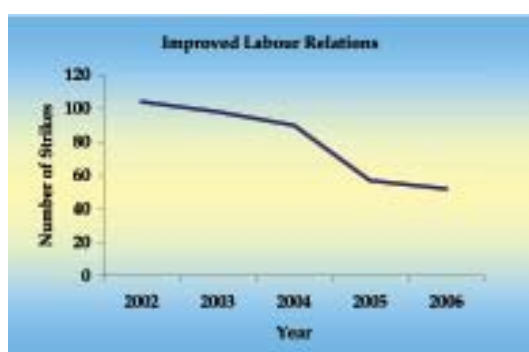
The overall performance in the economy while supporting a sustained three year respectable outcome in many key economic indicators, also underscores the need for a rapid drive in productivity improvements to sustain a positive development over the medium term.

Although the overall labour productivity increased by 3 percent, this increase came predominantly from the services sector activities which grew by almost 10 percent. However, productivity in the industrial sector grew only by 1.5 percent and in the agricultural sector it declined by 6 percent. Thus the two important sectors in the economy which can provide a livelihood for many people and reduce poverty require considerable improvements in productivity. The productivity in agriculture and industrial activities are constrained by infrastructure deficiencies, high transaction costs, the poor quality of delivery services, weak extension services non-availability of quality seed and planting material as well as the poor application of science and technology. In order to address productivity related issues, the 2007 Budget proposed to setup a Presidential Task Force on National Productivity Improvement. The task force which will identify the obvious constraints to address them on priority basis will be required to work closely with trade unions and industry representatives.

Labour Relations

By the second quarter of 2006, the country witnessed an improvement in labour relations and reduction in industrial disputes. A permanent Salaries and Cadre Commission was established for the public sector which intensified work towards resolving salary anomalies that prevailed. The implementation of a new salaries and incentive structure helped to maintain industrial peace. The Ministry of Labour Relations through National Labour Council promoted tripartite arrangements to resolve industrial disputes in the private sector. The intensified dialogue on labour related issues contributed to sustain low incidents of industrial disputes and substantial reduction in strikes. The Number of strikes recorded in 2006 was half the number recorded in 2002.

Chart 1.19



Prospects

Economic Challenges in 2007 are still persisting. The high oil price, security conditions, vagaries of weather continue to remain major shocks to the economy. Structurally; infrastructure contracts, human resources and managerial problems in public sector and low productivity in agriculture remain priority concerns. Financially, fiscal vulnerability to security expenditure and performance of public enterprises needs to be closely monitored.

In the midst of many of the challenges, risks and uncertainties, economic performance still remains below its potential growth in excess of 8 percent. The projected economic growth in 2007 is 7.5 percent given the difficulties in exploiting potential output growth in tourism and fisheries. However, agriculture, industry and services sectors are expected to sustain the growth momentum achieved in 2006.

In the context of the tight monetary policy stance, prevailing high interest rates and supply side improvements, inflation is expected to moderate below 10 percent in 2007.

Chapter 2

Fiscal Developments - 2006

An Overview

The overall Fiscal Policy and Budget Management in 2006 was steered along the fiscal consolidation path envisaged in the medium term fiscal framework 2006-2009 supporting the first year programme under the - Mahinda Chintana : Vision for a New Sri Lanka - A 10 Year Horizon, Development Framework 2006-2016.

Overall performance of the Budget was broadly consistent with the medium term fiscal framework formulated in September 2006, for the use of the 2007 Budget preparation. Realized tax revenue /GDP ratio was 15.3 percent in comparison to projected revenue of 15.6 percent. This shortfall is largely due to the revenue shortfall from international trade taxes. The implementation of free trade

arrangements, duty concessions for importation of vehicles and selected consumer items, valuation and under invoicing problems are some of the concerns affecting Customs revenue. However, the revenue from income tax and value added tax were well within the targets. On the expenditure side fuel and fertilizer subsidies and transfers to loss making entities and several welfare programmes exceeded the projected expenditure due to outlays on displaced people in the terrorist affected areas, less than expected improvement in Railways and Transport Board and impact of fuel price increases. Government debt/GDP ratio was affected due to the impact of exchange rate depreciation towards the end of 2006.

Chart 2.1

Medium Term Fiscal Consolidation

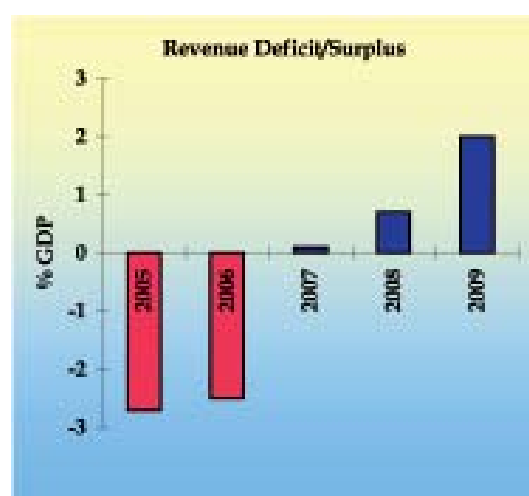
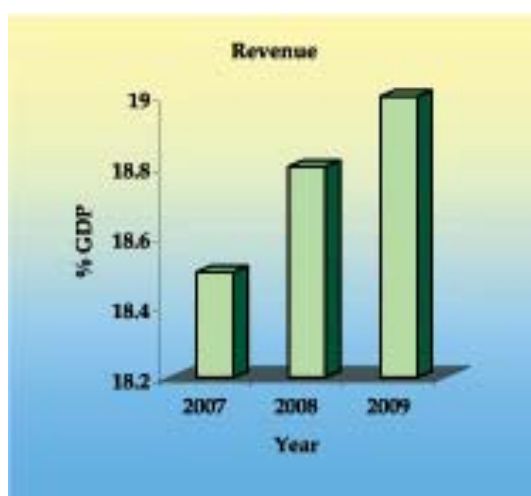


Table 2.1

Medium Term Macro Fiscal Framework (2006-2009)

Indicator	Actual 2005	Proj. 2006	Actual 2006	Projections		
				2007	2008	2009
Revenue	16.1	17.4	17.1	18.5	18.8	19.0
Tax Revenue	14.2	15.6	15.3	16.7	16.8	17.4
Income tax	2.2	2.7	2.9	3.2	3.3	3.5
VAT	5.9	5.9	5.9	6.2	6.6	6.7
Excise Tax	3.3	3.4	3.3	3.3	3.2	3.2
Trade Tax	1.9	2.2	1.9	2.2	2.1	2.1
Other	1.0	1.4	1.3	1.8	1.6	1.8
Non Tax Revenue	1.8	1.8	1.8	1.8	1.8	1.8
Expenditure *	23.5	25.3	25.0	25.8	24.8	24.0
Current Expenditure	18.7	19.8	19.5	18.4	18.0	17.2
Salaries & Wages	5.9	6.3	6.2	6.1	5.9	5.8
Interest	5.1	5.5	5.4	5.2	5.1	4.8
Subsidies & Transfers	5.4	4.9	5.1	3.9	3.9	3.5
Other Current expenditure	2.4	3.0	2.8	3.2	3.1	3.1
Public Investment	5.0	5.9	5.9	7.4	7.0	7.0
Other Capital	-0.2	-0.3	-0.4	-0.1	-0.1	-0.2
Revenue (Deficit/ Surplus)	-2.4	-2.4	-2.5	0.1	0.7	2.0
Overall Budget Deficit	-7.4	-7.9	-7.8	-7.2	-6.0	-5.0
Government Debt	93.9	90.0	93.0	86.5	82.3	77.6

Source: Department of Fiscal Policy

* ¹Excluding fully foreign funded key development projects of State Enterprises and Tsunami related projects

On a positive note, revenue increased to 17.1 percent of GDP from 16.1 percent in 2005 although the overall expenditure also increased from 24.7 percent to 25.4 percent. Despite the heavy pressure on recurrent expenditure, public investment was sustained at 6.3 percent of GDP. The overall fiscal deficit (inclusive of post-Tsunami expenditure) declined to 8.4 from 8.7 in 2005, contributing towards an acceleration of GDP growth in excess of 7 percent and a further decline in Public Debt/GDP from 94 percent to 93 percent

The challenges in fiscal management were considerable in 2006. The continuation of high oil prices averaging US\$ 70/bbl in 2006 built-up subsidies and high operational costs. Interruptions to the supply of essential goods

demanded tax/duty concessions to reduce the impact on the cost-of-living Escalation of violence in conflict affected areas and increased terrorist attacks on civilian and public property, demanded heightened national security leading to increased security and humanitarian relief expenditure. Wage and pension increases absorbed 32 per cent of Government revenue. Added to the above, floods, earth slips and similar disasters caused by extreme weather conditions resulting in loss of income and disrupted the day- to - day life of the people and supply of food, while also burdening the National Budget through demand for additional relief expenditure.

¹ This medium term Macro Fiscal Framework (2006-2009) was the basis for 2007 Budget which was presented to Parliament on 18th November, 2006. The framework is based on the performance up to August/September 2006 and assumptions developed at that time.

The fiscal management reform program was given priority to consolidate the process of reducing Government expenditure and augmenting Government revenue. In this endeavor, greater focus was placed on human resource development and capacity building for efficiency improvements in the revenue agencies, adopting a sectoral budgetary framework, moving towards a single accounting system, improving IT facilities and reinforcing accountability and governance measures.

In order to increase Government revenue, steps were taken to coordinate the operations of the national revenue agencies and provincial authorities, enabling the effective tapping of devolved revenue, to its maximum potential. Approval of cadre and recruitments were carefully monitored to moderate the growth of expenditure on personal emoluments.

The petroleum subsidy was phased out in mid 2006 in the wake of continued high oil prices thereby containing the petroleum subsidy to Rs 9.5 billion. The fertilizer subsidy was maintained for the benefit of small farmers, who deserved continuous assistance.

In the Treasury borrowing operations, preference was given to domestically available foreign currency resources to minimize the burden on the national Budget due to rising interest costs, while also ensuring that exchange risks and the foreign currency exposure in relation to Government debt, is maintained within prudential limits.

Inflows of official development assistance exceeded US\$ 1 billion, also recording the highest ever utilization. New commitments on assistance by the international donor community reached US \$ 1.2 billion.

The Government maintained its high priority given to a nationwide infrastructure development program with a view to accelerating growth in lagging regions with equal importance attached to promoting a knowledge economy through further improvements in human resources and skills development, particularly for the benefit of the rural youth. The implementation of development programs was also given a renewed momentum. However, terrorist threats in conflict-affected areas had an adverse impact on the speed of project implementation.

Chart 2.2

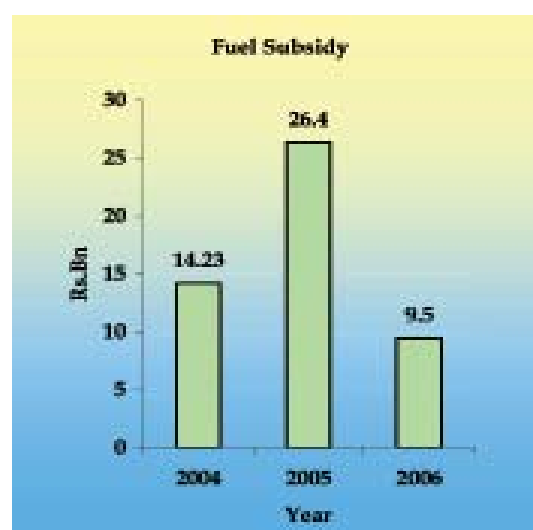


Table 2.2

Summary of Government Fiscal Operations

	Rs Mn			
	2005	2006 Budget	2006 Revised*	2006 Prov
Total Revenue	379,746	484,376	482,174	477,834
Tax Revenue	336,829	435,292	432,162	428,378
Income Tax	52,536	75,260	75,772	80,483
Taxes on Goods and Services	234,459	288,680	289,292	289,342
Taxes on External Trade	49,834	71,352	67,098	58,553
Non Tax Revenue	42,917	49,084	50,012	49,456
Total Expenditure	584,783	731,642	721,949	713,647
Recurrent	443,350	509,856	547,617	547,960
Salaries and Wages	138,603	168,570	176,285	175,031
Interest	120,159	151,259	151,591	150,778
Subsidies and Transfers	128,331	120,238	136,263	144,157
Other Goods and Services	56,257	69,789	83,478	77,994
Capital and net lending	141,433	221,786	174,332	165,686
Public Investments	148,582	225,295	183,832	177,443
Other	(7,149)	(3,510)	(9,501)	(11,757)
Revenue Surplus/Deficit (-)	(63,604)	(25,480)	(65,443)	(70,126)
Budget Deficit	(205,037)	(247,266)	(239,775)	(235,813)
Total Financing	205,037	247,266	239,775	235,813
Total Foreign Financing	80,414	124,223	83,079	72,007
Net Foreign Borrowings	47,774	81,983	37,354	41,939
Foreign Borrowings	69,134	134,173	89,544	87,927
Debt Repayments	21,360	52,190	52,190	45,989
Foreign Grants	32,640	42,240	45,725	30,068
Total Domestic Financing	118,304	123,043	128,051	163,805
Non-Bank Borrowings	93,109	123,043	128,051	83,798
Foreign currency domestic bank borrowing	41,711		34,595	41,124
Bank Borrowings	(15,517)		(5,950)	38,883
Non Market Borrowing	(1,000)			
Other	6,320			
Revenue/GDP (%)	16.1	17.8	17.4	17.1
Tax/GDP (%)	14.2	16.0	15.6	15.3
Non Tax/GDP (%)	1.8	1.8	1.8	1.8
Expenditure/GDP (%)	24.7	26.9	26.0	25.4
Current Expenditure/GDP (%)	18.7	18.7	19.8	19.6
Capital Expenditure/GDP (%)	6.0	8.2	6.3	5.9
o/w Public Investment/GDP (%)	6.3	8.3	6.6	6.3
Revenue Deficit/GDP (%)	(2.7)	(0.9)	(2.4)	(2.5)
Budget Deficit/GDP (%)	(8.7)	(9.1)	(8.7)	(8.4)
Net Foreign Financing/GDP (%)	3.4	4.6	3.0	2.6
Foreign Loans/GDP (%)	2.0	3.0	1.3	1.5
Foreign Grants/GDP (%)	1.4	1.6	1.7	1.1
Domestic Financing/GDP (%)	5.0	4.5	5.7	5.8
Non Bank Financing/GDP (%)	4.1	4.5	4.6	3.0
Foreign currency domestic borrowings/GDP (%)			1.2	1.5
Bank Borrowings/GDP (%)			(0.2)	1.4

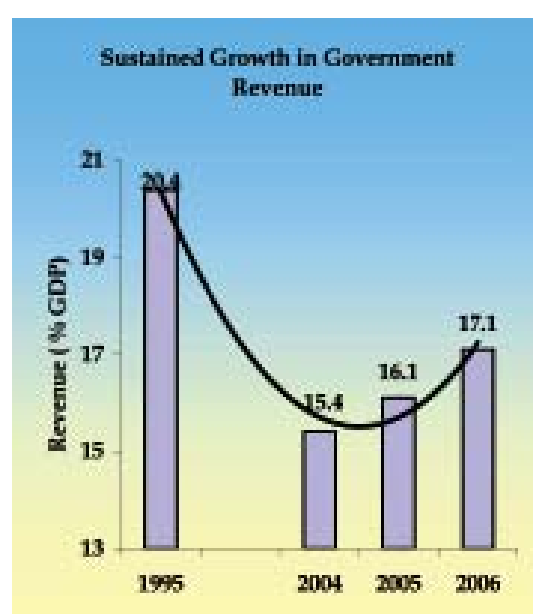
Source: Department of Fiscal Policy

*Revised in Oct 2006, based on a review of performance and taking into consideration the underlying assumptions of the 2006 Budget with actual data up to Aug/Sep 2006.

Government Revenue

Government revenue improved further for the third consecutive year in 2006. Revenue increased by 25.8 percent in 2006 compared to 2005, which is an increase of nearly Rs. 100 billion. As a percentage of GDP it increased to 17.1 percent in 2006 from 16.1 in 2005. The tax revenue to GDP rose to 15.3 percent from 14.2 percent in 2005, and reached Rs. 428 billion. compared to Rs. 337 billion in 2005.

Chart 2.3



Changes Towards Higher Revenue

In line with the Government's objective to sustain higher revenue effort, several tax policy measures were taken. Accordingly, enabling legislation for the implementation of the Budget proposals were enacted prior to the commencement of the tax year, facilitating both the taxpayer as well as the tax administration. The related consultative process continued through the Taxation Cluster of the National Council for Economic Development, which consists of relevant multi disciplinary members from both public and private sectors. This facilitated the formulation of revenue proposals, having taken into consideration the concerns of stakeholders through a consultative process.

Income Taxes Exceeded Targeted Revenue

Total revenue from corporate tax, personal Income tax, Economic Service Charge (ESC) and tax on interest income at Rs. 80,483 million recorded a significant growth of 53 percent over 2005, exceeding the budgeted figure of Rs. 75,260 million by Rs 5,223 million.

Table 2.3
Income Tax Performance

Indicator	Rs. Mn.			Growth (%)	
	2004	2005	2006	2005	2006
Corporate tax	12,628	17,719	29,683	40.3	67.5
Personal tax	13,435	15,252	21,282	13.5	39.5
ESC	4,035	7,283	8,853	80.4	21.6
Withholding tax	11,274	12,282	20,665	8.9	68.3
Total	41,372	52,536	80,483	26.9	53.2
GDP ratio (%)	2.0	2.2	2.9		

Source: Department of Fiscal Policy

The impact of the removal of exemptions, deductions and loopholes in tax laws, timely enactment of legislations coupled with measures taken to streamline the tax administration and the renewed commitment made by the administration, enabled this buoyant performance. The efforts made in creating a taxpayer friendly culture, also helped to augment Income Tax revenue.

During the period under review, over 38,000 new Income Tax files were opened with a view to expand the tax base and thereby draw potential taxpayers in to the tax net. Tax administration has been entrusted with a medium term target of opening 1 million new tax files.

Changes to Income Tax - 2006

Rate Changes;

- Income Tax rate for companies with a taxable income in excess of Rs. 5 million was raised from 30 to 35 percent.
- Income Tax rate on gaming and auto lotteries which was 30 percent was increased to a higher rate of 40 percent.
- Personal Income Tax rate was increased from 30 to 35 percent.
- Income Tax rate applicable to Cooperative Societies was reduced from 20 to 5 per cent

while for SMEs with a taxable income not exceeding Rs. 5 million, the Income Tax rate was reduced from 20 to 15 percent.

Broadening the Tax Base

- The maximum payable as the ESC was raised from Rs. 50 million to Rs. 60 million, while the threshold for the able turnover was brought down from Rs. 5million to Rs. 40 million.
- ESC was made applicable to BOI companies and entities enjoying tax holidays and exemptions.
- Legal provisions were introduced on arms length transactions to minimize transfer pricing and discourage thin capitalization.
- Revenue of non Governmental organizations excluding those engaged in providing humanitarian relief, was brought under taxation.
- 100 percent carry forward losses permitted to corporate entities, was restricted to 35 percent of the assessable income.
- Restrictions were imposed on deductible expenditure such as advertising costs.
- Limitations were imposed on concessionary rates applicable to quoted companies and to certain categories of non-resident employees

Administrative Measures to improve Compliance/Enforcement

- The time permitted to file a return was reduced from one year to 6 months.
- The time permitted to make an Assessment was reduced from 36 months to 18 months, from the end of a tax year.
- The time given to make an Assessment in a case where no return has been lodged was reduced from 5 years to 3 years.

- A 10 percent discount was permitted to taxpayers who pay taxes in advance while a penalty was imposed on late payments.
- A concession of 25 percent was allowed on Custom Duty, VAT and Excise Tax on the importation of classified vehicles by taxpayers who have paid more than Rs. 250,000 per year as Income Tax, provided that such payments had been maintained over a five year period.
- In the case of a person with an income of not less than Rs 1 million, who voluntarily opens an Income Tax file, the return is accepted without requiring further details.
- If a person has paid Income Tax with a progressive increase of 25 percent or more, over the previous year or if the income declared is more than 20 percent of the declared income of the preceding year, the return is accepted without requiring further details
- An appeal is deemed to have been acknowledged by the IRD within 30 days from the date such appeal is received by the IRD, even if a letter of acknowledgement has not been issued, to strengthen taxpayer rights.

Corporate structure of the IRD was restructured and reallocation of functions human resource development was given priority, to strengthen the institutional mechanism and ensure the effective enforcement of the tax administration.

Exemptions/Other Development Measures;

- International Sports Events were exempted from Income Tax, to facilitate such events being held in Sri Lanka.
- Income arising from investing in Sri Lanka Nation Building Bonds denominated in foreign currency by Sri Lankans living overseas was exempted from Income Tax, to encourage such investments.

- Income from services provided by the Tower Hall Foundation, Central Cultural Fund and the Presidents' Fund were exempted from Income Tax.

- Exemptions granted on profit on agriculture were further extended to cover agriculture processing as well, to promote value added products in the agriculture sector

- Tax incentives were granted for entities starting or relocating industries in districts other than Colombo and Gampaha under the "Gamata Karmantha" Program to minimize income and regional disparities and to direct wealth creation activities to less developed regions

- The depreciation allowance on plant and machinery for packaging, healthcare, printing and rice milling industries was increased to facilitate such industries to remain competitive through the introduction of advanced technology

- The liable turnover for ESC was reduced as a relief to freight forwarders, distributors and small scale factory owners to promote the SME Sector

- ESC which was earlier permitted to be set off only against Income Tax from attributable to profits from the liable turnover, has been permitted to be set off against any Income Tax

- Exemptions from Income Tax were granted for professionals on their foreign currency earnings to encourage inward foreign remittances

- Exemptions from Income Tax were granted on annuities to encourage designing income plans for retirees

- Provision was made to treat interest from corporate debt securities on par with those of banks, enabling a flat rate of 10 percent applicable on debt securities, to boost the Corporate Debt Security Market.

Taxes on Good and Services Continued to make a Buoyant Growth

- Government revenue from taxes on goods and services mainly through VAT, Excise duty, Debit tax and Stamp duty increased from Rs. 234,459 million in 2005 to Rs. 289,342 million in 2006 recording a growth of 23 percent

- The steps taken to strengthen VAT collections and streamline the VAT refund mechanism, improved economic performance, the increase in hard liquor production and vehicle imports, sales in long brand cigarettes mainly contributed to boost the revenue collection from taxes on goods and services

Table 2.4
Performance of Taxes on Goods and Services

Tax	Rs. Mn.			Growth (%)	
	2004	2005	2006	2005	2006
VAT	120,622	138,660	164,555	15.0	18.7
Excise Duty	65,790	76,978	92,845	17.0	20.6
Debit Tax	4,489	5,701	6,255	27.0	9.7
Stamp Duty	-	9	1,516	-	-
Other	8,183	13,111	24,171	60.2	84.4
Total	199,084	234,459	289,342	17.8	23.4
GDP ratio (%)	9.8	9.9	10.3		

Source: Department of Fiscal Policy

Value Added Tax (VAT)

- VAT revenue at Rs 164,555 million constituted 61 percent of the total taxes on goods and services reflecting a 19 percent growth. Revision on the markup applicable for the computation of the VAT base at the point of import, inclusion of PAL in the tax base and the rate revision in financial services, tax base increase reflecting the buoyant growth in the services sector, increases in high valued imports such as motor vehicles and price increases in certain commodities contributed to augment VAT revenue in 2006. This performance should be viewed in the background of various VAT exemptions given on machinery and raw material imports used for identified thrust industries, the provision of post-Tsunami related exemptions, and tourism sector services operating at a level below the potential.
- VAT on the services sector generated Rs. 40,615 million reflecting a 25 percent growth while VAT on financial services yielded Rs. 8,766 million, a growth of 61 percent.

Changes to VAT - 2006

Rate Changes

- VAT rate on financial services was increased from 15 to 20 percent.
- VAT rate on locally manufactured medicated soft drinks using ginger, nelli or ayurvedic plants was reduced from 20 to 15 percent.
- VAT liability on essential commodities which were taxed at 5 percent, both at the point of import and sale, was confined to 5 percent only at the point of import.

Broadening the Tax Base

- Markup on CIF for charging VAT at the point of import was increased from 7 to 10 percent.
- Items under the 5 percent rate band were made ineligible for refunds while item in the 20 percent rate band were made eligible to claim only a 15 percent refund.

Administrative Measures to improve Compliance and Enforcement

- The VAT refund system was further streamlined through the opening of a special account to facilitate refunds, to avoid refund related delays. 10 percent of the VAT collected at the point of import was required to be credited directly to this account.
- The VAT deferment facility was extended to the apparel industry, which is predominantly dependent on imported raw material...
- The period specified for the issue of refunds to exporters was reduced from 30 days to 15 days, provided a bank guarantee or an insurance bond is submitted, in order to avoid delays associated with audit/ verification. This period was extended to 45 days for other exporters.
- The deferment facility was extended for imports of capital goods by direct exporters to be used in the manufacture of goods for export and import of raw material by indirect exporters registered with the Textile Quota Board to be used in the manufacture of garments to be supplied to exporters.

Exemptions and Other Development Measures

- Import or supply of milk processing machinery, computers and computer accessories, selected machinery used in the construction industry, machinery, yarn or dyes used in the handloom industry, rice milling machinery, unprocessed timber logs and ships were exempted from VAT to boost such industries.
- Supply of High protein and high energy agro food manufactured locally out of grain cultivated in Sri Lanka was exempted from VAT to encourage local grain production and related value adding industries.
- Services provided by the Tower Hall Foundation and the Central Cultural Fund were exempted from VAT.

Table 2.5
Collection of Value Added Tax

Tax Base	Rs. Mn.			Growth (%)	
	2004	2005	2006	2005	2006
Domestic	67,412	71,444	82,508	6.0	15.5
Imports	70,502	79,497	93,221	12.8	17.3
Gross Revenue	137,914	150,931	175,729	9.4	16.4
Refunds	17,292	12,281	11,174	(29)	(9.0)
Net Revenue	120,622	138,650	164,555	14.9	18.7
Net Revenue as a percentage of GDP	5.9	5.9	6.0		
Refunds / Gross Revenue	12.6	8.1	6.4		

Source: Department of Fiscal Policy

Excise Tax

Revenue from Excise taxation arising from liquor, cigarettes, petroleum products, motor vehicles and certain white goods increased to Rs. 92,845 million in 2006 compared to Rs. 76,978 million in 2005, thus exceeding the Budget target of Rs. 85,363 million.

Table 2.6
Excise Tax Performance

Indicator	Rs. Mn.			Growth (%)	
	2004	2005	2006	2005	2006
Liquor	13,512	16,085	20,662	19.0	28.5
Cigarettes	23,457	26,692	30,099	13.8	12.8
Motor vehicles	12,672	14,020	20,731	10.6	47.9
Petroleum & other	16,149	19,181	21,353	18.7	11.3
Total	65,790	76,978	92,845	17.0	20.6
GDP ratio (%)	3.2	3.2	3.3		

Source: Fiscal Policy Department

The volume growth of around 18 percent in hard liquor production, coupled with the full-year impact of the rate revisions which took place in November and December 2005 and the partial impact of the revisions in October 2006, contributed to the increase in Excise Tax despite a 9 percent decline recorded in the production of malt liquor. The effective enforcement measures taken to minimize the illicit liquor trade complemented the revenue increases. The total Excise Tax on liquor which stood at Rs. 20,662 million in 2006, reflected a growth of 29 percent.

Table 2.7
Liquor Production

Category	Production			Growth (%)	
	2004	2005	2006	2005	2006
Hard Liquor (Mn. Proof ltrs)	34,585	38,471	45,402	11.2	18.1
Malt Liquor (Mn. ltrs)	48,393	51,548	46,895	6.5	-9.1

Source: Department of Fiscal Policy

In order to protect legal revenue, detections of illicit liquor were accelerated. 52,590 detections were carried out in 2006 compared to 45,000 in 2005. Strict supervision was carried out to enforce conditions in liquor licenses in order to reduce possible malpractices and 5,203 cases of malpractices were detected during 2006.

Despite the overall decline in Cigarettes sales, an increase of 15 percent in the sales of longer brands of cigarettes, coupled with the full impact of the rate revision made in the latter part of 2005 and the subsequent revisions in 2006, contributed to the increased revenue from Excise Tax on cigarettes by 13 percent, generating Rs. 30,099 million in 2006 compared to Rs. 26,692 million in 2005.

Table 2.8
Cigarette Sales

Brand	Mn. Sticks			Growth (%)	
	2004	2005	2006	2005	2006
Gold Leaf	2,180	2,577	2,955	18.2	14.7
Bristol/ Viceroy	2,075	1,976	1,385	-4.8	-29.9
Other	604	563	426	-6.8	-24.3
Total	4,859	4,936	4,766	1.6	-3.4

Intensified countervailing measures taken to prevent smuggling of cigarettes and withdrawal of the duty free allowance on cigarettes for arriving passengers boosted the legal revenue. In this effort around 50 million smuggled cigarettes have been confiscated by Sri Lanka Customs during 2006.

The increase in motor vehicle imports in 2006 compared to the decline experienced in 2005, contributed to generate Rs. 20,731 million as Excise Tax from such imports.

Excise Tax Changes – 2006

Rate Changes

- Increases were made to excise duty on liquor and cigarettes, based on different categories.
- Annual license fee on retail trade outlets of liquor was doubled

Broadening the Tax Base

- Markup on CIF for charging Excise Tax at the point of import was increased from 5 percent to 10 percent

Administrative Measures for Compliance/Enforcement

- A part of the Excise Duty collected on petrol and diesel was channeled to a Road Maintenance Trust Fund, to ensure a steady flow of funds for road maintenance.

Exemptions/Other Development Measures

- Removal of the Excise Tax of Rs. 1.25 on Kerosene
- Removal of the Excise Tax on Mobile Phones and Motor Bicycles
- Excise Tax, on cars, refrigerators, washing machines etc. manufactured in Sri Lanka with a specified minimum value addition, was exempted to boost local manufacturing industries.

External Trade Based Taxes Sustained a Buoyant Performance

Import duty collection at Rs. 52,681 million in 2006, registered a 16 percent growth over 2005. This growth should be viewed in the background that the increase in non fuel imports in 2006 being predominantly in the investment and capital goods carrying lower duty rates. The imposition of a 6 percent tax on wheat grain, a specific duty of Rs. 12.50 per kg. on wheat flour, a Rs. 5 per liter duty on Petrol imports, introduction of specific duties on certain commodities to curb under valuations and the increased imports of motor vehicles, generated higher revenue. Improved customs surveillance mechanisms also contributed towards this performance. Customs revenue collected from raids and detections of smuggling amounted to Rs.4,323 million in 2006.

The performance of the import duty should be viewed in the background of duty exemptions granted to give an impetus to thrust industries milk processing machinery, printing and packaging material, large construction machinery and equipment and exemptions being granted on certain essential commodities to curtail the rising cost-of-living, Further, bilateral trade agreements with India, Pakistan and the European Union (EU) resulted in removing trade barriers causing most tariff line items being placed at lower rates of Custom tariff.

Import Duty Changes – 2006

Tax Rate

- A specific duty of Rs. 12.50 per kg. on wheat flour and 6 percent on wheat grain were imposed to protect domestic paddy farmers, while a specific rate of Rs. 5 per liter was imposed on petrol imports

Broadening the Tax Base

- Tariff revisions were carried out with view to rationalize the import duty structure while specific duties were introduced to address valuation complexities and under valuation issues.

Administrative Measures for Compliance/Enforcement

- A stricter surveillance mechanism was introduced on imports through the commissioning of the modern x-ray machines at Customs

Exemptions/Other Development Measures

- To give an impetus to thrust industries, milk processing machinery, printing and packaging material, large construction machinery and equipment were exempted from Custom Duty.
- Duty applicable to three wheeler tyres and musical instruments was reduced to lower the up-front cost of these items.
- Investment limits to qualify for duty exemptions were reduced in areas such as healthcare, gem cutting and polishing and rice milling to encourage investments in advanced technology to enable them to be competitive.

- Tariff lines under Free Trade agreements with India and Pakistan, the South Asia Free Trade Area (SAFTA) Asian Pacific Trade Agreement (APTA) were further revised with a view to removing trade barriers resulting in lower tariff rates

Other Taxes

Revenue from the Port and Airport Levy (PAL) generated Rs. 21,126 million. Despite the exemptions granted for imports that are used for manufacture of items for exports, a 93 percent growth in PAL revenue was recorded in 2006 compared to 2005.

Stamp duty, which was introduced for limited transactions, generated Rs. 1,516 million.

Cess imposed on non-essential imports, primarily to curtail inflow of substandard products and to address issues pertaining to health and environment generated Rs. 5,872 mn. This revenue is generally ploughed back to the industry to be used for various development initiatives and to upgrade technology and research activities.

The Social Responsibility Levy (SRL) continued in 2006 with an increased rate of 1 percent and generated Rs. 1,731 million. This levy was imposed to support the National Action Plan for children.

The Betting and Gaming Levy, upward revisions imposed on live and non-live telecast on gaming generated Rs 282 million. in 2006 which reflects a 45 per cent growth over 2005.

The Teledrama and Film Levy, which came into effect from July 2006, generated Rs. 110 million in 2006.

Changes in Other Taxes

Rate Changes

- PAL rate on items other than imports for export, was increased from 1.5 to 2.5 percent
- The Social Responsibility Levy was increased from 0.25 to 1 percent
- Betting and Gaming Levy was raised from Rs. 200,000 to Rs. 300,000 for live telecast centers and from Rs. 25,000 to Rs.50,000 for non live telecast centers

- A levy was introduced on the telecast of tele-dramas and films produced outside Sri Lanka, excluding Tamil films, documentaries, those meant for educational or child entertainment and other prescribed categories, to preserve Sri Lankan Values

- Stamp Duty was re-introduced on specified instruments and documents other than Letters of Credit and those which are subject to Debit Tax, PAL and Share Market Transactions.

- A Cess was imposed/ scaled up on identified non-essential imports.

- A Cess of 5 percent was also introduced on motor vehicles in September 2006.

Broadening the Tax Base

- A 10 per cent markup on CIF was introduced for charging the Cess.

- A Regional Infrastructure Development Levy of 2.5 was imposed on motor vehicles at the point of import.

Exemptions/Other Development Measures

- PAL was exempted on imports used for processing and re-export.

Table 2.9
A Summary of Government Revenue - Economic Classification

(Rs. Mn.)

	2004	2005	2006 Prov
Tax Revenue	281,552	336,829	428,378
Income Tax	41,372	52,536	80,483
Personal Income Tax	13,435	15,252	21,282
Corporate Income Tax	16,663	17,719	29,683
Economic Service Charge		7,283	8,853
Tax on Interest Income	11,274	12,282	20,665
Taxes on Goods & Services	199,084	234,459	289,342
VAT	120,622	138,660	164,555
Manufacturing	23,106	27,278	30,892
Non Manufacturing	28,690	32,559	40,615
Imports	64,859	73,360	84,282
VAT/IT on Banking & Financing	3,967	5,463	8,766
Excise Tax	65,790	76,978	92,845
Liquor	13,512	16,085	20,662
Tobacco/Cigarettes	23,457	26,692	30,099
Motor Vehicles	12,672	14,020	20,731
Petroleum & Other	16,149	19,181	21,353
Other Taxes & Levies	12,672	18,821	31,942
Stamp Duty		9	1,516
License fees/Motor Vehicles & Other	624	2,142	3,045
Debit Tax	4,489	5,701	6,255
Port & Airport Development Levy	7,559	10,969	21,126
Tax on External Trade	41,096	49,834	58,553
Import	41,096	45,390	52,681
Cess		4,444	5,872
Non Tax Revenue	29,921	42,917	49,456
Property Income	15,193	20,724	19,066
CB Profit	1,000	5,000	-
Interest	8,673	8,641	10,321
Profits & dividends	4,357	5,928	7,451
Rent	1,163	1,155	1,294
Social Security Contribution	3,444	4,910	6,470
Fines, Fees, Sales and Charges & Other	11,824	17,283	23,920
Total Revenue	311,473	379,746	477,834

Source: Department of Fiscal Policy

Table 2.10
Variance Analysis of Government Revenue

Rs Mn.

Items	2006 Budget	2006 Revised Budget	2006	Reasons
Income Tax	75,260	75,772	80,483	Although the estimated economic growth for 2006 was 7 percent, a growth of 7.7 percent was recorded in 2006. This increase, coupled with the impact of increased Corporate and Personal Income Tax rates, the restriction of 35 percent in relation to carry forward losses, closure of loopholes through amendments to tax legislations, reducing the ESC threshold to 40 mn, timely enactment of tax legislation and improvements in the tax administration, resulted in a positive variance.
VAT	174,295	162,447	164,555	Despite the VAT revenue increase witnessed over 2005 attributable to the increase in the markup, increased VAT revenue on financial services and increased international commodity prices, the adverse impact of services such as tourism not performing to its potential levels due to the security situation that prevailed resulted in a variance from the Original Budget Estimates. However the VAT revenue in comparison with the Revised Budget Estimates shows a positive variance.
Excise	85,363	94,116	92,845	Increase in the hard liquor production and sales of longer brand cigarettes complimented with rate revisions, increase in motor vehicle imports, intensified countervailing measures and improved surveillance resulted in the collection of Excise Tax in excess of the Original Budget Estimates. The drop in cigarette sales in the later part of 2006 attributable to the enactment of Narcotics and Tobacco Act, and the less than expected malt liquor sales gave rise to a variance from the Revised Budget Estimates.
Import Duty	64,596	60,342	52,681	Continued duty waivers on essential commodities (see Table IX), increase in imports of investment and intermediate goods which carry lower duty rates, bilateral trade movements with India, Pakistan and the European Union (EU) causing most tariff line items being placed at lower rates of Custom tariff and administrative enforcement limitations, caused a variance from both the Original as well as Revised Budget Estimates.
PAL	15,642	20,600	21,126	Rate revision from 1.5 to 2.5 and the PAL being applicable to all imports other than imports for re-export, including imports that attracted lower Custom Duties as shown above, caused the positive variance.
Stamp Duty	3,700	1,200	1,516	The reintroduction of stamp duty being effected only from April 2006 and the over estimation resulting from taking into consideration the first few months of the year, caused the variance.
Debit Tax	6,251	6,841	6,255	-
Other Taxes	10,185	10,844	8,917	Shortfall in the Cess revenue reflecting less than expected imports on which Cess is applicable, there by indicating a shift towards domestic substitutes from imports, caused this variance.
Non Tax	49,084	50,012	49,456	-

Source: Department of Fiscal Policy

Table 2.11**List of Import Duty Waivers Granted During**

Item	Applicable Duty	Waiver
Potatoes	Rs 20/kg	Rs 5/kg
Dried Fish	6per cent	Full
Sprats	6per cent	Full
Maldivie Fish	6per cent	Full
Canned Fish	15 per cent	Full
B Onions	Rs 20/kg	Full
Red Onion	Rs 5/kg	Full
Sugar	Rs 10/kg	Rs 5/kg
Lentils	3 per cent	Full
Chilies	Rs 30/kg	Full
Cowpea	Rs 5/kg	Full
Chickpeas	15 per cent	Full
Green gram	Rs 5/kg	Full
Wheat Flour	15 per cent or Rs 12.50/kg	Rs 5/kg
Milk Powder	15 per cent	6 per cent

Source: Department of Trade, Tariff and Investment

Non-Tax Revenue Remained Stable

Non-tax revenue, excluding Central Bank profit transfers at Rs. 49,456 million. recorded a 15 percent growth in 2006. The sub-categories such as interest income, profit and dividend from public enterprises, social security contributions and rent income increased in 2006. There were no profit transfers from the Central Bank in 2006 in comparison to Rs. 5,000 mn during 2005.

A Variance Analysis

The analysis of revenue in terms of actual vs estimates shows that the variance that prevailed during 2002-2003 had reduced during 2004-2006. This is attributable to the considerable improvement in the preparation of revenue estimates, the streamlining of the tax administration and close monitoring of performance thus reducing the vulnerability of the Budget outcomes being away from estimates.

This improved trend is due to the use of a wider coverage and more updated data in the preparation of estimates as well as the enforcement and monitoring mechanisms that have been placed on revenue administration. However, challenges continue to remain due to inadequate human resource skills, capacity limitations as well as unethical trade practices by certain importers and domestic manufactures. Risk weighted enforcement arrangements through institutional reorganizations, skills enhancements and strengthening monitoring arrangements have been given high priority.

Table 2.12
Variance Analysis - Estimates vs Actual
As per Revenue Departments (2000-2006)

Rs. Bn.

Dept.	Tax		2000	2001	2002	2003	2004	2005	2006
Inland Revenue	Income Tax	Est	29.2	34.5	38.9	48.5	61.6	55.4	75.3
		Act	27.5	34.6	37.6	39.4	41.4	52.5	80.5
		%	93.9	100.4	96.5	81.3	67.2	94.9	106.5
	VAT *	Est	88.6	103.2	105.6	120.4	124.8	142.7	174.3
		Act	79.1	89.7	95.9	97.2	120.4	138.7	164.6
		%	89.3	86.9	90.8	80.7	96.5	97.2	94.4
	Stamp Duty	Est	-	9.5	2.3	-	-	-	3.7
		Act	-	8.4	11.5	0.1	-	-	1.5
		%	-	89.3	511.6	-	-	-	41.1
	Debit Tax	Est	-	-	3.4	4.1	4.4	5.3	6.3
		Act	-	-	2.5	3.6	4.5	5.7	6.3
		%	-	-	73.6	88.1	102.9	108.6	100
	Other	Est	0.6	0.6	0.5	0.5	0.5	1.0	1.0
		Act	0.3	0.3	0.3	0.3	0.3	0.8	0.8
		%	50	50	60	60	60	80	80
	Total	Est	118.4	147.8	150.7	173.5	191.3	204.4	260.6
		Act	106.9	133.0	147.8	140.6	166.6	197.7	253.7
		%	90.3	90.0	98.1	81.0	87.1	96.7	97.4
Customs	Import Duty	Est	26.9	35.0	29.8	33.4	42.3	54.8	64.6
		Act	23.9	26.1	28.3	34.2	41.1	45.4	52.7
		%	89.2	74.5	95.1	102.2	97.1	82.8	81.6
	Cess	Est	-	-	-	-	-	4.6	6.8
		Act	-	-	-	-	-	4.4	5.9
		%	-	-	-	-	-	95.7	87.0
	PAL	Est	-	-	4.2	6.1	6.5	11.4	15.6
		Act	-	-	3.5	5.5	7.6	10.9	21.1
		%	-	-	83.1	90.3	115.9	95.9	135.1
	Tobacco/ Cigarettes	Est	18.8	21.1	21.2	20.7	21.8	27.3	30.1
		Act	19.3	19.5	20.6	20.0	23.5	26.7	30.1
		%	102.5	92.5	97.1	96.6	107.4	97.8	99.9
	Petroleum	Est	-	14.9	17.1	13.6	16.7	21.9	18.0
		Act	-	12.9	16.7	13.3	14.8	17.0	18.5
		%	-	86.9	97.7	97.2	89.0	77.5	102.6
	Motor Vehicles and Other	Est	17.1	3.3	3.7	4.1	7.1	10.5	16.9
		Act	13.9	2.7	4.6	6.9	14.0	16.2	23.6
		%	81.2	83.4	123.4	168.2	198.0	154.3	139.6
	Total	Est	62.8	74.3	76.0	77.9	94.4	125.9	152.0
		Act	57.1	61.2	73.7	79.9	101.0	115.8	151.9
		%	90.9	82.4	96.9	102.6	106.9	91.9	99.9
Excise	Liquor	Est	10.7	10.9	10.3	10.9	13.8	17.1	20.3
		Act	9.5	9.8	10.3	10.7	13.5	16.1	20.7
		%	88.9	89.6	99.9	98.2	98.3	94.2	101.6

* Prior to 2002 figures corresponds to GST/NSL

Source: Compiled by the Department of Fiscal Policy

Box 2.1

Fiscal Incentives for Private Sector Development

Sector	Key Fiscal Initiatives
Electricity	<ul style="list-style-type: none"> VAT exempted on the supply of electricity, import of machinery and equipment by Ceylon Electricity Board (CEB) or any other institution entered into agreement with CEB to supply electricity.
Bus transportation	<ul style="list-style-type: none"> VAT and Customs Import Duty exempted on the import of any bus by any bus owner holding a valid passenger services permit to replace a bus which has been used for passenger transportation for not less than five years. Reduction of the VAT rate applicable to ticket issuing machines from 15 percent to 5 percent.
Construction Industry	<ul style="list-style-type: none"> Income Tax exempted on profits of any individual engaged in construction work outside Sri Lanka for which payment is made in foreign currency and has been remitted to SL through a bank. Increase of the depreciation allowance on machinery used in the construction industry from 12.5percent to 25 percent Reduction of Withholding Tax (WHT) on the construction fee from 5percent to 1percent Relaxation of licensing requirement for importation of heavy machinery more than 7 years old. Scaled up of Cess to support manufacture of straw and similar boards domestically. CGIR being empowered to administer the Construction Industry Guarantee Fund levy and to collect the WHT to strengthen the Construction Industry Guarantee Fund.
Plantation Agriculture	<ul style="list-style-type: none"> ESC applicable on production or manufacture of tea, desiccated coconut, coconut oil, coconut fiber, copra, sheet rubber or charcoal reduced from 0.5percent or 1percent to 0.25percent VAT exempted on the importation and supply of furnace oil. VAT and Customs Import Duty exempted on import of machinery for modernization of factories.
Prawn Farming	<ul style="list-style-type: none"> VAT exempted on: Supply of prawns. Imposition of Cess at a rate of 20 percent or Rs.50/-per Kg which ever is higher on import of shrimps and prawns
Poultry	<ul style="list-style-type: none"> Customs Import Duty exempted on importation of poultry keeping machinery, poultry incubators and brooders, machinery for meat preparation.
Livestock	<ul style="list-style-type: none"> VAT, Import Duty exempted on: the importation of breeding of cattle, buffalos, poultry, pigs, goats, sheep, and their siemens and embryos. Imposition of Cess of 20 percent or Rs.100/-per Kg which ever is higher on the importation of processed and un-processed meat products.
Entreport Trade	<ul style="list-style-type: none"> ESC exemption on profit from entreport trade, from offshore activities. Availability of 10% tax rate to profits of any consignor or consignee. ESC reduction on onshore transactions to 0.1percent

Box 2.1 (Cont....)

Sector	Key Fiscal Initiatives
Gold/Gem/Diamond and Jewellery Industry	<ul style="list-style-type: none"> • VAT rate reduction on supply of jewellery from 20percent to 5percent • ESC on export of jewellery, gem, diamonds and gold at 1% on the value addition. • Imposition of a 15% Cess on imported Jewellery • Removal of PAL on import of specified gems, diamonds and gold
Apparel and Textile Industry	<ul style="list-style-type: none"> • E.S.C reduced to 0.1percent on apparel exporters, supply of textile to apparel exporters, trading houses approved by the BOI and engaged in the export of apparel • if the turnover on ESC is computed based on the FOB value of exports 0.1percent and if the turnover is not the FOB value at 1percent • PAL rate reduced to 2 percent on import of specified machinery used in the apparel and textile industry. • VAT exempted on the supply of locally manufactured handloom. • Consolidated duty of Rs.25/-per piece on release of garments to the domestic market by BOI apparel exporters.
Leather Industry	<ul style="list-style-type: none"> • Scaled up Cess on import of all footwear, upper and parts thereof to 25percent or Rs.300/- per pair, which is higher. • Imposition of Cess of 20percent or Rs.100/- per unit, which ever is higher on importation of outer soles and heels. • VAT and Import Duty exempted on the importation of material for processing and manufacturing of leather and leather products
Shipping Industry	<ul style="list-style-type: none"> • Reduced Income Tax rate of 33 1/3percent for capital allowance in respect of ships acquired. • Income Tax exemption on remuneration of any resident individual, employed in a Sri Lankan ship. • VAT exemption on import of ships and chartering of vessels. Removal of Import Duty on importation of ships.
Health	<ul style="list-style-type: none"> • VAT rate reduced from 15% to 5% on the import and supply of high-tec medical equipment.
Local Film Industry	<ul style="list-style-type: none"> • VAT exempted on the production, distribution or exhibition of any film and supply of laboratory facilities for the production of any film • VAT and PAL exempted on the importation of any film produced locally and taken out of Sri Lanka for further processing or printing. • VAT rate reduced to 5percent and Import Duty exempted on the importation of specified items used in the film industry • Income Tax concessions: <ul style="list-style-type: none"> ○ 10 year tax holiday for newly constructed cinemas ○ 5 year tax holiday for exiting cinemas ,which are equipped with digital technology, DTS and double sound systems and other technologically advanced facilities. • Deductions from Income Tax increased from Rs. 10 Million. to Rs. 25 Million. on qualifying payments on the cost of production of films.
Unit Trust Industry	<ul style="list-style-type: none"> • Provision to claim exemption of profits from the sale of shares. • Stamp Duty exempted on documents for the issue or transfer of Units in a Unit Trust • Lower ESC rate of 0.5% for Unit trusts.

Systemic Deficiencies in the Revenue Administration

The Report of the Auditor General on the Special Study ('the Report') of the weaknesses in the Revenue Administration states that revenue denied to the Government due to weaknesses in the Tax Administration amounts to Rs. 360 billion. The Report observes that this revenue loss has occurred due to weaknesses in the tax administration, negligence on the part of the revenue agencies and lack of supervision by the Ministry of Finance and Planning (MoFP). It further observes that there are discrepancies between tax returns and the custom and income statements, inefficiencies associated with recovery of arrears, tax refunds having been made without a verification process and tax avoidance through the submission of incorrect information etc. The Report has gone further, considering general concessions granted to retiring public servants and emergency measures taken in the immediate aftermath of the Tsunami, being quantified as revenue losses to the Government. An alternative method for the computation of tax on cigarettes and a series of violations in the excise administration have also been highlighted therein.

Parallel to the reform initiatives which commenced in 2004 towards addressing weaknesses and shortcomings of the revenue administration, a comprehensive study was also undertaken by the Revenue Departments and the MoFP, in relation to the observations made in the Report.

A primary observation that can be made in relation to the Report is that the issues referred to therein and the data used, relate to over a ten year period in many instances. In the case of Value Added Tax (VAT), the period covered is 2002 to 2006. As such, the estimated revenue loss referred to in the Report does not correspond to a revenue loss in a single year.

The study undertaken by the Revenue Departments and the MoFP also revealed that the amount stated in the Report as revenue loss

is grossly overstated. For instance, although the Report quotes a sum of Rs. 22 billion as tax arrears, it does not mean that there is such a large amount of recoverable arrears in the system. As per the records of the Inland Revenue Department (IRD), tax arrears are arrived at based on an assessment issued by the IRD either upon the rejection of a Return or in a situation where no Return has been filed. It even can be in a situation where the amount of tax stated in a Return has not been paid. The tax arrears figure also includes the imputed penalty component which is around 50 percent in the case of Income Tax and could be as high as 100 percent in the case of VAT. Further, out of the total arrears/ default figures, a substantial amount represents tax in dispute between the IRD and the Tax Payers, which are being addressed by the Department, the Board of Review or the Court of Appeal, as envisaged by law and within this arrears figure, there is also an amount of transferable refunds due to tax payers. In addition, a part of this figure also represents tax defaulted by Government institutions that are confronted with financial difficulties as well as defunct Government agencies. Hence the stated figure of tax arrears in the Report needs to be revisited, in the light of the aforementioned observations.

The Report states that a sum of Rs. 47 billion has been written off by the IRD. As envisaged by the revenue statutes and based on settlement of disputes or determinations made by the board of Review or the Court of Appeal, the IRD discharges a part of taxes in dispute each year. What is important to note is that the IRD does not discharge any taxes unless consequent to such a settlement or determination, as permitted by law.

The Report further refers to an amount of Rs. 241 billion as revenue foregone on Notices of Assessment on VAT in relation to cases exceeding Rs. 10 million, of which Rs. 204 billion relates to 2004 and Rs. 26 billion relates to 2005. This appears to be a misreading of numerical values stemming from errors in some of the computer generated Assessments. The correct figure is Rs. 40.7 billion. However, it is obvious that this figure of Rs. 241 billion is unrealistic as revenue foregone. For instance, the actual gross revenue collected in 2006 from

VAT on imports, domestic manufacturing and a wide range of services was Rs. 176 billion, out of which Rs. 11.2 billion was utilized for VAT refunds. Hence, the net revenue from VAT was Rs. 166 billion or 6 percent of GDP. The estimated foregone revenue of Rs. 241 billion reflected in the Report, by itself is more than the actual Gross Revenue collected in 2006 and also accounts for 9 percent of GDP. The current VAT policy regime, even at its full efficiency is unlikely to generate this quantum of additional revenue in a single year since it already generates 6 percent of GDP. Moreover, VAT Assessments are issued by the IRD when no VAT return is furnished by a registered person or when a registered person has failed to pay VAT as per the Return. Since a considerable number of VAT Assessments are pending in appeal, the associated amount cannot in anyway be treated as final tax arrears recoverable.

In the meantime, based on a preliminary investigation carried out by the IRD, VAT Refunds to the tune of Rs. 3.6 billion have been identified as involving a fraud that has taken place during the period November 2002 to August 2004. The Criminal Investigations Department has been entrusted to take action with the assistance of the Attorney General's Department, in relation to these fraudulent refunds. The CID is proceeding in this regard and it has been informed that some of the suspects have already been taken into custody. As simultaneous action to recover undue refunds, the IRD has also taken measures within the parameters set out in the Value Added Tax Act and has already issued Notices of Assessment. IRD has received notices of appeal in relation to 5 such cases. IRD has also proceeded to institute recovery action in the District Court. The District Court has already given calling dates in relation to 3 such cases while the other cases are being processed. Appropriate action has also been taken to suspend passports of those involved with the fraud, as and where necessary. In order to minimize the possibility of such frauds recurring in the future, the audit and refund functions of the IRD have been distinctly

separated within the organizational structure. To further reduce associated system vulnerabilities, a system of making urgent tax refunds on the strength of a Bank Guarantee was introduced, facilitating stronger checks and balances. A system of cross checking import / export figures prior to making a refund is also in place. Several other legal and administrative measures including a deferred system for exporters were also introduced to further strengthen checks and balances.

There is also reference to a total sum of Rs. 34.7 billion on account of inefficiencies associated with the collection of Goods and Services Tax (GST), National Security Levy (NSL) and Turnover Tax (TT). GST was introduced in 1998 in place of TT, which was in operation since 1963. NSL was introduced in 1992 and was operational until 2002 when it was replaced by VAT. A substantial part of this component referred to as a revenue loss, comprises cases in dispute, non-payments by Government agencies and penalty components. The adjusted amount for consideration is around Rs. 11.4 billion. Further, this identified revenue loss of Rs. 34.7 billion in comparison to the total collection from GST, NSL and TT during the time span they were operative is only 4.7 per cent. During 2003 to 2004, even the routine recovery was interrupted consequent to the tax amnesty legislation that was passed in 2002. With the repeal of this amnesty law in 2004, a sum of Rs. 1.5 billion has so far been recovered on account of GST, NSL and TT.

The specific explanations to the observations made in the Report are given in Box 1. As verifiable in terms of the aforesaid explanations, the denial of revenue attributable to systemic weaknesses in the revenue administration as highlighted in the Report may be estimated at not more than Rs. 6.2 billion of which Rs. 3.6 billion is associated with the fraud which has occurred during 2002 to 2004. The modernization program that was initiated in 2004 has commenced addressing the long standing deficiencies and systemic weaknesses, to create an efficient and modern tax administration.

Box 2.2

Special audit on Government Revenue Administration

Observation	Estimated Revenue loss - Rs. Mn.	Explanation by relevant revenue agencies and Ministry of Finance and Planning
VAT refunds having been made despite notable discrepancies in the statements of accounts for Income Tax and related Customs documents	1,873.8	<ul style="list-style-type: none"> As per statutory requirements, VAT refunds have to be made within 45 days from the date of receiving a VAT return by the IRD. The Statement of Accounts in relation to Income Tax for the same period are submitted only in the successive year. As such a cross comparison of data is not possible on a recurrent basis to effect refunds. However in relation to any discrepancy found in the process of audit between a Statement of Accounts and a VAT return, it is addressed through the issuance of assessment. Further, a system of cross- checking of import/ export figures was introduced in the later part of 2004, which has resulted in minimizing discrepancies pertaining to refunds. Beginning from 2007 VAT refund is subject to the maximum of output tax
Inefficiency in the recovery of tax arrears	22,275.6	<p>In terms of the Inland Revenue Act, tax in arrears represent any balance outstanding on an assessment issued by the Inland Revenue Department either;</p> <ul style="list-style-type: none"> on the rejection of a return a return having not been filed(no return cases), a return having been filed but no tax having been paid. <p>As such, tax in arrears is based on an assessment, and not necessarily based on the tax declared by the taxpayer in his Tax return and could therefore vary. There is a substantial amount of tax in dispute, which are consequently pending in appeal. Substantial amount of tax in arrears represents the penalty component as well. Further, tax liabilities by Government enterprises and defunct public institutions are also included in the total figure.</p> <p>Please see Box 2.3</p>
Taxes written off by the IRD	47,549.2	It is incorrect. This amount represents tax discharged by the Inland Revenue Act either based on the settlement or a determination made by the Board of Review or the Court of Appeal, as provide by law.
Refunds having been made without setting off against arrears of taxes	1,018.7	<p>Refunds are not setoff against the arrears taxes when the arrears of tax is in dispute and pending in appeal; or the arrears represent an amount due as a penalty arising from a nonpayment.</p> <p>There is an administrative mechanism that has been put in place to ensure that VAT refunds are made by the IRD only after setting-off any taxes in arrears.</p>
Export income as shown by the tax payers being overstated by Rs.275 Mn	104.8	<p>At the initiation stage of VAT implementation import / export verification was not put in place. However, from 2004, Customs and Inland Revenue Departments have been interlinked through a computer system enabling the verification of import/export data and a refund/ finalization of VAT liability is made only after such verification.</p> <p>Further crosschecking is also ensured with regard to input claims from domestic purchasers.</p>

Box 2.2 (Cont...)
Special audit on Government Revenue Administration

Observation	Estimated Revenue loss - Rs. Mn.	Explanation by relevant revenue agencies and Ministry of Finance and Planning
VAT avoidance by providing incorrect/ bogus information to the IRD	17.3	Certain registered persons for VAT, after having collected VAT from consumers refrain from remitting the same to the IRD. Majority of such instances are detectable at the time of audit. Having recognized this issue, as an initial preventive measure, a withholding mechanism in relation to payment of VAT was introduced pertaining to Government institutions with effect from 01.01.2007.
Notice of Assessments issued on VAT in relation to cases exceeding Rs. 10 million	241,014.2	This is a computer error. The figure should read as Rs. 40.7 billion. In any case Notice of Assessment could not be Rs. 241 billion. Total revenue collected from VAT in 2006 is Rs.176 billion which is 6 percent of GDP. A notice of VAT Assessment is issued, when no VAT return has been furnished by a registered person, When a registered person has failed to pay in full or part, the VAT payable as per his return or when a return is rejected after having carried out an audit, A considerable number of Assessments are pending in appeal and the associated amounts cannot therefore be treated as final tax having to be paid. This amount also needs to be adjusted for the amount claimable as input credit. When Assessments are finalized, action is taken including legal action, to recover the relevant amounts.
Refund of VAT	3,607.6	These are the sums involved with the alleged VAT refund fraud. The Criminal Investigations Department is carrying out an investigation in consultation with the Attorney General.
Refund of Goods and Services Tax	114 .6	
Inefficiencies associated with GST, NSL and TT collections	20,228.9 14,589.8	A substantial part of these amounts comprises of taxes in dispute pending in appeal and cannot therefore be treated as the amount recoverable. <ul style="list-style-type: none"> • Since the Amnesty became operative in 2003, GST, NSL and TT became non-recoverable by law. • Amnesty was repealed with retrospective effect in 2004, and recovery of GST, TT and NSL arrears was reactivated only thereafter. • Nearly 50 of the total comprises of the penalty component. • Action has been already initiated to recover these amounts <i>inter alia</i> through legal action. • Action is being taken to setup special unit at the IRD, to ensure expeditiously recover / finalize the arrears • It is noted that since the Amnesty become operation in 2003 the recovery process was interrupted until amnesty was repealed and recovery was reactivated in 2004.
Withholding tax have not been duly collected	74.8	A separate unit has been establish in the IRD to stream line the withholding tax mechanism
Unnecessary delays in depositing withholding tax by the IRD	3.4	
Unnecessary delays in crediting to the Government account the tax collected by banks	43.0	Instructions having gone to the banks in 2004, the banks are now ensuring that such amounts are credited to the government account without undue delays.
Losses due to inaction on dishonored cheques	171.0	A procedure was introduced in 2004 by the IRD to streamline action in relation to dishonored cheques. Possibilities of taking action under the Credit Information Bureau Act pertaining to those who have written cheques without funds are also being explored.
Avoiding tax by registering motor cars as trucks	11.4	With effect from May 2005, details of importation of motor vehicles are transmitted by Customs to the Motor Traffic

Box 2.2 (Cont...)
Special audit on Government Revenue

Observation	Estimated Revenue loss - Rs. Mn.	Explanation by relevant revenue agencies and Ministry of Finance and Planning
Registration of vehicles on bogus documents by the department of Motor Transport Commissioner.	3.4	Department, through a computer system in order to verify the documentation, minimizing associated irregularities.
Incorrect computation of tax violating excise duty Act	460	Tax concession extended to retiring public servant was implemented through a circular instruction and incorporated by amending the relevant Act.
Imports vehicles for Tsunami disaster activities in contrary to the provision of excise duty Act	66.2	The catastrophic situation of immediate aftermath of Tsunami was dealt though Circular instruction.. Subsequently, the Excise duty Act was amended to recognize such circumstances.
Taxation of cigarette manufacturers, violating the excise duty Act	1,334.7	Duty is collected when the cigarettes are removed from the factory. The loss on revenue figure has been computed on an alternative basis of computation as per which it is proposed to collect tax at wholesale stock level. The suggested way is administratively cumbersome and involves cash flow variations.
Tax lost related to liquor production	479.9	Action has been taken to recover such dues and in the case of those who have failed to make payments, legal action was initiated and in appropriate cases, even production has been suspended based on court orders.
Not accounting PAL in the formula used for the calculation of Excise Duty	130.1	PAL was incorporated to this formula in November 2004
Failure to collect due taxes from institutions established under the Temporary Import for Export Purpose Scheme.	34.4	Violations have been dealt under the provisions of the Customs Ordinance and penalties imposed and action was also taken to withdraw related facilities.
Loss due to delay in auctioning confiscated goods	18.8	Disposals were made having followed the required Tender Procedure. To minimize delays associate with revaluation, a higher panel is now in place to make revaluations expeditiously.
Withdrawal of cases relating to arrears of duty under Excise (Special) Provisions Act.	119.6	Although the process that was suspended due to the amnesty Act, as a result of the repeal of the amnesty Act, steps were taken to file action.
Tax due to the Customs from the Sri Lanka Port Authority	4,108.6	In 1996 Sri Lanka Port authority imported gentry cranes. Tax due was shown in the SLPA accounts but not paid on the argument that similar imports by Airport and Aviation Authority was not liable for tax. After determining it was payable, this amount has been paid in installment and now reduced to Rs.1,000 million. In any case this is an intra governmental revenue movement and no strict loss of revenue in net terms has occurred.
Non crediting proceeds of sales arising from auctioning excluded and perishable goods, to the Consolidated Fund	237.6	Auctions in relation to abandoned cargo including perishable cargo are conducted by the SLPA and the requirement is to credit to the Consolidated Fund after SLPA having recovered associated expenditure including any demurrage. What needs to be noted is that perishable cargo has no value and even non-perishables cargo do not normally fetch the actual value at these auctions. Considering these reasons, the total amount of Customs Duty that could be treated as recoverable, is unlikely to be recovered.
Non payment of tax by investment companies	70.5	Investment companies are liable to pay withholding tax only if their source of income is trough interest. If it is trading income, withholding is not applicable. The associated companies have taken the position that their income has arisen from trading. Advice has already been sought from the Attorney General in this regard.
	359,764.5	

Tax in arrears / Default

A joint study was undertaken by the Inland Revenue Department and the Ministry of Finance and Planning to work out approximately the “collectible arrears” based on the figures available as of 30th March 2007 to prepare an accelerated programme of arrears collection in terms of the 2007 Budget proposal. The summary of such imputation of arrears is given in Table 2.13 computation.

Tax in Arrears	
Type of Tax	As of 31st March 2007
Income Tax	45,381.00
Surcharge on Income Tax	1,826.00
Economic Service Charge	2,711.60
Stamp Duty	0.02
Value Added Tax	86,558.80
Betting & Gaming Levy	25.10
Goods and Services Tax	19,211.50
National Security Levy	5,255.40
Turnover Tax	6,420.07
Save the Nation Contribution	108.90
Obsolete Taxes	27.10
Wealth Tax	110.00
Surcharge on Wealth Tax	4.00
Gift Tax	16.00
Estate Duty	35.80
Surcharge (Old)	30.00
Compounding Penalty	15.00
Total	167,705.59
Less: Penalty	60,294.00
Disputed amount	54,742.50
Transferable refunds	9,654.00
Government Institutions	8,486.00
Estimated Tax in arrears / default	34,529.60

Source: computed from the figures available at the Department of Inland Revenue

* Shaded area refers to taxes which are currently in operation

As can be seen from Table 2.13 the total gross arrears / default at end March 2007 amount to Rs. 167.7 billion. However, this amount once adjusted for the disputed amounts, transferable refunds and the amount collectible from Government agencies which are in financial difficulties decrease to Rs. 94.8 billion. This amount still includes the provisioning for penalty of Rs. 60.3 billion. Recovery of penalty depends on the settlement compliance by the tax payers concerns. Several of the taxes have been abolished as far back as 1980. Hence the amount in arrears could be estimated in the range of about Rs. 34.5 billion plus some amount out of penalty.

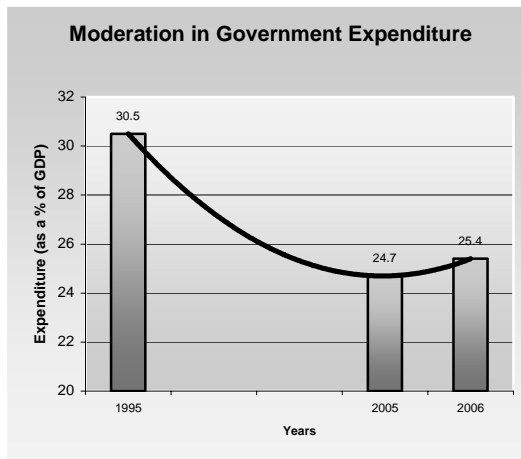
Any Tax system is vulnerable to business failures and cash flow problems confronted by tax payers. The collections is also subject to administrative and legal limitations for enforcement for recovery. There is also an inbuilt percentage of tax arrears in the system. Such arrears figure could at the minimum be around 3 percent of the actual revenue collection each year depending on the sophistication of the tax administration as well as economic conditions. Therefore, the potential arrears collection by the Inland Revenue Department could be estimated in the range of Rs. 25,000 - 30,000 million plus a reasonable penalty which may involve 2-3 year period of collection depending on the complexity of each default / arrears case. The collectible arrears involves approximately 77,542 tax payers of which 75,697 are taxes less than Rs. 5 million each. The value of taxes attributable from these category, accounts for about 40 percent.

In terms of the 2007 Budget proposal the law was amended to enable the payment of tax arrears any penalty, on an installment basis over a period of 3 years. Any party who fails to comply with this arrangement will be liable to pay full amount with penalty. Strengthening of arrears collection unit, Expeditious settlement mechanism at the department level as well as required administrative arrangements to improve the performance of Board of Review are being introduced in order to fast track the collection of arrears.

Government Expenditure

The overall public expenditure recorded a 22 percent growth in 2006. Recurrent expenditure at Rs. 547,960 million reflected an increase of 23 percent while public investment at Rs, 177,443 million increased by 19 percent, over 2005. The government expenditure in relation to GDP increased largely reflecting the impact of high cost of salaries and pension.

Chart 2.4



Implementation of the new salary structure correcting long standing anomalies in the public sector salaries, revisions in pensions, introduction of a monthly Cost-of-Living Allowance (COLA) to public servants and pensioners, the full impact of recruitment of around 40,000 graduates to the public service, new recruitments of nurses, clerical and technical staff and around 15,000 home guards, increased cost on fertilizer and fuel subsidies due to high import prices and exchange rate fluctuations and increased interest payments on public debt consequent to high interest rates witnessed at Central Bank auctions on open market operations, influenced the expansion in recurrent expenditure in 2006. Increased security related expenditure and humanitarian expenditure in liberated areas also contributed to the higher level of recurrent expenditure. Despite the rise in recurrent expenditure, the Government maintained an enhanced level of development activities contributing to an expenditure growth in 2006. However, the entire provisions for development expenditure

could not be utilized, partly due to more than expected recurrent expenditure.

Chart 2.5

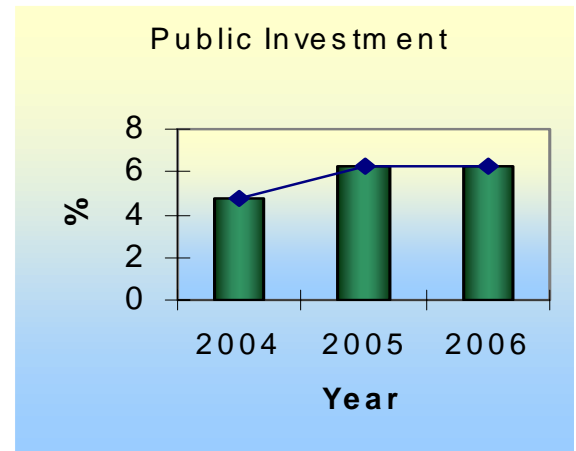


Chart 2.6

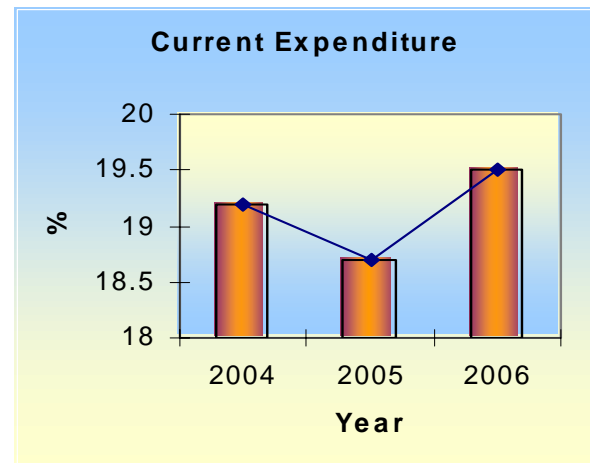
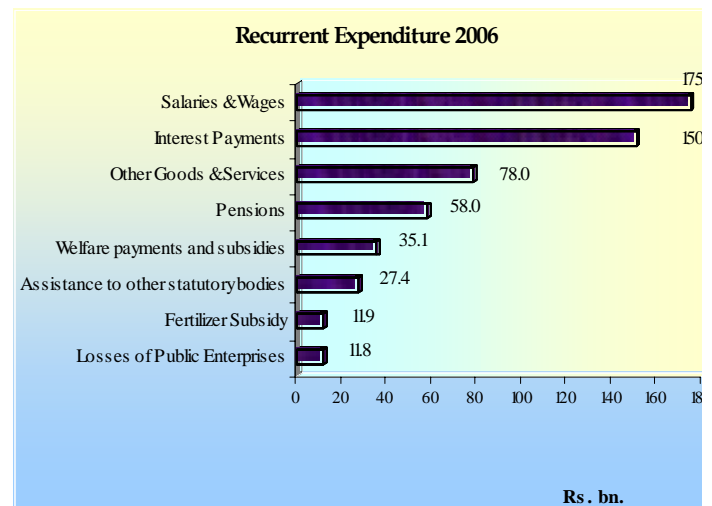


Chart 2.7



Policy Thrust to Improve Quality of Public Expenditure

While channeling increased expenditure towards pro-poor, pro-growth development, human resource development and infrastructure expansion, the Government took several initiatives in areas such as cadre management, fertilizer and fuel subsidies and debt management to set directions in public expenditure within prudent limits, within the medium term.

Circular instructions were issued to all ministries, departments, agencies and enterprises, requiring to obtain prior approval on recruitment in order to ensure that appointments are made within the approved cadre and within approved budget ceilings in order to consolidate expenditure on personal emoluments.

In the context of rising cost of wages, the 6 month adjustment on Cost-of -Living Allowance (COLA) was maintained at a maximum of Rs 350 per month for public servants and Rs. 175 per month for pensioners.

Public servants' housing/property loans were implemented through banks with the Government providing an interest subsidy. This mechanism while reducing the provisions on the advance accounts operations also created a complimentary effect on the Government's cash management. This process also enabled to accommodate more loan applications than under the previous system, thereby benefiting many Government servants than the previously operated advance account system.

The fertilizer subsidy was targeted to small holding agriculture. For the paddy sector which is a small holder activity and which is vulnerable to vagaries of weather and price fluctuations, fertilizer was provided at Rs. 350 per 50 Kg. bag, on all varieties of fertilizer. This was also extended to vegetable and other food crop cultivators in paddy lands. Small holder plantation agriculture (less than 5 acres) also received fertilizer at a subsidized rate.

In the context of rising oil prices, administered prices on petroleum, diesels and kerosene were raised several times in 2006, to minimize the burden on the national budget. Petroleum prices were placed on commercial pricing in June 2006, thereby removing the fuel subsidy burden on the Budget. The Petroleum Corporation passed to the public, the benefit of the declining trend in international oil prices which were evident in the latter part of 2006, by reducing fuel prices in September and October 2006.

Government opted to borrow funds from Foreign Currency Banking Units (FCBUs) and through Sri Lanka Development Bonds (SLDBs) domestically, reducing the cost of funds and the pressure on domestic market borrowings. This was in place of the originally planned foreign borrowings, as market conditions for such borrowings in the second half of the year were not favorable.

Measures were taken to reduce procurement delays through the involvement of the National Procurement Agency ensuring more expeditious procurement processes *inter alia* benefiting foreign aid utilization. The foreign aid utilization in 2006, exceeded US\$ 1,000 million.

Table 2.13
Current expenditure Summary 2004-2006⁽¹⁾

Rs. Mn

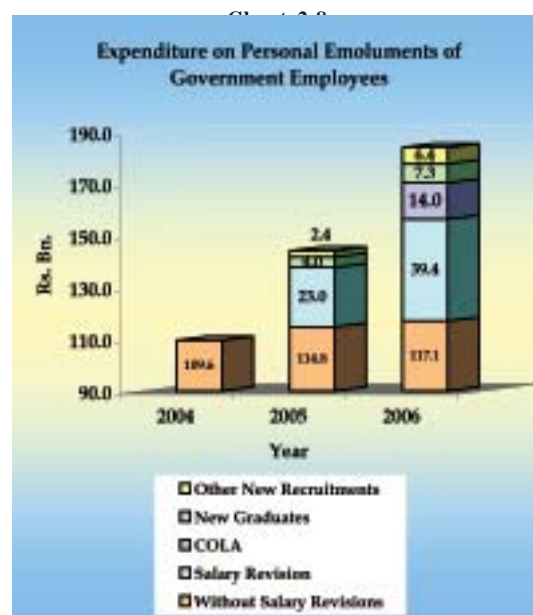
Item	2004	2005	2006
Total Current expenditure	389,679	443,350	547,960
Salaries & wages	106,187	138,603	175,031
Other Goods & Services	58,343	56,257	77,994
Interest payments	119,782	120,159	150,778
Foreign	13,904	6,995	16,990
Domestic	105,878	113,164	133,787
Pensions	36,444	46,782	58,006
Losses of Railway, Postal and C.T.B.	6,262	9,060	11,767
Assistance to other Statutory Bodies	15,162	17,436	27,376
Fertilizer Subsidy	3,572	6,846	11,867
Welfare payments and subsidies	43,927	48,207	35,141
As a % of GDP			
Total Current Expenditure	19.2	18.7	19.5
Salaries & wages	5.2	5.9	6.2
Other Goods & Services	2.9	2.4	2.7
Interest payments	5.9	5.1	5.4
Foreign	0.7	0.3	0.6
Domestic	5.2	4.8	4.8
Pensions	1.8	2.0	2.1
Losses of Railway, Postal and C.T.B.	0.3	0.4	0.4
Assistance to other statutory bodies	0.7	0.7	1.0
Fertilizer Subsidy	0.2	0.3	0.4
Welfare payments and subsidies	2.2	2.0	1.3

Source: Department of National Budget

(1) Figures as per Economic Classification

Personal Emoluments and Pension Cost Reflected a One - Off Jump

The expenditure on account of public sector personnel emoluments, including those of security personnel and provincial employees, increased to Rs. 175,031 million in 2006 compared to Rs. 138,603 million in 2005, an increase of 26 percent.



The correction of salary anomalies and discrepancies by reducing and regrouping 126 salary scales to 37 salary scales, new recruitments and the full year impact of graduate recruits being absorbed into the main stream, increased the salary bill. Large recruitments were necessitated mainly due to the adverse impact of the prolonged employment freeze in the public sector which affected the service delivery and civil security required for the border villages to provide protection against terrorist attacks. The pension related expenditure was Rs.58,006 million in 2006, an increase of 24 percent over 2005. The salary revisions extended to pensioners who retired prior to 1997, coupled

with the entry of over 18,000 pensioners at the enhanced scales, increased the pension costs.

Security Related Expenditure

The expenditure from national Security increased Rs. 61,498 million in 2005 to Rs. 81,243 million 2006. In relation to GDP defence expenditure increased from 2.6 percent to 2.9 percent. The total defence expenditure consisted of Rs. 44,961 million on account of personal emoluments which increased by 18 percent largely due to salary increase and cost of living allowance. The expenditure on civil security increased from Rs.20,467 million in 2005 to Rs.28,487 million in 2006 largely reflecting the recruitment from the Department of civil Security to strengthen civil security particularly in Boarder villages, salary increase and payment of cost of Living.

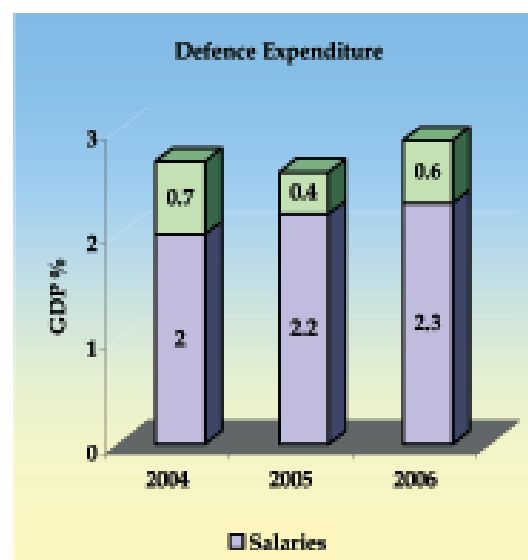


Table 2.14
Government Employees Engaged in Service Deliveries 2004-2006

	2004	2005	2006
General Education	201,081	205,089	218,356
Teachers	187,338	187,339	204,908
Other staff	13,743	17,750	13,448
Students	3,870,628	3,875,050	3,836,550
Teachers/Students ratio	21	21	19
Health	84,500	89,000	96,513
o/w Doctors(western)	9,494	10,588	10,505
Nurses	25,272	26,847	27,698
Population/Physician	2,050	1,858	1,893
Population/Nurse	770	733	718
Government Enterprises	38,434	39,752	41,256
Railway	16,203	16,435	17,435
Postal	22,231	23,317	23,821
Civil Security Related Employees	81,008	82,748	100,316
Sri Lanka Police	61,555	63,614	65,316
Civil Security/ Home Guards	19,453	19,134	35,000
Other Government Employees	260,511	273,817	276,418
Total	654,526	682,778	730,837
Government Pensioners			
Total Pensioners	411,427	418,923	428,715
Civil	246,246	249,740	254,210
Widows and Orphans	103,895	107,601	111,740
Armed Forces	33,789	33,433	33,350
Pirivenas and Other Schools	1,767	1,492	1,450
Foreign Pensioners	3,900	4,797	5,590
Local Governments	14,792	14,641	14,475
Other	7,038	7,219	7,900

Source: Department of National Budget

Table 2.16
Government Expenditure – Economic Classification

Rs. Mn.)			
Item	2004	2005	2006 Prov
Current Expenditure	389,679	443,350	547,960
Goods and Services	164,530	194,860	253,025
Central Government	55,187	66,416	83,556
Salaries	30,246	44,950	54,544
other	24,941	21,466	29,012
Defence	56,341	61,498	81,243
Salaries	30,850	38,040	44,960
other	25,491	23,458	36,283
Police & Public Security	17,111	20,467	25,197
Salaries	10,636	10,993	14,074
other	6,475	9,474	11,123
Provincial Councils	35,891	46,479	63,029
Salaries	34,455	44,620	61,453
other	1,436	1,859	1,576
Interest Payments	119,782	120,159	150,778
Domestic	105,858	113,164	133,788
Foreign	13,924	6,995	16,990
Subsidies & Transfers	105,367	128,331	144,157
Public Corporations	8,405	10,412	18336
o/w Railways & Postal	3,524	5,205	6,781
Public Institutions	13,019	16,084	20,807
Local Authorities	358	233	172
Households	83,585	101,602	104,842
Pensions	36,444	46,782	58,006
Disabled Soldiers	3,860	4,749	6,563
School uniform/text books & Nutrition programme	1,988	2,734	2,798
Samurdhi	8,498	9,161	10,789
Fertilizer subsidy	3,572	6,846	11,867
Fuel subsidy	14,232	26,400	9,419
Refugee Assistance	2,532	1,591	2,586
Other	12,459	3,339	2,814
Public Investment	97,630	148,582	177,443
Capital Expenditure-Grants	83,807	140,154	162,213
To Ministries & Departments	40,449	88,190	88,208
To Public Co operations	19,068	19,919	21,526
To Public Institutions	19,306	20,701	32,371
To Provincial Councils	4,812	11,141	19,699
Other	173	203	409
Capital Expenditure-Lending	3,420	1,279	3,473
To Government Co operations	13,823	8,428	15,230
Repayment of on lending	(15,920)	(10,364)	(13,881)
Other	5,517	3,215	2,124
Total Expenditure	476,905	584,783	713,647

Source: National Budget Department

Chart 2.9

An Upward Trend in Interest Rates

Interest payments on foreign and domestic debt amounted to Rs. 150,778 million registering a 25 percent increase over 2005, mainly due to an increase in the domestic interest rates on Government Securities in response to the upward adjustment in policy rates by the Central Bank of Sri Lanka and the open market operations of Government securities. The debt moratorium the country enjoyed in 2005 also influenced the increased ratio, as the moratorium did not apply for 2006.

Enhanced Assistance for Agriculture

Empowering farmers have been recognized as an essential pre-requisite for farmer wellbeing. In this endeavor, all varieties of fertilizer were provided at Rs. 350 per 50 kg bag for paddy agriculture. This was extended to vegetables and other food crops. The fertilizer subsidy was extended to tea, rubber and coconut smallholders (cultivating less than 5 acres). Urea was provided at a subsidized price of Rs. 1,200 compared with a market price of Rs. 1,800 per 50 kg bag and the scheme catered to around 90 percent of the small holder plantation sector.

The cost of the fertilizer subsidy in 2006 amounted to Rs. 11,867 million compared to Rs. 6,846 million in 2005. In the *Maha* 2005/2006 and in the *Yala* 2006, subsidized fertilizer was distributed to the needy through the Agrarian Service Centers, Co-operatives, Mahaweli Authority as well as through the normal distribution network. Expenditure channeled to agriculture by way of interest subsidy for agricultural credit, restructuring credit for paddy mills and for the provision of agricultural seeds, stood at Rs. 285 million in 2006 in comparison to Rs.182 million in 2005.

With the aim of ensuring a reasonable producer price, the Government continued to purchase paddy through advances to the Government Agents. The amount released by way of advances in 2006 amounted to Rs. 3,359 million compared to Rs. 2,324 million in 2005. This process is managed through a revolving fund and Rs. 2,020 million of the advances were recovered during 2006, compared to Rs. 441

million in 2005. Further, about 300 paddy millers have been assisted to obtain loans from commercial banks to purchase paddy.

Table 2.16
Advances for the Purchase of Paddy

Government Agents/Institution	2005	2006 (Rs. Mn)
Polonnaruwa	825	830
Anuradhapura	348	490
Ampara	450	523
Badulla	41	40
Trincomalee	45	90
Kurunegala	110	136
Puttalam	35	34
Hambantota	60	115
Monaragala	40	38
Bataloa	55	40
Kandy	25	45
Matara	10	13
Ratnapura	25	17
Mannar	30	20
Vavuniya	50	25
Mullativu	75	25
Kilinochchi	70	50
Matale	30	28
Dept. of Agrarian Development -	-	75
Agricultural Development Board	-	725
Total	2,324	3,359

Source: Department. of Treasury Operations

Taxation on agricultural income was exempted. This exemption was extended to agricultural processing to encourage investment on value added agricultural products. The 15 percent tax on income from export of agricultural products was also removed to deepen agricultural production targeted to export markets, while VAT on items such as packeted tea was removed to give an impetus to value added tea exports.

High tariff was maintained on imported wheat flour to reorient consumption towards rice and rice flour.

With the enhanced support extended to agriculture and consequent to favorable weather conditions, the paddy production reached 3.34 million metric tones in 2006 making it a year of self-sufficiency in rice. This contributed to provide rice at stable prices in the range of Rs 28-35 per kg during the year.

A number of programs were implemented in areas such as breeding, milk collection and marketing with a view to boost dairy production which has been projected as a potential domestic high growth industry. 84 animal breeding farms, 110 dairy villages, 56 milk sales centers at a cost of Rs 248 mn were established in 2006, while tax exemptions were granted on imports used for livestock breeding, milk collection machinery etc. As such, National milk production increased by 5 mn liters in 2006.

The fisheries sector benefited from the rehabilitation activities launched after the Tsunami disaster. This sector rebounded in 2006 with fish production increasing by 74 percent to 172, 440 tons in 2006. Projects such as fisheries harbors at Ambalangoda and Hambantota, rebuilding of Tsunami affected fisheries harbours at Beruwala, Galle and Tangalle, commenced in 2006. In view of the large number of small farmers engaged in prawn farming, a moratorium was arranged through financial institutions there by enabling them to revitalize the industry. The necessary funds were provided to the National Aquaculture Development Authority for the Dutch Canal Rehabilitation Programs and the disease control measures for the prawn farmers. The associated cost was Rs 41 million in 2006. A Cess was introduced on imports of shrimp products to help local farmers to be competitive while concessions were given on prawn feed and equipment in the form of VAT and import duty exemptions, to reduce upfront costs.

New Programmes on Mothers and Children

School Nutritional Food Program was introduced to improve nutritional levels of students in less advantaged areas by providing mid day meals at a cost of 722 million. This extended benefits to 40,534 children covering 6,214 rural schools.

683 children have received “Senehasa” bank accounts; a scheme designed to assist children who lost their parents consequent to the Tsunami or the conflict in the North and East. Associated budgetary cost was Rs 12 million.

In order to address nutritional deficiencies, programs to provide nutritional food packages

worth Rs.500 per month to expectant mothers and fresh milk worth Rs.200 per month to children between 2-5 years, were introduced in 2006. Under the first phase covering 9 Divisional Secretariat Divisions (DSDs) 5,800 persons benefited and the second phase covering a further 110 DSDs benefiting a further 74,000. The total cost of the program amounted to Rs. 615 million in 2006. In addition, the *Thripasha* Program was carried out at a cost of Rs . 537 million.

Gama Naga Rata Nagamu - Rural Development Initiatives Expanded

Government undertook several Livelihood and Regional Development initiatives with a view to improve living standards of people in lagging regions. The projects undertaken by several ministries are programmed to ensure enhanced income, increased wellbeing, reduced vulnerability, improved food security and more sustainable use of natural resources with a regionally balanced development in the country.

The “*Gama Naguma*” an initiative to empower the poor through an integrated rural development program was launched in February 2006 targeting 119 poorest DS Divisions. “*Gami Diriya*”, “*Gami Pubuduwa*”, “*Jana Pubuduwa*” programs designed to restore rural infrastructure, strengthened market facilities, livelihood development, micro finance facilities and skills development among *Samurdhi* beneficiaries were strengthened in 2006 at a cost of Rs. 3,921 million. “*Gami Diriya*” program was implemented in 535 villages in 33 DS Divisions covering 7 districts under which 176 infrastructure projects were commenced and 39 were completed during 2006. Under the “*Gami Pubuduwa*” program covering 22 districts, 12,840 infrastructure projects commenced in 2006 and work was completed on 11,346 projects. “*Jana Pubuduwa*” program designed to provide micro credit facilities provided Rs.380 million among 820 beneficiaries covering 209 villages in 152 DS Divisions.

“*Karmantha Gammuna*” program designed to transfer technology to villages cost Rs. 438 mn in 2006. Under this, work on 273 industrial villages was started and 40 of the planned villages were completed benefiting around

11,000 people. 3 new industrial estates were established in Kuruwita, Ulapone, and Laksha Uyana for the benefit of small industrialists.

The "Osu Gammuna" program designed to protect valuable indigenous medicinal plants and to provide associated employment opportunities to rural masses to earn additional income cost Rs. 44 million in 2006 and benefited around 2,500 farmers in 51 DSDs. Under the "Osu Uyan" program, lands in Nikaweratiya, Haldummulla and Giradurukotte were developed.

Expenditure on "Maga Neguma" and "Dahasak Maha Wew" the two island wide rural infrastructure development programs amounted to Rs. 2,248 million in 2006. Under the "Maga Neguma" program 4,926 projects were undertaken in 2006 improving the condition of 2,284 km of roads. Around 71,900 families directly benefited through these infrastructure development measures.

Under the "Dahasak Maha Wew" program 222 tanks/ rural irrigation schemes were completed in 2006 augmenting the water supply for the agricultural sector which complemented growth in the sector. Expenditure under "Rajarata Navodaya", "Pubudamu Wellasa" and other specific regional development programs were carried out at a cost of Rs. 538 Million.

Assistance to Low Income Families Expanded

Samurdhi Programme designed as a social safety net for the low income families was continued in 2006 at a cost of Rs. 10,900 million. The 50 percent increases in the Samurdhi monthly allowance as announced in 2006 Budget was implemented in 113 DSDs. The amounts paid in respect of death assistance scheme and childbirth allowance under the Samurdhi Programme were also doubled.

Incentive programs to increase the accessibility in general education continued in 2006. Season ticket subsidy cost Rs. 250 million, while free text books were also provided to the school going children population of around 3.9 million at a cost of Rs. 1,123 million in 2006. Bursaries and Scholarships were granted to 64,000 Grade 5 students costing Rs. 235 million while school uniform program was continued at a cost of Rs. 963 million.

Table 2.17
'Maga Neguma' Programme - Progress 2006

District	Length of Roads Developed (Km)	Cost (Rs. Mn).
Colombo	58.7	88.9
Gampaha	91.2	115.0
Kalutara	95.5	111.8
Kandy	77.3	92.2
Matale	37.9	35.4
Nuwara Eliya	57.4	58.4
Galle	56.9	67.8
Matara	125.7	153.3
Hambantota	324.9	295.2
Jaffna	4.1	3.4
Mannar	7.1	8.1
Vavuniya	20.6	7.1
Mullativu	13.4	4.5
Killinochchi	16.0	5.6
Batticaloa	32.3	10.4
Ampara	70.7	51.2
Trincomalee	23.4	7.7
Kurunegala	261.3	193.2
Puttalam	140.9	91.8
Anuradhapura	248.6	71.9
Polonnaruwa	78.2	22.7
Badulla	49.9	31.6
Monaragala	106.9	40.9
Rathnapura	95.6	125.1
Kegalle	189.1	106.7
TOTAL	2,283.9	1800.0

Source: Department of National Budget

Table 2.18
Welfare Payments and Subsidies 2004-2006

Rs. Mn.

Description	2004	2005	2006
Children	3,259	3,248	4,196
Infant Milk Food subsidy	127	143	150
Poshana Malle	-	-	82
Triplosha Programme	805	504	537
Free Text Books	788	863	1,123
School Uniforms	1,100	1,200	963
School season tickets	258	261	250
Handicapped Students	28	40	50
Dharma school Text books & Uniforms etc,	61	80	84
Bursaries and Scholarships	92	157	235
School Nutritional Foods	39	166	722
Agriculture	3,660	7,028	12,072
Interest subsidy for Agriculture Loans etc,	48	136	158
Fertilizer Subsidy	3,572	6,846	11,867
Development Subsidy	40	46	47
Welfare Payments	17,946	17,617	20,190
Samurdhi relief	8,497	9,103	10,789
Assistance to Disable Solders	3,840	4,749	5,921
Assistance to Internally Displaced Persons	2,340	1,591	2,586
WFP food Assistance	1,150	1,258	1,075
Public Assistance through Provincial. Councils	659	640	648
Flood and Drought relief	1,460	276	171
Fuel Subsidies	18,511	26,312	9,418
Petrol	1,702	650	-
Diesel	12,275	13,672	2,145
Kerosene	2,574	5,642	2,889
L P Gas	237	-	-
Fuel Oil	1,723	6,348	4,385
Other	745	788	945
Street lighting	700	743	900
Water subsidy for religious places	45	45	45
Losses of Departmental Enterprises	8,132	9,939	13,642
Sri Lanka Railways	2,070	3,554	3,982
Sri Lanka Transport Board	3,221	3,854	4,976
Assistance to Defunct Enterprises	1,870	879	1,875
Postal Department	971	1,652	2,809
Total	52,253	64,932	61,463

Source: Department of National Budget

Emphasis on Human Resource Development

Health

Government provided Rs. 58,038 million to the health sector, nearly a 30 percent increase over 2005, with higher emphasis given to preventive, curative and rehabilitation care services at provincial level. Rs. 8,900 million worth of medical supplies was provided in 2006 compared to Rs. 7,100 million in 2005.

Funds were provided to AIDS, TB and Malaria preventive programs, curative health improvements including the construction of a Neuro-Trauma Unit and a Nephrology Unit, a Blood Bank and for improvements to several base hospitals.

To address the issue of lack of skilled human resources in the sector, the recruitment drive was continued with 116 new doctors, 85 new specialists and 1,003 internee doctors, 83 dental surgeons, 1,367 nurses, 567 Public Health Midwives (PHMs), 169 Public Health Inspectors (PHIs), 290 para medical trainees and 1,969 persons to the non technical grades being added to the system in 2006.

Education

Government's commitment to provide access to basic and secondary education was further strengthened in 2006. Education sector expenditure was enhanced to Rs. 78,332 million in comparison to Rs. 63,557 million in 2005.

With a view to promote access to quality education, rehabilitation of 200 schools in the plantation sector was commenced in 2006. Under the model planning school project, 100 schools were identified to be upgraded at a cost of Rs. 129 million, to reduce the excessive competition to enter popular schools in urban areas. Further, under the *Navodaya* Schools Project, rehabilitation and new construction of schools commenced. Rs. 112 million was allocated to provide solar powered computers to 100 schools.

Universities utilized Rs. 2, 432 million to improve infrastructure including IT and science laboratories, modern lecture theatres and student hostels. The Government also

provided an additional allocation to increase the intake of 1,000 more students during the academic year 2005/2006.

Infrastructure Development Highlights

Electricity

Major power projects such as the Norochcholai Coal Power Project, Phase 1 with a capacity of 300 mw, the Upper Kothmale Hydro Power Project with a capacity of 150 mw and the Combined Cycle Power Plant at Kerawalapitiya with a capacity of 300 mw, commenced in 2006.

To further enhance the existing transmission and grid availabilities, transmission lines between Ambalangoda-Galle and Matugama-Ambalangoda were commenced. The construction of grid stations in Galle, Ambalangoda, Deniyaya, Aniyakanda, Pannala and Kelaniya also commenced in 2006.

The expenditure on Power and Energy Sector amounted to Rs. 4,921 million in 2006.

Roads

With the aging road network and increasing traffic, maintenance and rehabilitation of the road network required increased funding. Rs.23,340 million was incurred in 2006 to upkeep and improve national highways. A Provincial Road Development Program was carried out in 2006 at a cost of Rs, 3,467 million. A Road Maintenance Trust Fund was established to provide necessary fund in a streamlined manner for road maintenance activities.

Ports

Preliminary work on major ports related development activities commenced in 2006. The funds required for the Colombo South Harbour Development Project, the Hambantota Sea Port Development Project and the Galle Port Development Project, have been mobilized.

Transport

Expansion and refurbishment of railways and public bus transport infrastructure were carried out in 2006. As such, 722 new buses were added to the state bus fleet while 109 existing buses were rehabilitated. 26 engines, 222 railway carriages and 155 wagons were repaired and reintroduced for operations. The expenditure on Railways and the CTB to cover their operational losses amounted to Rs. 3,982 million and Rs. 4,976 million and the capital contribution from the national budget amounted to Rs. 7,585 million.

Work of the second International Airport at Weerawila commenced while the Katunayaka Airport expansion project continued at a cost of Rs. 5,540 million in 2006.

Irrigation

Work of the Moragahakanda Irrigation Project started in 2006 and Manik Ganga- Weheragala irrigation project was also continued at a cost of Rs. 624 million in 2006.

Water Supply

The Kaluganga Water Supply Project was completed in October 2006 benefiting about 500,000 people in areas south of Colombo. The pipe borne water supply project in the Greater Kandy Area was commissioned benefiting around 420,000 people. Construction of water supply schemes involving Matara, Ambalantota, Kataragama and eastern coastal towns of Pottuvil, Sammanthurai, Kalmunai and Ampara is nearing completion, benefiting around 550,000 people.

The Third Rural Water Supply and Sanitary Project, a rural and community water supply project, has covered 828 villages by end 2006 benefiting around 1 million people in the districts of Kalutara, Anuradhapura, Puttalam, Hambantota, Kegalle and Ampara. Under the Community Water Supply and Sanitation Projects, a further 587 Grama Niladari Divisions were provided with safe drinking water benefiting around 630,000 people.

The total expenditure on water supply and sanitation in 2006 amounted to Rs. 18,134 million, compared to Rs. 12,360 million in 2005.

Provincial Councils

The key issue faced by Provincial Councils (PCs) and Local Authorities is the large gap between their revenue and expenditure. The average revenue generated by PCs during the last several years is around 0.5 - 0.7 percent of GDP.

It is evident that devolved taxes and duties have not been fully exploited by these agencies. To arrest this situation, Government in the 2007 Budget proposed to setup a close coordinating mechanism between PCs, Treasury and the Finance Commission. This measure is envisaged to increase provincial revenue by at least 1 percent of GDP, over the next 2 years.

With a view to increase the revenue collection by PCs, the turnover tax on cigarettes and liquor forming part of devolved revenue was increased to 5 percent in the latter part of 2006 from 1 percent.

The total revenue of PCs increased to Rs. 19.5 billion in 2006 from Rs. 16.1 billion recorded in 2005. Out of the total, recurrent expenditure of Rs. 76.4 billion, 79 percent was on account of personal emoluments. The major share was absorbed by education (69 percent) and health (21 percent).

The transfers to PCs from the National Budget increased to Rs. 71 bn in 2006 compared to Rs. 54 bn in 2005. Rs. 8 bn was provided to Provincial Councils by way of foreign aid for development projects.

Table 2.19
Consolidated Budget

	2005 Rs Bn	2006 Rs Bn	2005 as % of GDP	2006 as % of GDP
Total Revenue	395.8	497.3	16.8	17.8
Central Government	379.7	477.8	16.1	17.1
Tax	336.8	428.4	14.2	15.3
Non Tax	42.9	49.5	1.8	1.8
Provincial Councils	16.1	19.5	0.7	0.7
Tax	13.8	16.6	0.6	0.6
Non Tax	2.3	2.9	0.1	0.1
Total expenditure	598.1	729.0	25.3	26.0
Central Government (including transfers to provincial councils)	584.8	713.6	24.7	25.4
Current	443.4	547.9	18.7	19.5
Capital	141.4	165.7	6.0	5.9
Provincial Councils (using own resources)	13.3	15.4	0.6	0.6
Current	12.0	14.1	0.5	0.5
Capital	1.3	1.3	0.1	0.1
Budget Deficit	202.3	231.7	8.6	8.3

Source: Department of Fiscal Policy

Utilization of Budgetary Provisions

Utilization of recurrent expenditure consisting of personal emoluments, establishment costs ,minor maintenance activities and welfare expenditure is close to 100 percent. However in several ministries and agencies, such utilization rates vary widely. In respect of capital expenditure, several ministries have shown increased utilization of over 80 percent. Ministries of Ports and Aviation, Roads, Post and Telecommunication have shown marked improvements.

Performance of several ministries have been less than 60 percent of the capital provision. The under performance in the utilization of capital provisions by many ministries is due to delays in land acquisition, procurement difficulties to mobilize technically qualified staff and also due to inadequate project preparation and rigid procedures and conditions associated with some of the donor funded projects. Major activities suffer due to these reasons.

Chart 2.10

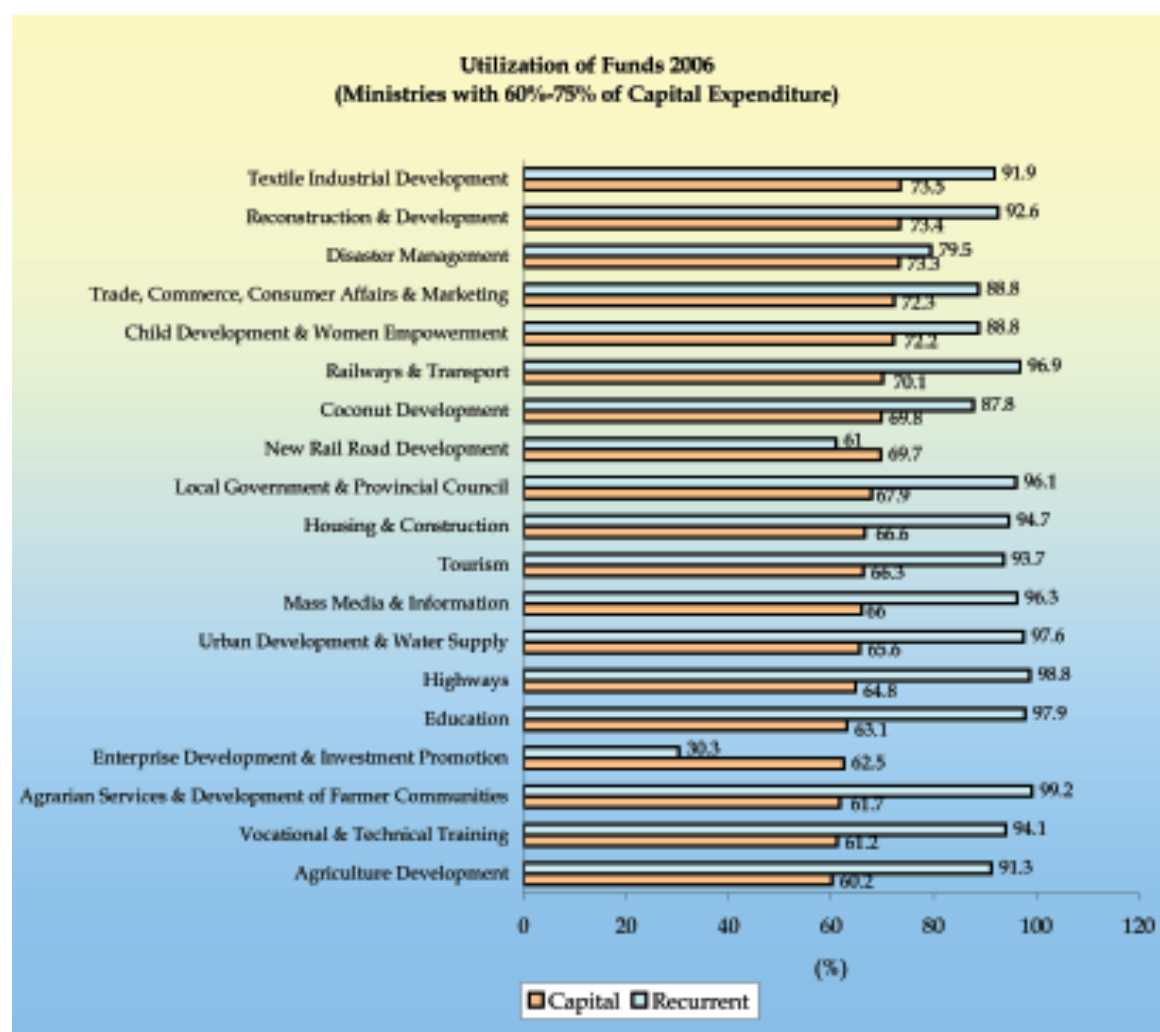


Chart 2.11

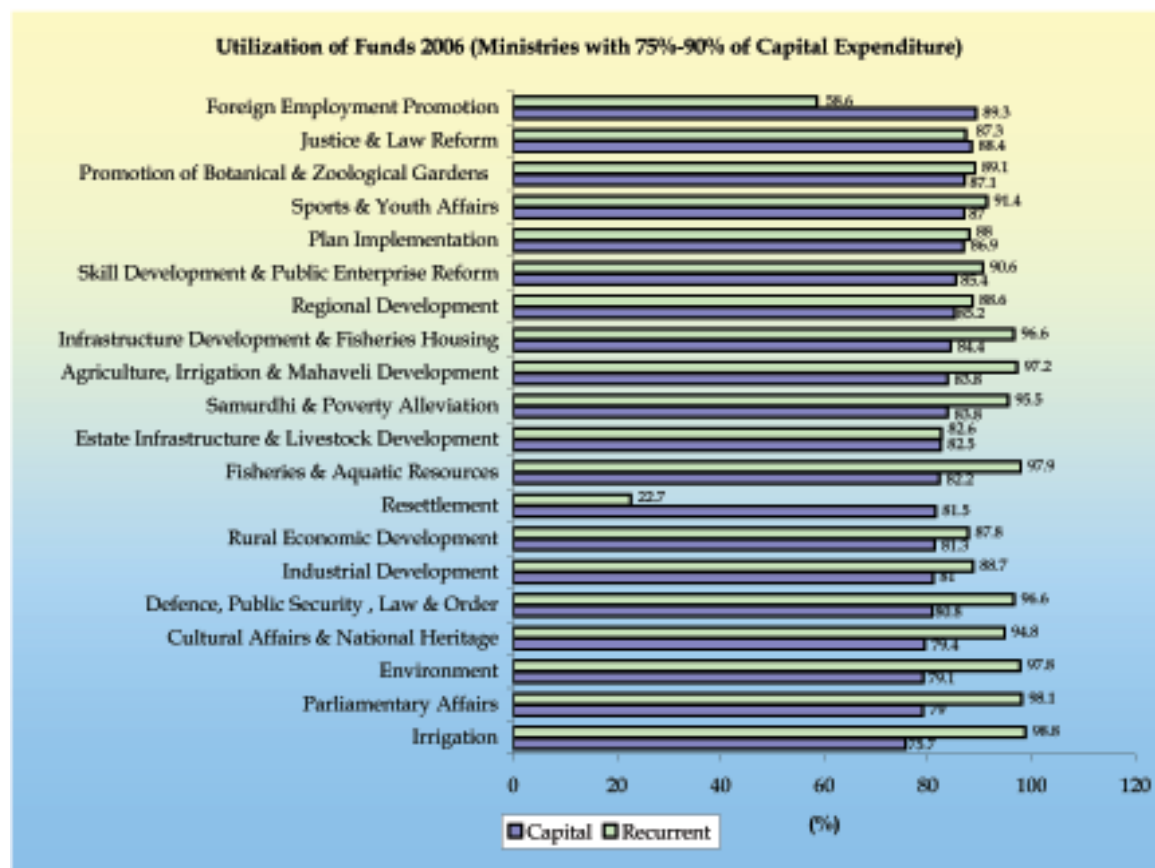


Chart 2.12

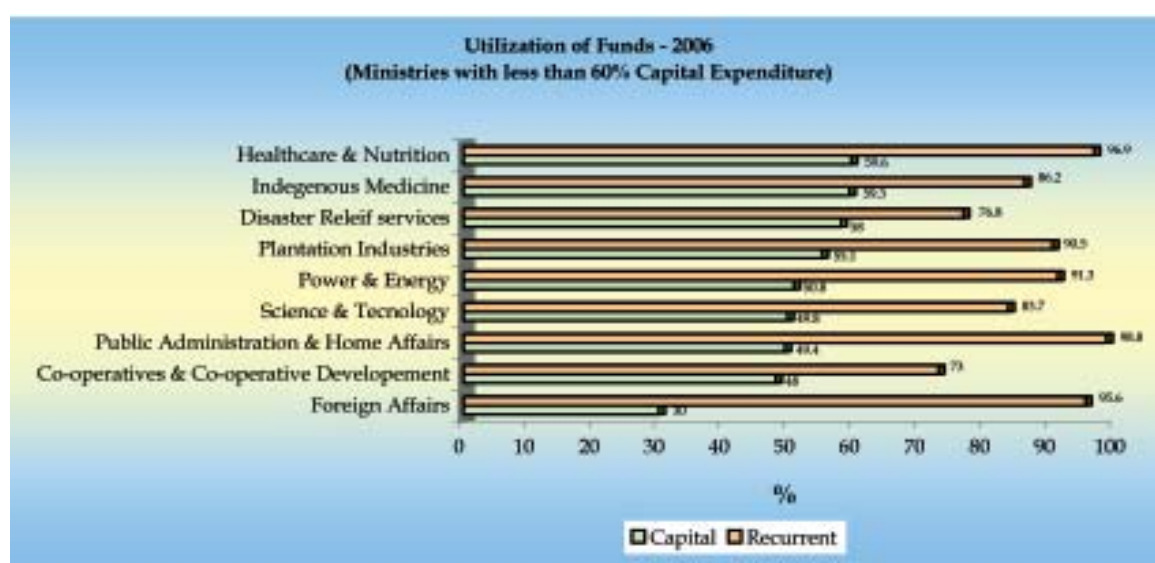
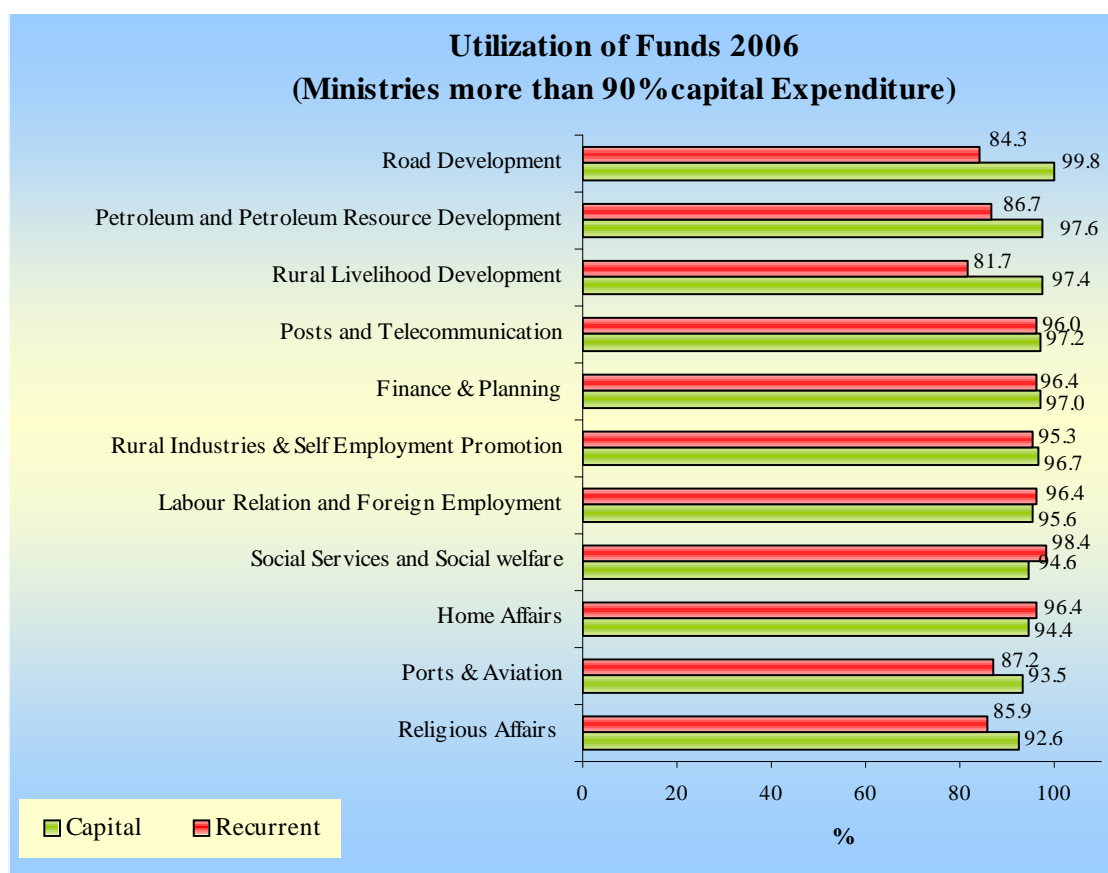


Chart 2.13



Recurrent and capital expenditure in the Ministry of Finance and Planning are largely on the payment on interest and repayment of Government debt. Provisions has been

utilized underscoring government credible debt servicing record which has been maintained through out the post-independent history of Sri Lanka

Table 2.21
Debt Service Payments

(Rs. Mn)

	2000	2004	2005	2006
Interest	71,200	119,782	120,159	150,778
Domestic	62,185	105,878	113,164	133,788
Foreign	9,015	13,904	6,995	16,990
Debt Repayment	104,526	180,781	224,707	293,525
Domestic	81,244	147,740	203,347	247,536
Foreign	23,282	33,041	21,360	45,989

Source: Department of National Budget

Table 2.21
Variance Analysis of Government Expenditure ⁽¹⁾

	2006 Budget	2006 Revised Budget	2006	Reasons
Current Expenditure				
Salaries & Wages	168,570	176,285	175,031	The impact of salary revisions, granting of the cost-of-living allowance, correction of long standing anomalies, the full impact of the recruitment of 40,000 graduates, 15,000 nurses & technical staff, 15,000 home guards & arrears payments to the health sector caused a salary bill that was higher than projected
Pensions	48,361	56,861	58,006	Increase in pension payments, granting the cost-of-living allowance, correction of anomalies and gratuity payments for retiring public servants had not been fully captured in the estimates due to insufficient impact assessments
Interest Payments	151,259	151,591	150,778	-
Fertilizer Subsidy	9,000	12,000	11,867	Policy to extend the subsidy to small holding plantation sector apart from providing at Rs 350/50 kg bag, all varieties of fertilizer for the paddy sector & other field crops, coupled with the rise in the import price of fertilizer
Transfers to Public Corp.	13,579	15,079	18,336	Losses in Railways, Postal & CTB reflecting high wages and increased operational costs
Transfers to Public Institutions	19,374	20,574	20,807	Increased salaries recommended by the Salaries Commission resulting in excess transfers
Samurdhi	12,200	10,200	10,789	Increase of allowances granted on a staggered basis
Fuel Subsidy	3,000	9,400	9,419	Due to sharp increases in international oil prices, the subsidy had to be extended beyond planned limits, till such time the subsidy was removed in June 2006
Other Subsidies & Transfers	14,724	12,149	14,933	-
Other Goods & Services	69,789	83,478	77,994	Increases of the travel allowance to public servants, Government fuel bill, payments of arrears for food rations & medical supplies, enhanced defense procurements and humanitarian expenditure
Public Investment	225,295	183,832	177,443	Work on major power sector projects such as Norochcholai & Kothmale commencing in the latter part with a spill over effect to 2007, implementation delays in road projects such as Katunayake expressway and Southern expressway, tender and other procedural delays in purchasing carriages and rolling stocks of railways, implementation delays in some of the water projects

Sources: Department of National Budget

(1) Figures as per Economic Classification

Table 2.22
Government Expenditure (excluding Interest payments) - Functional Classification

(Rs.Mn)

	2004	2005	2006 Prov.
Current Expenditure¹	269,896	323,130	397,182
General Public services	95,443	105,628	136,352
Civil Administration	23,196	25,027	29,912
Defence	56,341	61,498	81,243
Public Order and safety	15,906	19,103	25,197
Social services	138,820	188,651	204,635
Education	33,792	50,697	61,144
Health	25,919	34,113	44,069
Welfare	73,571	92,909	86,753
Community Services	5,538	10,933	12,669
Economic Services	22,100	28,725	50,586
Agriculture and Irrigation	8,876	13,500	22,163
Energy and Water Supply	112	1,008	2,766
Transport and Communication	8,560	11,303	19,038
Other	4,552	2,914	7,119
Other	13,533	187	5,609
Public Investment	97,631	148,582	177,443
General Public services	7,191	9,901	21,357
Civil Administration	5,986	8,537	18,109
Public Order and safety	1,205	1364	3,247
Social services	28,996	35,992	48,375
Education	8,548	12,860	17,188
Health	8,500	10,738	13,969
Welfare	454	280	310
Housing	6,796	3,657	4,021
Community Services	4,698	8,457	12,887
Economic Services	61,271	77,540	106,801
Agriculture and Irrigation	8,207	10,041	12,434
Energy and Water Supply	22,283	19,234	26,376
Transport and Communication	22,198	31,765	37,988
Other	8,583	16,500	30,003
Other	173	25,152	912
Debt Servicing	300,563	344,866	444,303
Interest	119,782	120,159	150,777
Repayments	180,781	224,707	293,525

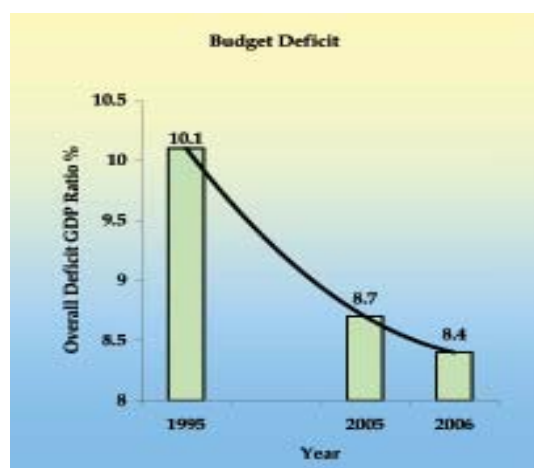
Source: National Budget Department

¹Excluding interest payment

Budget Deficit

The overall Budget deficit continued to decline for the 3rd consecutive year in 2006. The budget deficit including the post- Tsunami reconstruction expenditure amounted to Rs. 205 billion in 2005 (8.7 percent of GDP) in comparison to Rs 236 billion in 2006 (8.4 percent of GDP). The deficit excluding post-Tsunami reconstruction expenditure amount to Rs222 billion. In financing this deficit gross foreign loans and grants amounted to Rs. 72 billion (2.6 percent of GDP) in comparison to Rs. 80.4 billion (3.4 percent of GDP). Net borrowing from non bank domestic sources declined from Rs. 93.1 billion to Rs. . 83.8 billion. Foreign currency denominated domestic borrowing amounted to Rs. 41.1 billion virtually the same level of such borrowing in the previous year. The borrowing from the banking system due to increase holding of Treasury Bills and Bond by the banking system amounted to Rs. 38.9 billion which is 1.4 percent of GDP.

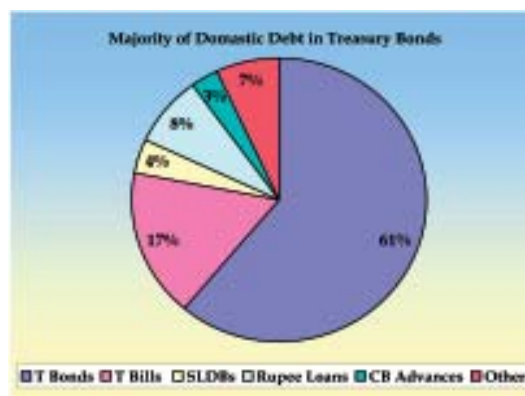
Chart 2.14



Debt Management

The Appropriation Act passed by the Parliament for the financial year 2006 authorized a gross borrowing limit of Rs. 548.5 billion.

Chart 2.15



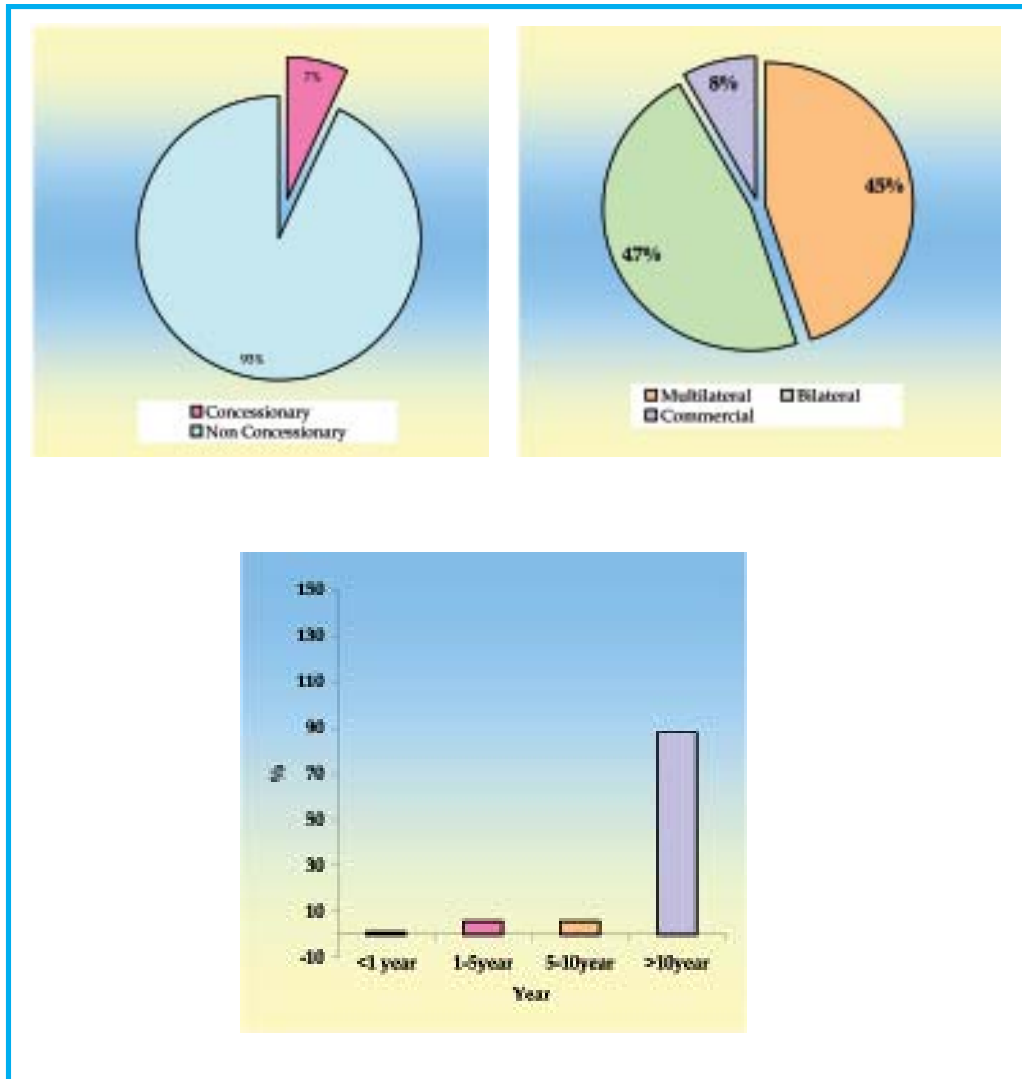
Even having accommodated increased recurrent expenditure including subsidies, the Government was able to execute the 2006 Budget within the approved borrowing limit due to less than expected capital expenditure. The gross borrowings of the Government for 2006 stood at Rs. 514.5 billion (net of Treasury Bill one year rollovers) as against the authorized borrowing limits of Rs. 548.5 billion

The following table gives a summary of domestic and external debt stock of the Government.

Chart 2.16

The Structure of External Debt is Strong

External Debt is Mostly Concessionary, Mainly Official with Longer Maturity



Slower Growth of the Debt Stock

Debt in relation to GDP continued to reflect a downward trend in 2006 despite the impact of the exchange rate depreciation. At the end of 2006 the debt stock stood at 93 percent. Domestic Debt/ GDP was 52.7 percent while the foreign debt/ GDP stood at 40.4 percent by end 2006.

Continued reduction of the Budget deficit and the strong economic growth, influenced reducing the debt ratios.

Chart 2.17

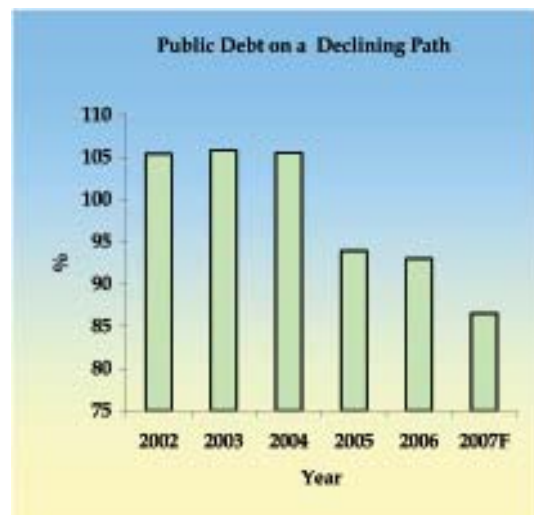


Table 2.23
Government Debt

Item	(Rs Bn)	
	End 2005	End 2006(a)
Total Domestic Debt	1,276.8	1,451.9
Short -Term(less than 1year)	277.8	309.9
Treasury Bills	234.2	257.7
Provisional Advances from the Central Bank	39.7	49.0
Other	3.9	3.2
Medium and Long-term	999.0	1,142.0
Rupee Securities(b)	140.6	116.7
Treasury Bonds	751.6	886.0
Treasury Certificates of Deposit	-	-
Sri Lanka Development Bonds	25.5	60.1
Other(c)	81.3	79.2
Total Foreign Debt	956.6	1,139.0
By Institution		
Concessionary Loans	919.0	1,057.1
Multilateral	486.5	530.2
Bilateral	432.6	527.8
Non- Concessionary Loans	37.6	81.5
Multilateral	0.3	4.4
Bilateral	0.8	4.7
Commercial Loans	36.0	72.6
Total Outstanding Government Debt	2,233.4	2,590.9

Source: Department of Treasury Operations

- (a) Values are calculated, on the face value of domestic debt instruments and on the prevailing rate of exchange in relation currency loans.
- (b) Include long-term bonds of Rs.24,088 Mn issued in 1993 to BOC and PB.
- (c) Includes the outstanding balance to FCBUs, Ampara Water Supply and CWE Bond 2003

Table 2.25
Debt Indicators

Indicator	2004	2005	2006
Public Debt/GDP	105.5	93.9	93.0
Domestic Debt/GDP	56.4	53.5	52.7
Foreign Debt /GDP	49.1	40.4	40.4
Debt Service /GDP	14.8	14.3	15.9
Total Debt Service /Revenue	96.5	91.0	93.1
Foreign Debt Service/Export Earnings and Foreign Remittances	5.9	2.9	7.3
Domestic Interest /Current Expenditure	27.2	25.5	24.1
Interest/ Government Revenue	38.4	31.6	31.5

Source: Department of Fiscal Policy

Government Debt Securities Market

Interest rates, both on short term and medium term domestic borrowings increased by 2 - 3 percentage points during 2006. This was mainly due to the tight monetary policy adopted by the Central Bank of Sri Lanka.

However the interest rates were stabilized towards the end of the year with the easing of inflows into the economy. The following Table shows the movement of yield rates during the year. The Central Bank of Sri Lanka raised policy rates four times in 2006, from 8.75 percent at the beginning of the year to 10 percent at the end of the year

Table 2.26
Behavior of Yield Rates - 2006

Year	Treasury Bills				Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year	
December 2005	10.10	10.32	10.37	10.69	11.22	11.07	11.10	
March 2006	10.10	10.35	10.38	-	11.04	11.15	11.26	
June 2006	10.16	10.44	10.45	-	10.96	11.00	10.95	
September 2006	10.53	10.65	10.71	11.05	11.16	11.25	11.36	
December 2006	12.76	12.78	12.98	12.92	13.00	13.25	13.50	
Change	2.66	2.46	2.61	2.23	1.78	2.18	2.40	
Feb 2007 (4 th week)	13.78	13.82	14.12	13.32	13.10	13.81	13.68	

Source: Department of Treasury Operations

Maturity in yield rates for both Treasury Bills and Treasury Bonds reflected a greater preference for short-term Government securities. Yield rates for 91 days Treasury Bills in the primary market showed an increase from 10.10 percent in December 2005 to 12.76 percent in December 2006, while the 3 year Treasury Bond rates also increased from 11.22 percent to 13.0 percent.

Equity Market

A healthy profits earned by the corporate sector and reflecting the overall performance of the economy, the share price indices showed a significant upward trend. The All

Share Price Index (ASP) increased by 42 per cent while the Milanka Price Index increased by 51 per cent in 2006. The market capitalization increased to Rs 835 bn (30 per cent of GDP), from Rs 584 bn (25 per cent of GDP) in 2005. Amounts of funds raised through Rights Issues increased by 24 per cent to Rs 4.7 bn during 2006 while there were 2 Initial Public Offerings. The number of companies listed in the stock exchange showed a marginal drop from 239 in 2005 to 237 in 2006.

Table 2.27
Stock Market Performance

	2004	2005	2006
All Share Price Index	1,506.9	1,368.9	2,290
Milanka Price Index	2,073.7	2,691.9	2,945
Average Daily Turn- Over (Rs Mn)	246.0	480.0	435.0
Market Capitalization (Rs Bn)	400	584	835
Total Turn over (Rs.Mn)	59,027	114,666	105,154

Source: Colombo Stock Exchange

Chapter 3

Public Enterprise Performance

The Government's medium-term development strategy towards Public Enterprises aims at raising productivity and operational efficiency through management reforms and capacity building in enterprises. The coverage of the Strategic Enterprise Management Agency (SEMA) which was established to help improve efficiency and effectiveness of twelve strategic enterprises was expanded by adding the Lanka Puthra Development Bank, Kurunegala Plantation Ltd, Elkaduwa Plantation Company, Sri Lanka Cashew Corporation, Chilaw Plantation Ltd, Janatha Estate Development Board, State Plantation Corporation and National Livestock Development Board in order to strengthen the management reforms, capacity building and corporate development in these important state enterprises.

The Department of Public Enterprises monitored the performance of public enterprises and facilitated the Parliament oversight functions of the Committee on Public Enterprises (COPE). The Department also conducted awareness programs on financial reporting with a view to enhance transparency and accountability in financial reporting in compliance with Accounting Standards.

Profits received from state enterprises amounted to Rs.3,669 million in 2006 in comparison to Rs.3,352mn in 2005 while dividend from Government Owned Companies in 2006 increased from Rs.2,576mn to Rs.3,282mn. These enterprises consist of the three state banks and the Airport Aviation Ltd etc. Dividend income on the Government's stake in Sri Lanka Telecom and Sri Lanka Airlines totaled to Rs.1,458 million. in comparison to the Rs. 447mn. in 2005.

Budgetary transfers to Statutory Boards and loss making enterprises such as Sri Lanka

Transport Board, including Railways and Postal, the two Departmental enterprises, to meet their recurrent expenditure amounted to Rs.37,221 million in 2006 when compared to Rs.18,218 million in 2005. The losses on Railways and Postal operations alone amounted to Rs.6,789 million. in comparison to a loss of Rs.5,207 million Budgetary transfers for Capital expenditure for the Railways, Postal and Transport Board in 2006 amounted to Rs.7,985 million. as compared to Rs. 4,878 million. in 2005.

Failed privatization of some of the previously state owned enterprises also continued to impose a heavy burden on the budget, as the government had to spend on compensation to the employees of these enterprises. The Cabinet Sub Committee chaired by the Hon. Prime Minister examined 39 non functional and underperforming state enterprises with a view to restructure them without a burden on the Treasury. Based on the recommendation of the Committee, 22 enterprises have been entrusted to the Public Enterprises Reform Commission (PERC), while 03 enterprises were entrusted to Strategic Enterprises Management Agency (SEMA) for restructuring.

Operations of some of the public enterprises underwent a serious scrutiny by the Committee on Public Enterprises (COPE). The COPE has highlighted a number of deficiencies in respect of state enterprises including the lack of professionalism in management, absence of corporate plans and budgets, delayed submissions of Annual Accounts, uneconomical transactions and inadequate compliance with good governance and practices. The Ministry of Finance and Planning at its regular meetings with Secretaries and Chief Executive Officers (CEO) of public enterprises stressed the importance of improving their operations. These

enterprises were instructed to finalize and submit their corporate plans incorporating the strategies and detailed action plans by end April 2007, in line with the government's overall development strategy.

Table 3.1
State Banking Sector Performance

Institution	2005			2006		
	Profit After Tax (Rs. Mn.)	Non Performing Advances %	Capital Adequacy %	Profit After Tax (Rs. Mn.)	Non Performing Advances %	Capital Adequacy %
Peoples Bank	2771.89	10.70	1.90	3,350.00	7.00	5.60
Bank of Ceylon	1890.00	7.10	13.18	2,630.00	5.82	12.30
National Savings Bank	2106.00	2.70	21.82	1,884.70	1.20	11.75
State Mortgage & Investment Bank	313.00	30.54	89.00	213.00	19.00	89.00
Lanka Puthra Development Bank	Nil	Nil	Nil	23.00	Nil	229.00
Housing Development Finance Corporation	116.77	18.89	42.41	173.11	18.21	35.54
SME Bank	31.00	Nil	245.30	13.80	34.40	239.90
Regional Development Banks						
Ruhuna Development Bank	86.00	6.83	16.64	79.00	6.23	12.45
Rajarata Development Bank	36.00	9.85	16.63	16.70	6.94	11.01
Sabaragamuwa Development Bank	46.00	5.80	11.50	41.00	5.50	11.50
Wayamba Development Bank	123.30	5.21	12.01	100.50	3.64	12.71
Kandurata Development Bank	37.15	7.20	14.58	25.62	6.30	11.44
Uva Development Bank	51.19	10.10	17.37	42.26	7.50	14.95

Source : Annual Reports of respective banks

Further Progress to Strengthen to State Owned Financial Institutions

The state banks which have developed strategic plans to improve their performance and better portfolio management have showed continued progress. Non-performing loans of the banks declined and after tax profits of two state owned commercial banks showed improvement. Improvement in maintaining leadership in the industry was seen in 2006

The Bank of Ceylon which recorded 57 per cent increase in its profits accounted for 18.6 per cent of the assets in the banking system. Fitch Ratings Lanka Ltd (FRL) has affirmed the rating level of AA (Sri) for the Bank considering that it is the main public sector bank with full State ownership, improvements in overall assets quality and NPL ratio, return on assets and profitability.

The People's Bank, which has undertaken operational restructuring, improved its performance in 2006, indicating a further increase in its profits, improvements in the capital base and reduction in non-performing loans. Fitch Ratings Lanka Ltd (FRL) awarded the rating for the bank A- (Sri) considering the improvement of its financial profile, the government capital infusion, improvement of profitability due to low cost customer deposits and changing product mix, mainly pawning and improvement of assets quality of the bank.

Fitch Ratings Lanka Ltd (FRL) affirmed AAA (Sri) rating for the National Savings Bank, having examined the nature of assets, full state ownership, exposure to government securities of over 76 per cent of total assets, interest rate risks, assets and liability maturities, return on assets and capital adequacy of the bank. The bank initiated programmes to mobilize foreign currency deposits from migrant workers as well.

Fitch Ratings Lanka Ltd (FRL) confirmed a rating of A (Sri) for the State Mortgage & Investment Bank considering the state ownership, strong capital base, high profitability, growth of portfolio, assets base, net interest margin, monitoring & follow up procedure and capital adequacy of the bank. All state banks have been requested to improve profitability, concentrate on improvement of quality of lending, recovery of non performing loans and adequacy deposits from currency mobilization consolidating market leadership in each of their specialized areas.

Performance of the Regional Development Banks

During the year 2005, the General Treasury took over the shares of the six (6) regional development banks, which were held by the Central Bank. Their performance in 2006 has been satisfactory. Four regional banks achieved their income targets for the year 2006. Fitch Ratings of the Banks were in the range of BBB- to BBB+.

Table 3.2
Performance of Regional Development Banks

Name of the Institution	Budgeted Income (Rs.Mn.)	Actual Income (Rs.Mn.)	Profit After Tax (Rs.Mn.)	Fitch Rating
Rajarata Development Bank	395	322	17	BBB + (Sri)
Ruhuna Development Bank	739	748	79	BBB + (Sri)
Sabaragamuwa Development Bank	714	708	37	BBB - (Sri)
Uva Development Bank	393	374	42	BBB (Sri)
Kandurata Development Bank	87	467	25.6	BBB (Sri)
Wayamba Development Bank	871	1,107	100.5	BBB + (Sri)

Source: Budget and Annual Accounts of respective Banks

Employees Trust Fund (ETF)

Employees Trust Fund which was established to provide a wide range of benefits and services to its members improved its financial performance with an income growth of 29 per cent before taxes.

Table 3.3
Performance Indicators of ETF
(Rs.Mn.)

	2005	2006
Total Revenue	5,184	6,710
Taxes to government	184	157
Contribution to the members		
Interest	1619	1,840
Dividend	2,890	4,181
Total	4,509	6,021
Investments		
Government securities	52,206	58,805
Others	3,740	4,890

Source: Annual Reports and Accounts

Total investment held by the ETF at the end of 2006 is Rs.63,694mn, of which Rs.58,805mn, 92.3% of the total investment portfolios, in Government securities. Rs.4,890mn is invested in other portfolios such as debentures, shares, unites, repurchase agreements and overnight repose, promissory notes and fixed rate notes. Special benefits provided to the members are given below;

Table 3.4
Special Benefits provided to ETF Members

Benefits	2005		2006	
	No.	Value (Rs. Mn)	No.	Value (Rs. Mn.)
Life Insurance	1448	63.11	1086	46.20
Permanent Disablement	59	4.62	26	2.46
Heart Surgery	316	30.48	300	27.15
I.O.Lens Implant	323	0.93	321	0.91
Kidney Transplant	-	-	1	0.10
Shrmasuwa	3,961	43.75	50	0.49

Source: Source: Annual Reports and Accounts

Ceylon Petroleum Corporation (CPC)

The CPC's financial performance was affected by continued high oil prices, inadequate adjustments in domestic petroleum prices and impact of rupee depreciation. Due to increased petroleum prices in the world market, CPC raised the prices of petroleum

products in several occasions during the year. Although CPC's revenue increased from Rs.161,851 million. in 2005 to Rs.196,766 million. in 2006, the operating profit declined from Rs.11,100 million. in 2005 to Rs.789 million. in 2006 resulting in a net loss of Rs.1,663 million. in comparison to Rs.7,710mn in 2005. This situation requires further upward adjustment of petroleum product prices in 2007 at least to ensure cost recovery in their operations.

CPC has pursued and succeeded in entering into a hedging mechanism to reduce the risks due to crude oil market volatility for the first time in 2007. It was only an initial attempt for a limited quantity. The CPC expects to move forward in this direction to minimize the country's vulnerable to fuel price fluctuations.

A settlement agreement was signed with Lanka IOC Ltd (LIOC) with the approval of the Cabinet of Ministers to settle the long standing dispute on the payment of subsidy. This agreement provided for the settlement of subsidy to LIOC amounting to Rs.7,410 mn.

The agreement also paved the way for a commercial pricing for Petroleum products and for the CPC and LIOC to deliver the country's throughput of Petroleum products up to specified limits. Settlement Agreement provides for the Ceylon Petroleum Storage Terminals Limited (CPSTL) to deliver the country's throughput of petroleum products under regular supervision.

Ceylon Electricity Board (CEB)

The CEB was involved in the process of long term capacity expansion of the electricity sector to be able to meet the growing demand, as well as to achieve desirable diversification in power generation. The construction work of Norochcholai and Upper Kotmale Power Projects began in 2006, while making progress on the preparatory work relating to the Keralapitiya and Trincomalee Coal Power Projects.

CEB's earnings increased by 25 per cent to Rs.69,940 million. in 2006. However due to high cost of Thermal Power based operations, CEB continues to incur heavy losses. As there was adequate rainfall in the catchment areas in 2006, as well as due to tariff revisions and the reduction in the overall system losses to 16.6 per cent in 2006 from 17.3 per cent in 2005 operating losses of CEB declined to Rs.12,817 million. from Rs.17,566 million in 2005. However the performance of CEB financial position remains extremely vulnerable to internal oil prices until low cost power generations plants are completed.

National Water Supply & Drainage Board (NWS&DB)

Total revenue of NWS&DB increased to Rs.5,869 million. in 2006, from Rs.5,446 million. in 2005, an 8 per cent increase in 2006. However, the operational profit in 2006 was Rs.425 million in comparison to Rs.436 million. in 2005. Finance cost increased to Rs.512 million. from Rs.492mn. in 2005. The net loss of the NWS&DB amounted to Rs.44mn. in 2006 compared to Rs. 92 million in 2005. This indicates the need for significant improvement of its commercial viability. The utilization of budgetary provisions in 2006 declined to 83 per cent from 86 per cent in 2005. The foreign Aid use also declined to 62 per cent from 74 per cent reflecting capacity limit, inadequate preparation for implementation and procurement delays.

Sri Lanka Transport Board (SLTB)

Sri Lanka Transport Board (SLTB), continued to incur losses with high overhead expenditure. However, the Government assisted to increase the operational fleet by introducing 2,000 new buses. The Treasury also released Rs.4,500 million to SLTB to meet the shortfall in the payment of salaries and Rs.3,900 million for its capital expenditure. Operating cost in 2006 amounted to Rs.13,653 million in contrast to the revenue of Rs.8,923 million. Operation of non-economical routes, high operational costs and inefficiencies have contributed to heavy losses in SLTB.

State Pharmaceutical Corporation (SPC)

SPC supplied Rs.5.6bn worth of items during 2005 to the Department of Health Services. The turnover of SPC, excluding the supplies to the Department of Health Services recorded a 9 per cent increase during the year. The gross profitability ratio of the corporation stood at 45 per cent in 2006. However net Profit ratio decreased from 13 per cent in 2005 to 11 per cent in 2006 due to high cost of operations.

Sri Lanka Ports Authority (SLPA)

The overall container growth in Colombo Port increased by 18 per cent in 2006 in comparison to 10.5 per cent in 2005. Revenue of the SLPA in 2006 was Rs.23,002 million. compared to Rs.20,549 million. in 2005. However, net profit in 2006 declined to Rs.271 million due to high finance cost and foreign exchange losses. The Net profit in 2005 amounted to Rs.10,071 million.

Airport and Aviation Services (SL) Ltd. (AASL)

During the year the total number of passengers handled at BIA increased by 11.8 per cent to 5.78mn. in comparison to 5.17 million in the previous year. The total cargo handled at 170,907 M.T. in 2006 recorded a 6.73 per cent growth. AASL revenue (excluding government contribution) rose from 2.6bn. in 2005 to 3.0 billion. in 2006. However profit before tax decreased from 669 million. in 2005 to Rs.443mn. in 2006.

Table 3.5
Performance of Strategic Enterprises

Enterprise	Revenue		Net Profit after Tax		Total Govt. Debt.	
	2006	2005	2006	2005	2006	2005
Ceylon Petroleum Corporation	196,766	161,852	(1,663)	7,711	20,199	22,501
Ceylon Electricity Board	69,940	55,977	(9,895)	(6,852)	63,521	59,929
Sri Lanka Ports Authority	23,002	20,549	271	10,071	41,431	43,101
National Water Supply & Drainage Board	5,869	5,446	(44)	(92)	15,992	14,039
State Pharmaceutical Corporation	3,371	3,134	179	213	1,476	1,759
Airport & Aviation Services (SL) Ltd(Amalgamated)	4,492	3,520	1,384	1,308	-	-

Source: Annual Reports of respective Institutions

Chapter 4

Reform Initiatives

An Overview

During 2006, the Government made considerable progress in consolidating the reform process towards addressing long standing impediments hindering efficiency in many areas of the economy. The reform agenda covered diverse aspects including the modernization of Government revenue agencies, improving the treasury management, addressing governance and procurement related concerns, focusing on medium-term expenditure management, consolidating the process towards reducing laws delays and transaction costs, addressing concerns of the financial and capital markets, removing land ownership related constraints, streamlining the maintenance of capital assets and introducing measures to curb accidents, other traffic offences, consumption of liquor, cigarettes and other narcotics. The efficiency gains through consequent production improvements and reduced transactions costs are expected to be growth friendly. The renewed momentum in the reform process is attributable to the multifaceted approach of the reforms coverage that has been taken by the Government.

Fiscal and Revenue Reforms

Government is making a concerted effort to modernize the Inland Revenue, Customs and Excise Departments and the Ministry of Finance and Planning (MoFP), through the Fiscal Management Reform Program (FMRP) facilitated by the Asian Development Bank, to augment revenue and manage public expenditure more efficiently on a sustainable basis.

The overall implementation of this reform program is spearheaded by a Steering Committee chaired by the Secretary to the Treasury and involving Heads of Revenue Departments, Heads of Treasury Departments/ MoFP and trade union representatives.

This program aims at strengthening fiscal management and revenue administration through;

- Improved Systems and Processes
- Enhanced Capacity Building / Human Resource Development
- Complementing IT Improvements; and has achieved notable success in 2006.

Improved Systems and Processes;

- New organizational structures were put in place by the revenue agencies and the MoFP. Job descriptions were finalized in relation to the IRD and are being finalized in relation to the others agencies.
- The strengthening of the sectoral / results based budgetary framework and the Single Account Treasury Management System and updating/ reorienting the Financial Regulations are in progress.
- Studies were completed on IT and other systems and procedures proposed to be introduced, the impact of Tax Holidays and the Incentive Regime etc. Several important legal measures were also taken to improve the tax policy regime, particularly to improve governance and address issues relating to tax avoidance / evasions and possible malpractices in the refund mechanism. Each of the Revenue Departments published a Code of Conduct and Ethics. In addition, the Inland Revenue Department (IRD) finalized an Annual Action Plan and a Strategic Plan.
- The increase in complaints referred to the Tax Ombudsman during 2006 demonstrated the reliance the Public has placed in the office of the Tax Ombudsman.

Enhanced Capacity Building / Human Resource Development

- 408 employees were given (overseas) general training 2006- 2007 (April) at the National Institute of Public Finance and Policy - Delhi, India, out of which 208 were sent in 2006. Further, 115 employees have benefited from (overseas) specialized training in 2006 to enhance subject specific knowledge / technical skills.
- Programs to create awareness on taxation laws, orientation for new recruits and computer skills training were conducted locally.
- Having identified language and communication gaps of the staff, arrangements were finalized with the British Council to conduct a tailor-made program on Effective Speech and Interpersonal Relationships. This program will commence in May 2007, initially benefiting officers of the IRD.
- A comprehensive training plan 2007 for the employees of IRD, Customs, Excise and the Treasury Departments, with National Academy of Direct Taxes- *Nagpur*, National Academy of Customs, Excise and Narcotics- *Faridabad*, National Institute of Public Finance and Policy. *Delhi*, National Institute of Financial Management- *Faridabad* was formulated.
- IRD recruited 1,083 new entrants to strengthen its Assessor and Tax Officer Grades, on the basis of a competitive examination held by the Examinations Department, since such staff had been last recruited in 2001.

Complementing IT Improvements;

Considering the high risks involved in proceeding on an island wide approach, a phased implementation was agreed with the ADB, in relation to the introduction of a comprehensive Revenue Management IT system to the IRD and a Fiscal Management IT system to the MoFP.

- Phase 1: Expert Assessment concluded, bidding documents prepared and Tender Procedure being followed to setup a Local Area Network for the IRD. The Technical Evaluation Committee and the Tender Board were appointed and the Bidding Documents are being examined by the TEC to be published in Electronic/ Print media, calling for bids. This is the transition stage towards introducing an integrated Public Accounting Financial Management Information System (PAFMIS) and a Revenue Administration Management Information System (RAMIS), on a staggered basis

- Phase 2: Introduction of a Revenue Administration Management Information System (RAMIS) to selected units of IRD such as the Large Taxpayer Unit (LTU) and the Value Added Tax (VAT) Unit.

- Phase 3: A Public Accounting and Fiscal Management Information System (PAFMIS) to be commissioned at the MoFP.

- Phase 4: Integration of the above and ASYCUDA ++ system of Customs, to interlink IRD, Customs, Excise and the MoFP.

- Two Fully equipped IT Labs were setup with 35 computers each, in which basic computer training for employees is being carried out:

- IRD - July 2006

- Excise Department - November 2006

- An Electronic Database containing personal data of employees was setup for the IRD, Customs and Excise Departments, to facilitate objective and qualification / experience based placements/ promotions.

- In the area of Customs, high-tech Container Security X-ray machines were installed with funds provided by the Treasury enabling non-intrusive inspection of goods avoiding delays and improving security standards.

- Procurement of Computers for Nawam Mawatha Branch of Inland Revenue and the setting up of a Local Area Network is in progress.
- Work in relation to the setting up of a 'Single Stop' Public Information Center with coordination among IRD, Customs and Excise Departments, commenced. This is to be opened

shortly at the Inland Revenue Nawam Mawatha Branch and will be linked to 1919 - Hotline of the Government Information System.

- The Metropolitan Branches of Inland Revenue were opened at Jawatte Road, Colombo 5 in November 2006, with modern IT and other facilities for the convenience of taxpayers.



Metropolitan Branches of Inland Revenue - Opened in November 2006

Box 4.1

Tax Ombudsman

The Tax Ombudsman was appointed in September 2005 consequent to a proposal in the 2005 Budget. This office provides relief on public grievances pertaining to administrative actions of the IRD. The 2005-2006 performance of Tax Ombudsman is as follows;

	2005	2006
Number of complaints received	28	75
Number of cases concluded and determined	15	49
Number of cases rejected	02	08
Number of cases on which the Commissioner General of Inland Revenue (CGIR) failed to send observations	02	Nil
Number of cases on which recommendations have not been complied by CGIR	Nil	Nil

Source: Compiled from the Tax Ombudsman's office records

Nature of Complaints

- Delays/Failure to pay refunds
- Poor public relations-lack of courtesy on the part of IRD officers
- Failure to honor language preferences of taxpayers
- Refusal to backdate GST/VAT registration, denying the taxpayer the right to claim input credit
- Claims on refunds made on defunct taxes

Conclusions on Complaints

Complaints with regard to refunds, particularly those not involving large amounts, have been concluded. Matters relating to language issues have been attended promptly. Attention of the CGIR has been drawn to specific instances of discourtesy and the officers concerned have been warned. On the issue of refusal to back date registrations, the feasibility of giving registration at the time a request is made is being explored, while with regard to past cases it appears that it is not prudent to enforce remedial action. Evidence from correspondence shows that the IRD officers are becoming more and more respectful towards the taxpaying public.

It is also encouraging to note that the appointment of the Tax Ombudsman has facilitated the building up of a healthy relationship between the tax administration and the tax paying public.

Emphasis on Good Governance

Strategic Plans/ Annual Action Plans

The Ministry's emphasis on governance and accountability aspects was further strengthened during 2006. Concerted efforts were made to establish a dialogue on these factors and new measures were taken to improve governance and accountability. Under the Fiscal Management Reform Program, revenue institutions and the Treasury Departments commenced the preparation of Strategic Plans and Annual Action Plans, in keeping with the broad objectives of the 2006-2010 medium term budgetary framework and the *Mahinda Chintana* - A 10 year Horizon Development Framework. IRD has finalized both the Strategic Plan and the Annual Action Plan, while the documents of other departments are being finalized.

This involved a dialogue among all employees on related aspects. The Strategic Plans entail documenting the Vision, Mission, Values, Strategic Outcomes etc. of each institution/ Department, the macro economic environment in which they operate, the institutional goals/ targets in the medium-term and the measures through which such goals and targets are proposed to be achieved. Further, through a joint discussion process, even the Strengths, Weaknesses, Opportunities and Threats (SWOT) associated with each institution/ Department are being identified. The positive impact of these efforts is the greater awareness they create among the staff on the tasks expected of them, thus making the implementation process more realistic and practical with greater ownership.

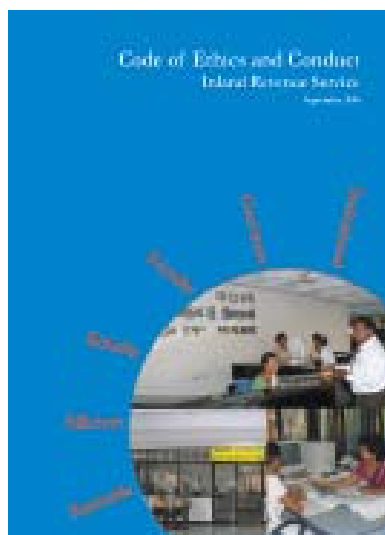
Codes of Ethics and Conduct

Under the Fiscal Management Reform Program, the Ministry of Finance and Planning has also finalized the preparation of a Code of Ethics and Conduct, highlighting aspects which are of greater relevance to public servants in the Ministry in charge of Fiscal Policy formulation and involved in planning. This document briefly analyses the Legal Framework relating to Public Finance, i.e. the Constitutional Framework, the relevance of Financial Regulations and Procurement Guidelines - 2006, for easy reference.

The Codes aim to remind;

- the true spirit that should prevail in serving the public
- the importance of adhering to rules and regulations
- the need to maintain secrecy / confidentiality while disseminating information that should be in the public domain to ensure transparency
- the importance of avoiding possible conflict of interests
- the need to maintain an orderly working environment to enable better delivery
- the importance of being available during office hours
- the cooperation expected from an employee in circumstances leave cannot be granted
- the emphasis placed by the Ministry on Human Resource Development and the need to make maximum use of opportunities when accorded
- the prime obligation to safeguard public property and funds
- the repercussions of accepting undue material gratifications, definition of corruption
- the importance of filing Declaration of Assets and Liabilities and the payment of taxes without delay
- the need to respect the language preferences of the public

A Code of Ethics and Conduct of the IRD was initially published.



*Code of Ethics and Conduct
Department of Inland Revenue*



*Code of Ethics and Conduct
Sri Lanka Customs - November 2006*

The Code of Ethics and Conduct for Customs and Excise Departments were published in 2006. These provide guidelines to employees on general principles of conduct and ethics they are expected to follow, when carrying out official duties.

Emphasis has been placed on the need to;

- Develop good interpersonal relationships with taxpayers/ customers and thereby enhance their confidence in the system and promote voluntary compliance.
- Act professionally and equitably and discharge duties with honesty and integrity, refraining from accepting any form of gratifications, as they would give rise to obligations.
- Develop a harmonious working environment by being courteous to seniors and fellow officers. Be humble enough to be guided by supervisors.
- Be sensitive to public queries and respond to them promptly.
- Safeguard assets and funds of the Departments. No confidential information should be divulged and should not engage in any act, which may involve a conflict of interest with regard to official duties.
- Improve one's personal image and that of the Department by being appropriately attired. Further the stature and dignity should be maintained in and out of office
- Be mindful of rules and regulations applicable to employment
- While being a paid employee, remember that you are rendering a service to the nation. Be mindful of discipline, punctuality etc.
- Make maximum use of training opportunities accorded to enhance knowledge and thereby develop greater confidence in discharging duties.
- Even at retirement be cautious when accepting any employment /work that may cast doubt on integrity.



*Code of Ethics and Conduct
Department of Excise - November 2006*

Tax Payers' Charter

Wider circulation was ensured to the Tax Payers' Charter, which sets out in summary, the rights and obligations of a Tax Payer in the 'tax payer friendly' environment that is being promoted.

The rights highlighted include;

- assistance and cooperation from the IRD in facilitating the tax payment process
- courteous and transparent manner in which tax payer services should be provided by the IRD
- equity and fair play that has to be ensured in dealing with tax payers, including the presumption that all tax payers are honest until proved otherwise
- confidentiality in relation to tax payer information, unless divulged to Courts or in terms of a statutory requirement
- Liaise with the IRD in one of the preferred official languages (i.e. Sinhala or Tamil) or in English being the link language.
- Just and prompt attention relating to any complaint made by a tax payer expressing dissatisfaction on a decision made by any

officer including the right of appeal available under the law

- Refer any administrative related grievances to the independent Tax Ombudsman

The obligations highlighted include that a tax payer should;

- Act honestly in the process of payment of taxes by divulging all relevant and correct information thus eliminating tax avoidance and evasion
- Maintain sufficient records/ accounts for a reasonable period of time to enable verification of data, if deemed necessary
- File correct tax returns along with the required documents/ information, by the due date.
- Update IRD of any changes to the address to which communications are sent by the IRD, so as to avoid mail going astray, causing delays or other repercussions

Travelers' Charter

Traveler's Charter for the Customs Department was finalized in 2006.

A Travelers' Charter was drafted in order to provide arriving and departing passengers with useful information. The salient features of the Traveler's Charter include:

- Goods to be declared
- Goods which are prohibited/restricted
- Dutiable goods
- The Duty Free Allowance (for inward passengers)
- Goods permissible under Duty Free Allowance, and
- Matters relating to unaccompanied baggage (inward/outward)

A Customs Charter is also being drafted, which would set out rights and obligations of importers and exporters as well as those of the Customs Department, in relation to the clearance of commercial cargo.

ISO Certification

The Treasury Departments/MoFP, as a part of its reform agenda and development strategy, is endeavoring to obtain ISO 9001: 2000 quality management certifications to streamline its activities in order to better serve the public. This system will place emphasis on understanding and meeting requirements, add value, enhance performance and effectiveness, and act as a tool for continued improvement of the processes. Much effort was made towards achieving this goal during 2006.

The International Standards Organization (ISO) defines a standard as “documents established by consensus and approved by a recognized body that provides, for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context.”

For an organization to function effectively, it has to identify and manage numerous interlinked activities using resources in order to enable the transformation of inputs into outputs. This is termed a process. The application of a system of processes within an organization together with the identification and interaction of these processes and their management is termed the process approach.

Identified officials of the Ministry were sent for workshops in 2006 to familiarize themselves with this process. A selected team of officials attended specialized training to draw up a Quality Manual and completed the preparation of a draft thereof in 2006. MoFP expects to obtain the ISO certifications by end 2007.

Improved Government Accounting

Treasury Single Account

Having assessed the current fund transfer system between the Treasury and line agencies and vice versa, under the Fiscal Management Reform Program, action was taken to move towards a Treasury Single Account, in order to arrest some of the deficiencies in the present system.

It is proposed to re-arrange all Government Bank accounts in a sequential manner with other required changes, enabling all bank accounts belonging to the Government Ministries and Departments to act as sub - accounts of the Treasury main accounts. This will enable the utilization of all unused cash balances in Government bank accounts on overnight basis, resulting in a considerable saving on the interest payable by the Government. Currently it is estimated that there is a minimum of Rs. 5.0 billion (net of currently used TEB balances) of unused cash balances in the system which could be used to reduce the Treasury overdraft on a daily basis. The minimum gain expected by this arrangement is around Rs. 750.0 million per year.

In the process of re-arranging the bank accounts it is expected to close down all existing bank accounts including non- operative bank accounts. Estimated cash benefit expected by this exercise would be around Rs. 1.0 billion (one time). During 2006 action was taken to initiate discussions with the two State Banks and the major spending agencies to reach a consensus regarding the new move. A schematic plan for the proposal and a detailed action plan have been finalized.

Major steps proposed to be taken are;

- Improve the Treasury payment system to match with the bank payment system to interface the two systems.
- Issuing working guidelines for transitional requirements.
- Introducing amendments required to relevant financial regulations.
- Arranging office environment, accommodating dedicated units of the two state banks within close proximity to the Treasury payment unit.
- Opening new bank accounts on a phased out basis to replace current bank accounts numbering around 2200.
- Closing of all non-operative bank accounts.
- Stringent supervision until the total work processes are completed.

This program is to be implemented from 1st of July 2007 to the end of 2007. It will be ensured that the operational freedom of line agencies will not be disturbed with the proposed system. No changes will be required to the current accounting arrangements of the Government. Since it is proposed to utilize available facilities in the banking system, the investment required to implement this proposal would be minimal.

Modern Accounting Tools

Steps were taken by the Treasury to improve the Government Accounting and Reporting mechanism. This initiative can be described under different components of public financial management. As envisaged by the International Federation of Accountants. (IFAC), these initiatives have been directed towards ensuring that the accounting and financial reporting system would meet four principal qualitative characteristics;

- Understandability
- Relevancy
- Reliability
- Comparability

Progress made is as follows;

- The Treasury has changed the financial reporting formats to fall in line with the International Public Sector Cash Based Accounting Standards.
- Gradual improvements have been effected to the disclosure of Accounting Policies and detailed explanatory notes to accounts have been introduced for Financial Statements, to be more informative.
- A Corporate Plan was drawn up for the Department of State Accounts, to move towards accrual accounting in order to be in conformity with GFS-2001 Manual of IMF and International Public Sector Accounting Standards (IPSAS)
- Timeliness in financial reporting to ensure tabling of Annual Reports and Accounts in Parliament within 5 months after the end of each financial year has also been addressed.

Public Expenditure Management

Medium Term Expenditure Framework

Being the second year of the Medium Term Expenditure Framework (MTEF), 2006 Budget was prepared and streamlined on a sectoral basis to achieve development objectives identified for a three year time horizon 2006-2009 focusing mainly on the *Mahinda Chintana* ; A Vision for Sri Lanka; 10 Year Development Framework.. The main objective of MTEF 2009/2008 is to enhance the effectiveness of the Budget to improve the quality of spending and increase efficiency in the utilization of resources aiming at;

- Setting sectoral priorities
- Minimizing regional imbalances
- Creating the ground for performance based budgeting
- Avoiding overlapping & duplication
- Building close coordination among stakeholders

MTEF 2006-2009 has identified strategic goals for each of the nine sectors; Pro-poor, Pro-growth and Regional Development, Human Resources Development, Infrastructure Development, Production & Services, Science, Technology, Research & Development, Public Order & Safety, Social Protection, Governance and Art, Culture and Religion. Line Ministries and agencies have been allocated within sectors to improve budget planning, resource allocations and policy development in a coherent manner.

Upliftment of socio economic conditions of the people in lagging regions which have higher poverty levels than the national average was given priority. Several programs were earmarked to be implemented during 2006-2009 on income generation, rural and regional infrastructure, to revitalize the rural economy. This established the intention to bring these areas to the mainstream of development through increased productivity of the rural and the estate community and the rural informal sector. The subsidy and relief assistance programs were considered separately under Social Protection to make apart the requirement of resources to address poverty of targeted groups. This is one of the reform initiatives made in 2006-2009 MTEF. It is expected that this initiative will lead to the utilization of resources in a more focused and effective manner.

With regard to public investment on the Human Resource Development (HRD), a major share has been directed towards further improvement and development of the education and health services of the country. The impressive achievements of these sectors have geared for further investment in reducing prevalent regional imbalances; improve the quality and equitable access to services to meet international standards and to sustain favorable indicators that have already been achieved during the last decade. Technical education and skills development programs

were targeted to develop a multi-skilled and a more productive work force that is capable to compete in the global market. The expenditure on sports has been mainly focused on upgrading of sports training infrastructure, particularly in rural areas, while the investment in the labour sector has been targeted towards promoting better labour relations, enhanced labor productivity and to ensure safety, health and welfare of workers. The country's infrastructure program for the medium term 2006-2008 was designed to gear the national goal of sustaining the desired 8 per cent growth in an equitable manner. It was expected that a gradual shift of investments out of the western region to other regions would facilitate the creation of regional growth centers. A major share of investment was injected to continue the construction of highways across regions, to construct two power plants and electricity networks and irrigation and water supply systems.

Production and services sector has been directed to ensure higher growth in agriculture, industry and services through productivity improvements harnessing potential employment opportunities. Investment was mainly focused on increased usage of fertilizer, improved irrigation facilities, quality seed materials, improved storage facilities, increased fishing production, increased availability of credit facilities to SMEs and the increased industrial productivity through the usage of required machinery and technology. 2006-2009 MTEF highlights the need to improvise a 'knowledge based economy'. As a result, Science, Technology, Research & Development sector entertained a significant increase in investments. Efforts have been made to bring technology to villages through *Vidatha* and e-Sri Lanka programs. In 2006 many *Nana Salas* and other initiatives on Art, Culture and Religion were established countrywide. Religious institutions were facilitated to act as nucleusto promote awareness in the community, Protection of 10,000 archeological sites was given priority and several tsunami affected religious places were rehabilitated.

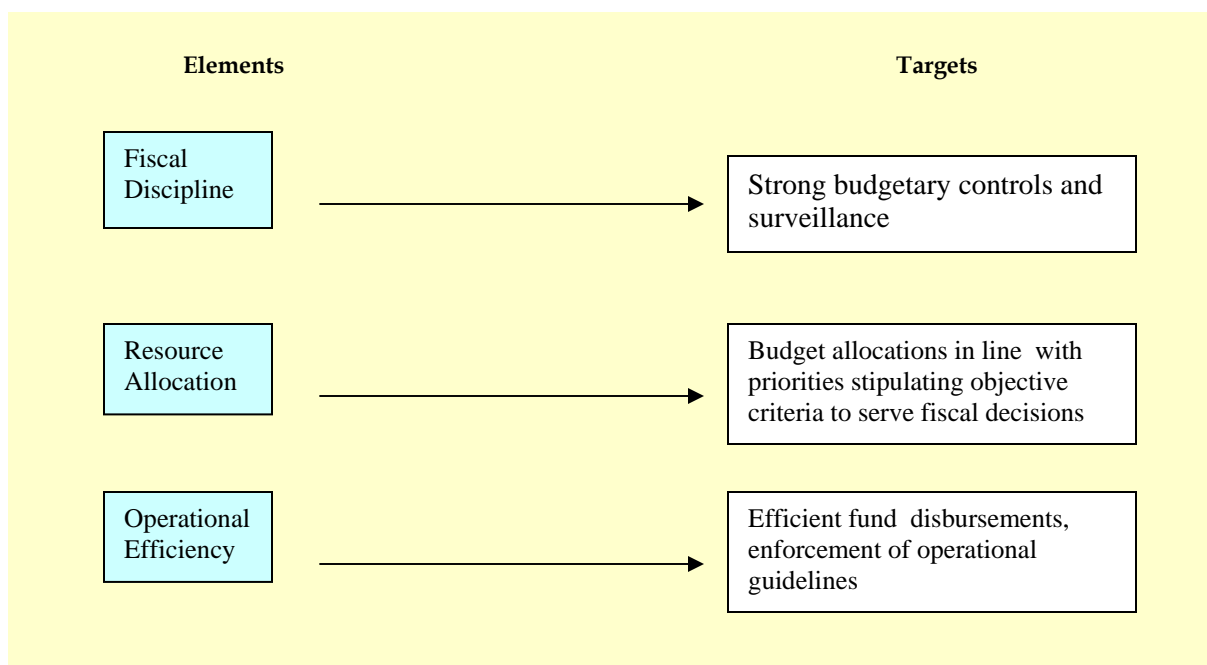
Managing Government Expenditure

Public Expenditure Management is designed to achieve fiscal and budgetary targets using fiscal discipline, allocation of resources based on strategic priorities and operational efficiency.

The central tool for public expenditure management is the budgetary process, including the legal and organizational

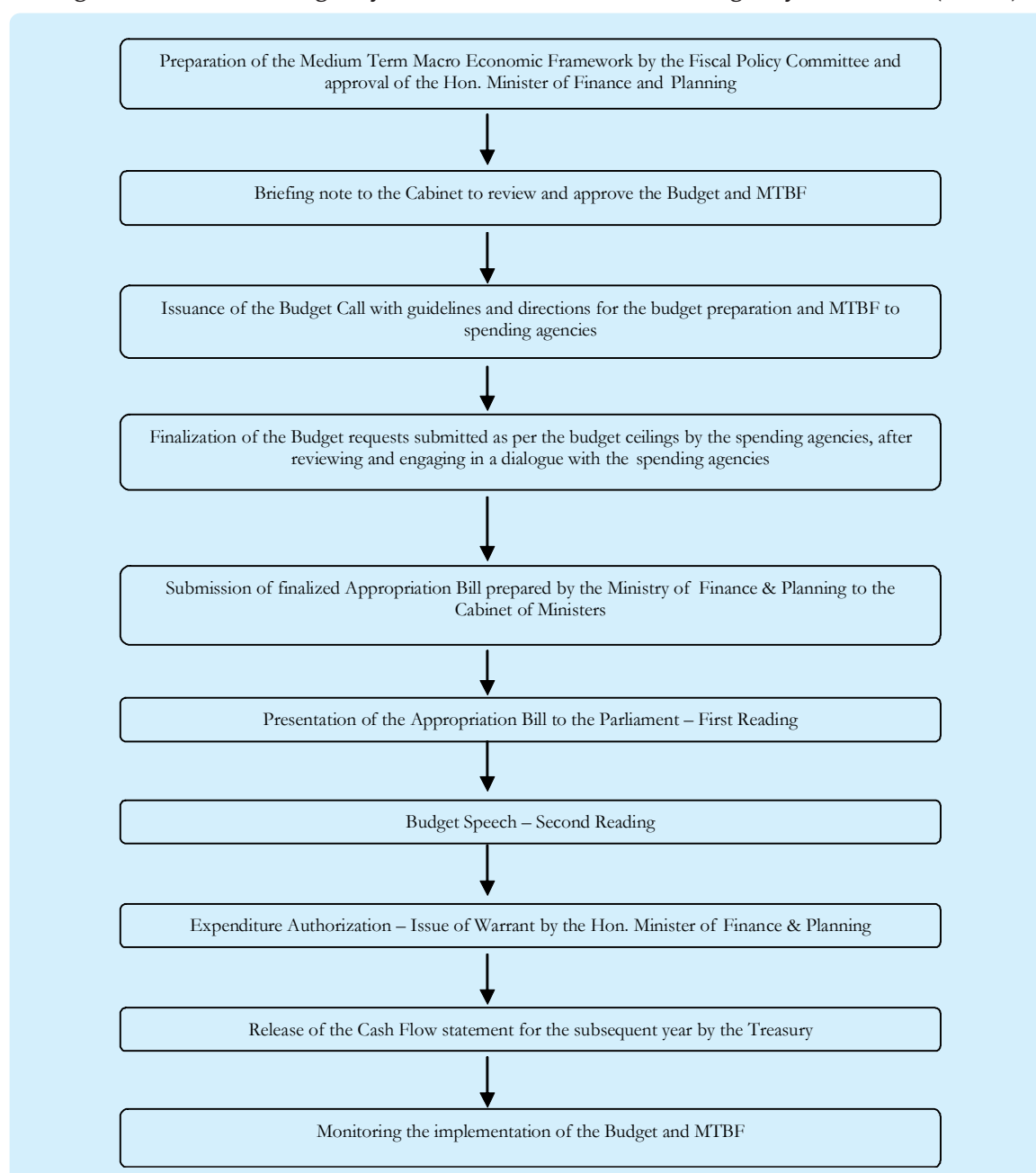
framework and arrangements for forecasting revenue and expenditure, formulating a medium term expenditure framework, linking the budget to policy making, preparing the budget, managing Treasury Operations, procuring public goods and services, performing internal control and audits, accounting and reporting, assessing performance, conducting external audits and ensuring oversight by the legislature and other bodies.

Box 4.2



Box 4.3

Stages of the Annual Budgetary Process and Medium Term Budgetary Framework (MTBF)



The 'Budget Call - 2006', prepared by the Ministry of Finance and Planning, provided guidelines and directions for the preparation of 2006 Budget and Medium Term Budgetary Framework (MTBF) for 2006-2008 ensuring the effectiveness of spending through the efficient utilization of resources. The Budget Call initiates the stages in the Budget Cycle: formulation, review, approval and monitoring of the budget and the MTBF, for the subsequent year based on *Mahinda Chinthana:: A Vision for Sri Lanka; 10 Year Horizon Development Framework*.

For the enhancement of a successful budgetary process and for the efficient management of resources, the government provides following expenditure control procedures.

Box 4.4 Expenditure Control Procedures

Capital	Recurrent
<ul style="list-style-type: none"> • Project proposals to be forwarded to the Department of National Planning (NPD) for appraisal and recommendation with the concurrence of the Department of External Resources (ERD) if it is financed by foreign assistance. Projects over Rs 20 mn are required to obtain approval of the Cabinet and those below Rs 20 mn are required to obtain NPD approval. • According to the Ten Year Development horizon, provision is made in the MTBF, by setting out estimates for the current year and projections for the balance two year horizon with the approval of the Parliament together with the warrant issued by the Minister of Finance for Treasury operations. • Preparation of cash forecast according to the action plan and forwarded to the Department of Treasury Operation (TOD) for cash releases. • Changes in MTBF provisions, additional allocations or FR 66 transfers should be recommended by the NPD with the concurrence of ERD (if foreign funds) to the Department of National Budget (NBD). • Revision of the total estimated cost of projects to be approved by the relevant authorities such as Cabinet, Tender Board etc. with the concurrence of NPD and ERD (if foreign funds). • Financial and physical performance to be monitored by the NPD, NBD, ERD, TOD together with spending agencies. In addition, the Department of Foreign Aid and Budget Monitoring is responsible for project monitoring. • As per financial regulations, treasury directives, Presidential directives and Cabinet decisions and an agreed framework with the funding agencies to be adhered by the Chief Accounting Officers, Accounting Officers and other officers involved in authorization, approval, certification and payment. • Consideration of internal and external audit findings and remedial actions. 	<ul style="list-style-type: none"> • Identification of recurrent expenditure items in the action plan, past expenditure and nature of the Department and forecast the expenditure in terms of circulars issued by the Public Administration and the Treasury. • As per the action plan of the institution, forecasted expenditure provisions are made in the MTBF with the approval of the Parliament together with the Ministry of Finance. • Cash forecast prepared according to monthly and seasonal requirements to be forwarded to the TOD for cash releases. Facility Account for the releasing of cash on the imprest authorized by the Treasury. • Changes in provisions during the year through FR 66 transfers or additional allocation to be determined by the NBD on request made by the spending agency. • Reviewing of the monthly recurrent expenditure patterns by the NBD and making suggestions and taking remedial action to control expenditure within budgetary provisions.

Towards an Effective Public Expenditure Management (PEM)

Within the above mentioned framework the following measures are being taken to overcome shortcomings/operational gaps as well as to further consolidate the PEM.

Box 4.5 Shortcomings/Operational Gaps and Consolidation Measures - Public Expenditure Management

Elements	Shortcomings/Operational Gaps	Measures
Fiscal Discipline		
- Unclear categorization of funds between development and operational expenditure.	-	Operational expenditure of the spending agencies/projects to be separately identified by relevant agencies.
- Estimation deficiencies.	-	Estimates to be made based on an action plan by relevant agencies, following proper costing methods.
- Off budget funds received from donor agencies.	-	Persuade all donors to make all payments only through the budget, passing through the accounting system.
- Under utilization of capital expenditure for the identified purpose.	-	Constant review to identify the reasons and address bottlenecks. Further internal and external audit findings to be strengthened.
- Utilization of funds for previous years payments due to incorrect cost estimates.	-	Revision of cost estimates be done in a timely manner and to be accommodated at the budget preparation
	.	
Resource Allocation		
- Overlapping of projects due to lack of coordination among relevant agencies.	-	Considering the mandate and capability of the implementing agency, projects to be allocated on a sectoral basis by a central unit.
- Underutilization of funds as a result of slow moving projects.	-	Reallocation of funds to identified and fast moving projects.
- Ensuring that foreign funded projects tally with Government policies and priorities of the country.	-	Before negotiating with donors for funding and making budgetary provisions, the proposal to be critically evaluated to find out whether it is in line with Government policy priorities.
- Insufficient financial resources for foreign funded projects.	-	At the negotiation level, price escalations, revisions, externalities and global economic changes, domestic costs to be identified, estimated and consolidated in the budget cycle.
- Variance between budgeted and actual expenditure.	-	Correct cost estimation methods and procurement and implementation capabilities is to be followed up in line with action plans.
- Inability to forecast future cost estimates of projects	-	Relevant spending agencies to develop

Elements	Shortcomings/Operational Gaps	Measures
Fiscal Discipline	forecasting for MTBF due to non-determination of proper methods.	suitable methods to address cost escalation issue.
-	Non-availability of a corporate plan and an action plan at the time of the budget preparation.	- No budgetary provision to be made if an action plan is not submitted in monetary terms (cost estimates) before preparation of the budget.
-	Non-availability of performance indicators for proper evaluation of sectoral budgets.	- Development of performance indicators for each sector.
Operational Efficiency		
-	Non-availability of a procurement plan or inflexibility of procurement procedures.	- Procurement plan to be made together with budget requests.
-	Parallel procurements are not planned.	- Before commencing the event parallel activities to be identified and planned simultaneously.
-	Cash releases are made without considering physical and financial performance.	- Cash releases to be made after a realistic review of activities of the projects by NPD, NBD, ERD and TOD together with the spending agency.
-	Limited financial resources are not utilized giving priority for essential development activities.	- Before releasing cash, prioritizing of development activities to be identified considering the financial and physical performance of all the projects.
-	Unutilized funds in Bank accounts (idle cash).	- Bank reconciliations to be taken by relevant authorities to avoid idle cash.
-	Most of the limited financial resources have to be allocated for critical or urgent recurrent expenditure rather than allocating for development expenditure.	- Management of revenue and borrowing targets to improve lags and leads gap in Treasury operations to avoid such situations.
-	Year-end expenditure syndrome – Heavy utilization of budgetary provision by spending agencies at the year-end.	- Budgetary provisions allocated for spending agencies to be phased out in line with an even distribution.
-	Inadequacy of managerial skills of officers of spending agencies to manage public expenditure controls.	- Implementation of Human Resource development initiatives to improve multidisciplinary skills to manage public expenditure.
-	Inadequate value for money audits, resource utilization audits and compliance audits.	Empowerment of the Audit Department, establishment of Internal Audit Units in spending agencies and risk based Audit System to be expanded.

Source: National Budget Department

Weaning - Out Administered Prices

Administered prices have had a heavy cost on the National Budget by way of associated subsidies, while also being a contributory factor towards causing structural imbalances through widening Budget deficits. Subsidies associated with Wheat Flour and Fuel became unsustainable, demanding the Government to consider moving away from administered prices.

As an initial measure, from March 2005 the wheat four prices were aligned with commercial prices. This resulted in an annual

saving in excess of Rs. 3 billion. to the National Budget

Despite periodic adjustments made to domestic prices, the fuel subsidy had to be continued in the wake of escalating international oil prices. The fuel subsidy, which was in excess of Rs. 14 Bn. in 2004, soared up to more than Rs. 26 Bn. in 2005 and cost around Rs.10 Bn. in the first half of 2006, becoming an unmanageable burden on the National Budget. In this background, the Government took the bold initiative to move away from providing the fuel subsidy from mid 2006

Table 4.1

Domestic Petroleum Price Adjustments - 2006

Item	Jan.	15 th Apr.	11 th Jun.	2 nd Aug.	5 th Sep.	27 th Sep.	5 th Oct.	26 th Oct.
Petrol	80.00	88.00	93.00	96.00	101.00	99.00	97.00	92.00
Diesel	50.00	58.00	61.00	64.00	67.00	65.50	62.00	60.00
Kerosene	30.50	38.50	43.50	45.50	48.50	48.50	48.50	48.50
Fuel Oil 180 cst	30.30	38.30	43.30	45.30	47.30	47.30	45.30	43.30
Fuel Oil 380 cst	26.00	36.00	41.00	43.00				

Source: Department of Fiscal Policy

A National Wage Policy and Cadre Management

A salient proposal in the 2006 Budget was to formulate a National Wage Policy which aimed at reforming the existing salary structures of the public service. In order to facilitate to achieve this objective, His Excellency the President appointed the National Salaries and Cadre Commission.

As the first step towards the realization of the goal of a National Wage Policy, the Ministry of Public Administration and Home Affairs issued Public Administration Circular 6/2006 on 25.04.2006, based on the recommendations of the National Salaries & Cadre Commission and in consultation with the Department of Management Services.

Key Public Sector Salaries Reforms introduced through Public Administration Circular 6/2006

- Condense the public service salary scales to 37 from 126
- Maintain the ratio between the lowest and the highest salary scales of the Public Service at 1: 4.2
- Increase the minimum Public Service salary to Rs. 11,730/-
- Strengthen the career path with promotional prospects for all Public Servants
- Rationalize the categorization of all posts in the Public Service
- Introduce a Cost of Living Allowance in addition to the salary
- Leave encashment to be restricted, compelling compulsory 7 days leave to improve productivity

The total public sector cadre is one million and as such nearly one person out of twenty people of the population is a public sector employee. During the year 2006, the younger generation was attracted to the public sector through the creation of 41, 480 new posts, particularly in areas where new skills are required.

Parallel to the Public Administration Circular 6/2006, a new salary structure was also introduced for the armed forces.

Salaries Reforms for the Corporation Sector

It was the intention of the Government that the reforms introduced to the salary scales of public servants by Public Administration Circular 6/2006, should also be extended to the employees of the Corporation Sector. This was given effect to by the new salary structures introduced through Management Services Circular 30 dated 22.09.2006.

An entire cadre review, related job descriptions and recruitment procedures is being worked out to establish a rational public service at an affordable cost. As an interim management tool, recruitments and appointments are undertaken only after a verification of cadre and budget provisions as per Management Service Circulars - Nos. 28, 28 I and 28 II of 2006.

Trade and Tariff Reforms

Sri Lanka strengthened its market integration initiatives in the South Asia by deepening the tariff phasing out programs in 2006 as agreed under the following preferential trade agreements:

- India - Sri Lanka Free Trade Agreement (ISFTA)
- Pakistan - Sri Lanka Free Trade Agreement (PSFTA)

Under ISFTA, subject to a negative list, exports from Sri Lanka have been accorded with zero duty since 2003. Under the second round of reduction of tariff on the phasing out list of ISFTA, Sri Lanka deepened tariff reductions to 70 per cent from the existing tariff levels in 2006, whereas tariffs reductions under the PSFTA were deepened to 30 percent in 2006. Besides, Sri Lanka has begun reducing tariffs on a phased out program under the South Asia Free Trade Agreement (SAFTA) in 2006. Further, though not significant in terms of volume of trade, Sri Lanka has consolidated the list of products under preference and reduced tariff under the Asia Pacific Trade Agreement (APTA), formerly the Bangkok Agreement. All tariff reductions under the said agreements were implemented on 15th September 2006.

Table 4.2
Tariff Line Coverage under Preferential Schemes (2006)

Agreement	Number of Tariff Lines out of a total of 6,515 Tariff Lines	Percentage of Total Tariff Lines
ISFTA	4663	71.6
PSFTA	5337	81.9
SAFTA	5017	77.0
Developing members	4855	74.5
Least developed members	162	2.5
APTA	536	8.2
Developing members	464	7.1
Least developed members	72	1.1

Source: Department of Trade, Tariff and Investment Policy

Two rounds of negotiations were concluded on the Comprehensive Economic Partnership Agreement (CEPA) between India and Sri Lanka. Discussions on the Agreement went beyond trade in goods to embrace trade in service, investment, double taxation, and economic cooperation as well. Besides, several rounds of negotiations on the BIMSTEC agreement were also conducted in 2006. Tariff rates under the preferential trading schemes are lower than those under the four band Most Favoured Nations (MFN) tariff rates of 2.5, 6, 15 and 28 per cent, introduced in 2004.

Government is committed to continue with lower tariff rates for raw material and higher tariff rates for intermediate and finished goods to facilitate a value added production process and encourage technology infusion to the local economy.

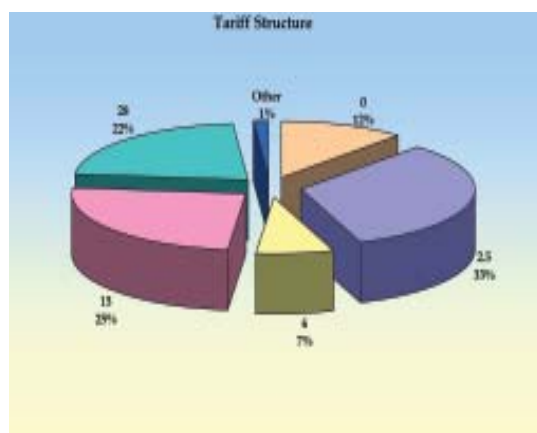
Table 4.3
Tariff Structure (2006)

Tariff Rate - Percentage	Number of Tariff Lines	Percentage of the Total
0	770	11.8
2.5	2,122	32.6
6	475	7.3
15	1,624	24.9
28	1,432	22.0
Other (specific rates)	91	1.4

Source: Department of Trade, Tariff and Investment Policy

50 percent of the Tariff Lines carry below 6 percent duty.

Chart 4.1



Producer - Consumer Tradeoff

Government has implemented many programs to promote local production of key agricultural commodities to enhance the agricultural output, farmer income and food security. Accordingly, tariff on rice was kept at Rs. 20/kg from January, 2006. In order to promote rice consumption in the backdrop of a local bumper harvest, import duty on wheat flour was adjusted upwards to Rs.12.50/kg., in addition to introducing a new duty rate of 6 percent on the importation of wheat grain.

In the wake of the production of big onion reaching a record level, exceeding 65,000 mt. in the Yala season of 2006, a Rs. 20/kg import duty and an additional CESS of Rs. 10/kg were imposed on big onion in August 2006 and was maintained throughout the production season.

To provide relief to consumers in the festive season, import duty was waived in early December 2006. Several items of interest to consumers, including dried fish, sprats, big and small onion, potato, green gram, chickpeas, maldive fish, canned fish and wheat floor, were taken into account in such adjustments to create a consumer interest, while having regard to the tradeoff between local producers and market fluctuations.

All measures, including tariff and taxation, have been determined to provide the required safeguards to local agriculture during production seasons, while providing relief to consumers during festive seasons. The Government has identified specific sectors to promote value addition. Accordingly, tariff and VAT concessions on imported machinery, tools and raw material, catering to selected local industries have been implemented in November, 2006 through the 2007 Budget.

Key Sectors and Initiatives

Industry	Description of Support
Leather industry	All material imported for processing and manufacture of leather products are exempt from VAT and import duties
Plantation Industry	Machinery imported for modernization of factories are exempt from VAT and import duties
Film Industry	Import duty on items to be used in the film industry has been removed, while films/teledramas sent abroad for further processing is exempt from import duty/ PAL
<i>Krushii Navodaya</i> Program	Import duty on rice mills for modernization of the industry is exempt
Livestock/Prawn Industry	Semen and embryos to be used in breeding for raising the genetic potential in the livestock industry are exempt from import duty and VAT. Selected equipment to be used in prawn farming are exempt from import duty
SME Sector Industries	Advance machinery and equipment used for manufacturing and processing of value added products from tea, rubber and coconut, and for animal husbandry, pharmaceuticals and giftware production are exempt from import duty
Construction Industry	Licensing requirements for used construction machinery was relaxed

New Government Guidelines on Procurement

Until 1996 government procurement was based on Government Financial Regulations 1992 and associated circulars. "Guidelines on Government Tender Procedure" were first published in 1996 and revised in 1997. The National Procurement Agency (NPA) which was setup in August 2004, in terms of a Presidential Directive issued under Article 33 of the Constitution, was entrusted with the management of government procurement, in consultation with the Ministry of Finance and Planning, where necessary.

NPA, with the approval of the Cabinet of Ministers has issued Procurement Guideline 2006 - effective 01.03.2006, in order to enhance the transparency of the Government procurement process, to minimize delays and to obtain financially the most advantageous and qualitatively the best services and supplies for the Government. These Procurement Guidelines applicable for the procurement of goods and works repealed and replaced all previous guidelines, circulars and related Financial Regulations issued by the Treasury and the Department of Public Finance on the subject of procurement, except those relating to disposal of inventory items and divestiture of public assets. However, Chapter VI of the Guidelines on the Government Tender Procedure (1997) (Revised Edition- Use of Consultants) will remain applicable until NPA publishes new guidelines for the selection and engagement of Consultants.

The Procurement Guidelines - 2006 are applicable to all government procurements irrespective of the source of funding. These Guidelines have been drafted to be used in relation to foreign funded projects as well. In addition, NPA has also developed and issued a Procurement Manual to be used along with the Procurement Guidelines - 2006, to give assistance, advice, directions on procedures to be followed in carrying out Government procurement activities. The 2006 Procurement Guidelines promote the concept of Value for Money in terms of price, quality and timely delivery for Government Procurements. As

setout in the Procurement Manual -2006, value may imply more than just the price, since quality and such other relevant factors also need to be considered. Moreover, the lowest initial price may not equate to lowest cost over the operating life of the item procured. In a situation where the Tender is to be awarded other than to the lowest bidder, it is very important to place on record the reasons for the deviation in a transparent manner, showing the reasons for such deviation. As per the Guidelines, a procurement entity means a Government ministry, provincial council, Government department, statutory authority, Government Corporation, and government owned company, local authority or any subdivision thereof or any other body wholly or partly owned by the Government of Sri Lanka or where the Government of Sri Lanka has effective control of such body that engages in Procurement

Adhering to prescribed standards and specifications, complying with rules and regulations, providing fair and equal opportunities for all interested parties, ensuring maximum transparency, harmonizing the guidelines with foreign funding agency guidelines, compliance with local laws, regulations and international obligations and ensuring confidentiality of information provided by bidders are some of the broader objectives of the 2006- Procurement Guidelines.

Duties/Obligations at various levels of office are also setout in the Guidelines;

- The Chief Accounting Officers of the Ministry/Provincial Councils is responsible for the procurement actions of the Ministry/ Provincial Council and such other agencies under the purview of the Ministry.
- The Procurement Committees are responsible for the entire procurement process commencing from the preparation of Bidding Documents, up to the selection of the Contractor/Supplier/ Consultant. Technical Evaluation Committees are required to make a technical input and assist the Procurement Committees by making recommendations/ approvals in relation to the procurement process.

- The Secretary to the relevant Line Ministry is required within one week of the recommendation of the Cabinet Appointed Procurement Committee/ Ministry Procurement Committee, to inform in writing to all bidders of the selection of the successful bidder and the intention to award the contract to such bidder.

- The Secretary to the relevant Line Ministry is also required, within one week of the recommendation of the Cabinet Appointed Procurement Committee/ Ministry Procurement Committee, to inform the unsuccessful bidders in writing, to make their representations, if any, against the recommendation of the Procurement Committee/ intention to award the contract to the successful bidder, to the Procurement Appeal Board at the Presidential Secretariat.

- The Secretary to the relevant Line Ministry must within one week of being informed of the determination of the Ministry Procurement Committee, inform in writing simultaneously to all the bidders of the selection of the successful bidder and the intention to award the contract. If any representations are received within the one week period, the Secretary to the relevant Line Ministry in consultation with the Chairperson of Ministry Procurement Committee and the Technical Evaluation Committee is required to organize a joint meeting of the Ministry Procurement Committee and the Technical Evaluation Committee to consider such representations. The joint committee so appointed shall adopt its own procedure to enable an expeditious conclusion of such inquiry. The findings/ recommendations of the joint committee will be forwarded to the Secretary to the relevant Line Ministry, no later than fourteen (14) days of the appointment of such joint committee, and the Secretary to the relevant Line Ministry shall act in accordance with such findings/ recommendations.

Further measures taken by the NPA include issuance of Guidelines on Emergency Procurements harmonized with Donor Agency Guidelines, Standard Bidding Documents, Guidelines for Procurements in the Health Sector, Appeals Procedure in relation to government procurement, Standard Bidding Documents (SBDs) on works, Standard Requests for Proposals for Consultancy Services and Standard Functional

Specifications for commonly procured Goods and Equipment.

Notable Achievements through the NPA;

- An Annual Procurement Planning Process has been implemented across all institutions of government from 2005.

- Ministry Procurement Cells have been established and a Senior Officer nominated by the relevant Secretary has been appointed as the Liaison Officer.

- A separate cadre of Procurement Assistants was created

- Regular reviews and interactions are being conducted with Procurement Entities and the respective Liaison Officers on individual Procurements. Procurement review meetings on Cluster basis (based on Ministry Portfolios) are also in progress

- Two Diploma Programs on Public procurement and Contract Administration have been introduced, in order to professionalize the procurement discipline.

- An interactive Web Based Procurement Monitoring System has been developed.

- Relevant components of e-Procurement Systems are being developed and introduced on a continuous basis. Studies on formulating and implementing an island wide Government Electronic Tendering Platform is being developed and is expected to be fully implemented during 2007.

To further strengthen the Governance aspects and in order to minimize corruption, NPA has introduced several modes of conduct requiring all associated officials/ parties;

- To declare that they will remain without a conflict of interest throughout the procurement process, and in case such a compromising situation arises, to declare his/her interest and disassociate himself/ herself from the process.

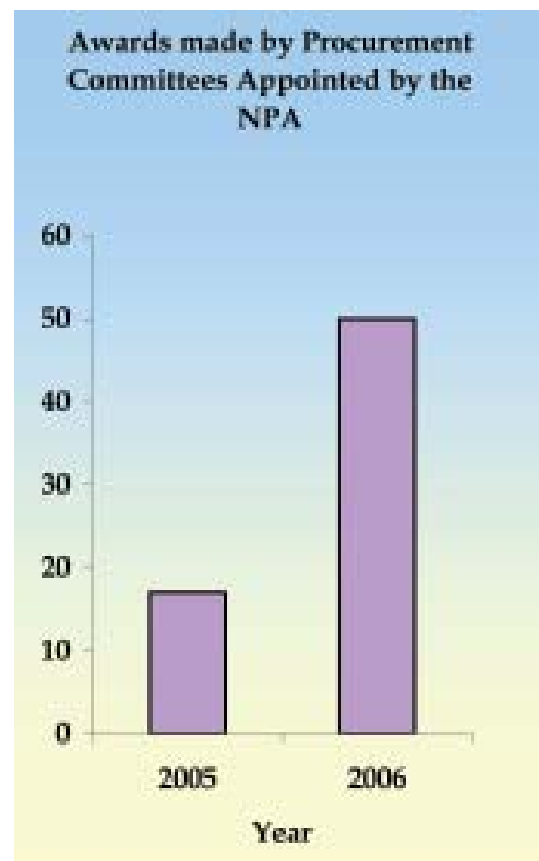
- To refrain from receiving any personal gain from any Procurement Action. Suppliers/ contractors are also liable to be disqualified

from the bidding process if found offering any gift or inducement which may have the effect of influencing the decision or impairing the objectivity of an official involved in the procurement process

- Requiring suppliers/contractors to ensure that they maintain strict confidentiality throughout the process.
- To refrain from abusing their powers. An official who abuses power in relation to a procurement action to derive undue benefits for himself or for any third party, to be deemed to have engaged in a corrupt practice.
- Procurement Committee and Technical Evaluation Committee members must sign declarations, assuring commercial confidentiality of the proceedings of the Committees, their impartiality, probity and that there is no personal interest.
- Bid opening committees are required to re-seal bids after opening and reading out, to safeguard against possible manipulations on arithmetical errors.
- A process of debriefing has also been introduced in order to, inform the aggrieved bidder of the reasons for lack of success, in order to minimize the level of complaints and to demonstrate clearly the principle and practice of probity and transparency.
- Public Enterprises are expected to publish promptly in an appropriate manner all particulars in regard to contracts on which awards have been made

The Website of the NPA www.npa.gov.lk provides electronic access to information on procurement activities.

Chart 4.2



Financial Sector to be Geared to Face Global Challenges

Emphasis on Financial Intelligence

Parliament has enacted the necessary legislation aimed at combating money laundering and combating financial crime, including terrorist financing. These comprise three statutes;

- Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005 (CSTFA)
- Prevention of Money Laundering Act, No. 5 of 2006 (PMLA).
- Financial Transactions Reporting Act, No. 6 of 2006 (FTRA)

These statutes enable Sri Lanka to honour its commitment's to collaborate with international efforts on anti money laundering and combating the financing of terrorism, thus consolidating the Central Bank's responsibility for financial system stability.

The Financial Intelligence Unit (FIU) was established in March 2006 in terms of the provisions of the Financial Transactions Reporting Act No.6 of 2006(FTRA). The mandate of the FIU is to receive, analyze and disseminate information to combat money laundering and terrorist financing, which is required to be undertaken both locally and internationally. The need for an effective information sharing mechanism is crucial to achieve this objective. Accordingly, financial institutions designated by law, are mandated to generate suspicious activity reports and other mandated disclosures, such as cash transaction reports and forward them to the FIU. The centralization of this function and designating the FIU as the receiver of financial information is considered fundamental for effective prevention, both in a national and international framework.

Financial Transactions Reporting Regulation No.1 was issued in March 2006 whereby the reporting threshold for the purposes of section 6(a) of the FTRA was determined to be, any transaction exceeding Rs.500,000 or its equivalent in foreign currency, and in terms of section 6(b) electronic fund transfers (EFTs) in excess of Rs.500, 000 or its equivalent in foreign currency.

In discharging its mandate in terms of the law, the FIU has required, in the first instance, the licensed banks and the registered finance companies, to report all mandated cash transactions, and EFTs meeting the stipulated threshold and any suspected transactions relating to money laundering and terrorist funding activities. The data received is analyzed by the FIU and appropriate action is taken in terms of the law in collaboration, where necessary, with the law enforcement agencies.

As the institutional and resource capabilities of the FIU expand, the mandatory reporting requirements of the FTRA will be extended progressively to other financial institutions

and designated non-financial institutions as defined in the FTRA. The coverage of institutions in terms of the law is very wide in line with international best practice, and includes entities and persons in finance business, as well as entities and persons in designated non-finance business as defined in the FTRA.. Notwithstanding these reporting requirements, however, all mandated financial institutions and designated non-financial institutions are required to comply with the provisions of the FTRA. The know-your-customer (KYC) and customer due diligence (CDD) guidelines and regulations required to be complied by financial institutions in terms of the law, have already been drafted and are due to be issued to licensed banks and the registered finance companies shortly.

On the progress made so far, cash transactions reported over the mandatory threshold to the FIU by the licensed banks and the finance companies alone aggregate 350,000-400,000 per month and Electronic Funds Transfers aggregate 13,000 per month on an average. To date, a total of approximately Rs. 2.5 million transactions have been reported and 34 suspicious transaction reports have been received so far.

Capacity and processes in the FIU would be augmented in the immediate term to facilitate analysis and dissemination of information reported and is receiving the urgent attention of the Central Bank. To date, two interventions in terms of the law have been made by the FIU to suspend banking transactions of entities suspected of offences connected to money laundering and financing of terrorism. Due process in terms of the law is currently being proceeded with.

One of the most important imperatives in giving effect to AML/CFT legislation in the interests of the integrity and stability of Sri Lanka's financial system is the need to build public awareness of the statutory obligations of institutions, persons and professionals mandated under the legislation. Staff capabilities in the FIU are being enhanced to deal effectively with information received and also to train personnel of financial institutions to detect suspicious transactions connected with money laundering and financing of terrorism. The obligations under AML/CFT

legislation extend in this regard not only to the staff of the FIU but equally, if not more, on financial regulators such as the Director of Bank Supervision, the Securities and Exchange Commission of Sri Lanka and the Insurance Board of Sri Lanka and on the External Auditors of financial institutions to ensure full compliance by financial institutions with the provisions of these laws.

A Legal Regime for Payment Devices

The Payment Devices Frauds Act which took a substantial period for finalization was enacted in 2006. This Act was introduced to prevent the possessions and use of unauthorized or counterfeit payment devices, to create offences connected with the possession or use of unauthorized payment devices, to protect persons lawfully issuing and using such payment devices and to make provisions for the investigation, prosecution and punishment of related offences. The Act gives legal power to the Police Department to investigate card frauds, arrest suspects and prosecute offenders in Sri Lankan Courts. The punishment for offences is based on the severity of the card fraud, considering the potential financial loss and a minimum and a maximum jail sentence of 3 and 10 years respectively is possible under the Act. The Act also specifies punishments for willful card defaulters, whose sole aim of owning a payment card is to defraud banks.

Payment devices include any plastic cards issued and acquired by any card issuer and acquirer. The payment card could be a credit, debit or charge card or any ATM card issued by any local or an international payment organization such as Visa, Master etc. The incidence of card frauds, which were insignificant during the formative stage of card payments industry, showed a dramatic growth over the last 3 decades and fraudulent card sales volumes raised globally, up to an alarming billion dollars during the last 5 years.

The earlier card frauds were the use of lost cards, stolen cards and use of genuine cards where embossed card data have been erased and re-embossed subsequently with details of those other than the true cardholders. However, with the high pace of technological advances, card fraudsters also ventured into using advanced technologies to perpetrate card

frauds and stealing of card data became the biggest threat to the card industry. Copying of card data from the magnetic stripe of a genuine card to a counterfeit is known as skimming and the devices used are called skimmers. The fraud card sales volumes pertaining to transactions on the Internet mail / telephone order transactions became equally high. Card frauds in recent times have evolved into an industry of its own having international ramifications as an easy way to collect funds. There is evidence that terrorist organizations are also involved in card frauds as a means of raising funds.

Studies have revealed that card fraud sales volumes are usually high in countries where there is no legislation to cover card frauds and that card frauds syndicates keep on moving from country to country, where fraud-monitoring systems are weak and legislation covering card frauds are absent. Adverse impact of this trend was also visible in Sri Lanka. With the rapid growth of the card industry over the last 15 years, frauds sales volumes also grew proportionately. However the fraud sales volumes relating to cards issued by local banks were considerably lower than the fraud sales volumes pertaining to international payment cards issued outside Sri Lanka and therefore losses were mainly borne by overseas banks. Card frauds in Sri Lanka reached alarming levels during the last couple of years, demanding the presence of specific legislation to address related issues and the new Act will facilitate to address these concerns.

Legal Recognition for Electronic Transactions

Electronic Transactions Act No. 19 of 2006 is based on the standards established by United Nations Commission on International Trade Law (UNCITRAL) Model Law on e-Commerce (1996) and Model Law on e-Signature (2001). The passage of this Act is timely since the emphasis of the country is on e-Governance. This Act recognizes and facilitates the formation of contracts, the creation and exchange of data messages, electronic documents, electronic records and other communications in electronic form in Sri Lanka; and to provide for the appointment of a certification authority and accreditation of certification service providers

The main objectives of the Act are to;

- facilitate domestic and international ecommerce by eliminating legal barriers
- encourage the use of reliable forms of ecommerce
- facilitate electronic filing of documents with the government to promote an efficient government delivery mechanism through reliable forms of electronic communications
- promote public confidence in the authenticity, integrity and reliability of data messages and electronic communications.

Corporate Sector and the Capital Market

A New Corporate Era

Company Law in Sri Lanka has been under the influence of English Law principles since the British administration of the country. Following Sri Lanka's independence in 1948, it continued with the same Companies Ordinance of 1938. Companies Act No. 17 of 1982 (the present Act) is also structured on the English model.

The new Companies Act has completed its long journey into law, and with its recent enactment in Parliament, it is likely to impact all areas of the business world. The new Companies Act No. 7 of 2007 which came into operation on 3rd May 2007 repealed the Companies Act No. 17 of 1982, Companies (Special Provisions) Law No. 19 of 1974 and Foreign Companies (Special Provisions) Law No. 9 of 1975.

Company Law reforms were based on four key objectives:

- Enhancing shareholder engagement and a long-term investment culture
- Making it easier to set up and run a company
- Providing flexibility for the future
- Ensuring better regulation

Salient features of the 2007 Act are the following;

- The incorporation of companies has been simplified by doing away with the Memorandum of Association.. The Act states that even if objects of a company are stated in the Articles of Association, the capacity and powers of the company will not be affected by such restrictions. For existing companies, the Memorandum is deemed to form part of the Articles. Thus, the doctrine of *ultra vires* has been removed.
- The new Act recognizes private companies, public companies and listed public companies, which have limited liability, and allows unlimited companies only with a share capital and companies limited by guarantee, which do not issue shares to members. The concept of People's Companies has been done away with. Existing People's Companies will be considered as limited companies. Single shareholder companies can be incorporated by a natural or a corporate person, including the Secretary to the Treasury.
- The Act passes liability for pre-incorporation contracts on to the individual making the contract on behalf of the company - in the absence of ratification of the contract by the company, after incorporation. Liabilities for pre-incorporation contracts were not part of the Companies Act before, and were a part of our law only by virtue of the common law.
- With regard to private companies, decision-making has been simplified by allowing a private company to take a valid decision if authorized by all shareholders, subject to safeguards against insolvency.
- Private companies need not file annual financial statements, unless required to do so by the Registrar.
- A new regime of stated capital has been introduced which reflects a clearer picture of the value of the company's shares. With regard to the rules on maintenance of capital, the Act provides for the reduction of share capital with notice, but unlike the 1982 Act, does not require court approval. The blanket rule that companies cannot re-purchase its own shares has been amended to allow companies to buy their own shares in certain circumstances.

- The introduction of the solvency test in relation to the Company is yet another important feature.

- Greater protection has been granted for minority shareholders by introducing minority buy-out rights at a fair price. The introduction of Statutory Derivative Action which was only a common law remedy so far will further strengthen minority shareholder rights.

- The Act has also streamlined the process on Annual General Meetings by introducing a provision that all matters done at such a meeting may be regarded as done, if all shareholders pass a resolution in writing, without holding a meeting.

- Time permitted for tabling of accounts has been reduced to 6 months. There is provision for an Auditor resigning or ceasing to hold office, to be able to deliver a statement to the company regarding his reasons for resigning or ceasing to hold office, in the event he feels that shareholders or creditors should be made aware of the circumstances.

- In order to provide transparency, and restrict to a certain extent the capacity of companies using its powers to enter into transactions, the Act specifies that major transactions regarding acquisition or disposal of assets which are equal in value to half the company's assets, must be authorized by a special resolution.

- For the first time, duties of directors have been catalogued in statutory form. Clear statements of duties in company affairs inclusive of the duty to disclose directors' interests in shares and transactions, duty of directors to act in good faith and in the interests of the company, for directors to comply with the Companies Act and Articles of Association and director's standard of care have been included.

- Company amalgamations have been made easier as the Board of each amalgamating company may approve an amalgamation proposal without having to apply to Court, however subject to a satisfactory solvency test

- The Act also clarifies compromises by passing on the right to vote on approval of a

compromise to the creditors who would be directly affected by it.

- A procedure has been introduced to simplify the cumbersome liquidation process followed so far. In addition to this, creditors and contributories are allowed to question any action in a winding-up by applying to Court.

- There is also provision for the company board to appoint an Administrator to ensure the future survival of the whole or part of the company.

- The Secretary to the Treasury's ownership in shares in companies and the special role played by such holding is expressly recognized so that the State ownership of shares in companies is adequately protected.

- There is also provision to establish Company Disputes Board to cut down on time and cost connected with company disputes and to function in a mediator's role and to find an acceptable solution

Improved Regulatory Surveillance through the Securities and Exchange Commission

The Securities and Exchange Commission (SEC) of Sri Lanka, which is entrusted with diverse regulatory functions, has also taken notable reform measures in 2006.

Governance / enforcement measures of the SEC taken during 2006;

- The net capital requirement of a Stock Broking Company, which was Rs. 11 million, has been increased to Rs. 25 million with effect from 31 December 2006, to strengthen stability.

- SEC has visited the Stock Broking Companies during 2006 to ensure that they comply with the SEC Act and rules of the CSE. On the basis of the observations, SEC has renewed the licenses of all 15 Stock Broking Companies in 2006 and issued new licenses to five Trading Members. As a result the number of Stock Brokers has increased from 15 to 20 during 2006.

- In order to verify whether the investment parameters for Unit Trust Funds are maintained as set out in the Unit Trust Code

and the Trust Deeds, SEC has done sample on-site inspections of the five Unit Trust Management Companies and have found them to be within acceptable exposure limits. However, a Management Company that has been found to have fallen below the minimum net capital requirement due to losses incurred during 2006, has been given time to correct this position by infusing the required capital.

- Two market intermediaries who did not meet the minimum net capital and liquidity requirements had been requested to cease operations.

- Pursuant to a joint initiative by the Institute of Chartered Accountants of Sri Lanka and the SEC, the formulation of Rules on Corporate Governance, was completed in 2006. These Rules are due to be incorporated into the Listing Rules of the CSE, with a view to enforcing mandatory compliance. The expected implementation;

- It will be mandatory for listed companies to publish a Table in the Annual Report relating to the financial year commencing on or after 01st April 2007 confirming that as at the date of the Annual Report they comply with the Corporate Governance Standards set out in the Listing Rules and if not, explain why the company has not complied with identified items.

- It will be mandatory for listed companies to comply with the Corporate Governance Standards in the Listing Rules with effect from the financial year commencing on or after 01st April 2008 and the Annual Report must contain the relevant affirmative statements.

- SEC has continued with the revision of the Takeovers & Mergers Code (1995) in consultation with a stakeholder committee. The revision aims at achieving a greater degree of clarity in the provisions made and facilitation of development in the Capital Market. The revision will continue in 2007.

- A diagnostic study was carried out by the SEC in consultation with industry stakeholders *inter alia* to identify specific needs of the securitization market and the strengths and

weaknesses of the regulatory framework. A document containing the proposed drafting instructions for the new Securitization Act was issued for public comment in 2006. This project will continue in 2007.

- Standards subject to which Market Intermediaries are registered were reviewed by the SEC in 2006 with the ultimate objective of facilitating professionalism, competence and securing better risk management. This has been done in consultation with the industry and the rules were made operative.

- Parameters and exposure limits pertaining to investments made by Unit Trusts developed in 1992 were revised in 2006, to strengthen Unit Trusts

- All Listed Companies are required to submit Annual Reports within six months from the close of the financial year to their shareholders and the CSE. To ensure compliance with CSE Listing Rules, SEC has reintroduced the process of reviewing Annual Reports of Listed Companies from September 2006 onwards with a view to enhance the quality of information disseminated by Listed Companies to the public.

- During 2006, SEC along with the Colombo Stock Exchange organized “Investor Days” in Matara, Badulla and Kuliapitiya to educate potential investors on the benefits of investing in shares and to facilitate them to open CDS accounts. Stock Brokers representing CSE branches participated in these events and provided investment advice to the general public.

- Considering the thin growth of the Corporate Debt Market in Sri Lanka, in contrast to the Equity market, the SEC obtained the services of a consultant to prepare a detailed plan of action to develop a vibrant debt market in Sri Lanka. Having discussed with debt issuers, investors, intermediaries etc. the consultant presented his report in June 2006, which is being considered.

- SEC developed a Capital Market Master Plan (CMMP) in collaboration with Ernst and Young - Malaysia to map the future direction of the Sri Lankan capital market for the next 10 years from 2006 through 2015. In 2006

groundwork was done to establish a Programme Management Office, in which the ultimate responsibility of implementing the plan would be vested.

- A comprehensive business plan was drafted in 2006 for the establishment of the Financial Services Academy (FSA). The primary focus of the FSA is to enhance skills training and development in the Financial Services Sector, building the necessary competencies that are needed to keep abreast of new developments taking place within the industry on a continuing basis.

- As a market development initiative, a workshop on the Operational aspects of the Financial Intelligence Unit in connection with Anti-Money Laundering activities was held in January 2006. To promote International Relations and awareness, the first South Asian Securities Regulators Forum was held on the 23rd and 24th August 2006 in Colombo. Eight delegates representing five South Asian countries participated at this event.

- In the light of new development initiatives the SEC increased its cadre and continued to place emphasis on the development of technical skills of the staff in their relevant fields to discharge the mandate entrusted to the Commission effectively and efficiently.

Consolidating the Insurance Business

A Coordinated Approach on Government Insurance Activities

As envisaged in the Budget Speech 2006, the Government established an Insurance Trust Fund to consolidate and manage the many Government Insurance Schemes presently in operation.

The National Insurance Trust Fund Act No.28 of 2006 enabled the implementation of a consolidated contributory insurance scheme for the benefit of public servants, employees of provincial councils, employees of local authorities, related pensioners, persons receiving benefits under the Samurdhi Authority Act, farmers, fishermen and even those engaged in self-employment.

Further it also provides for other needy groups and any government property to be specified subsequently to be brought under the coverage of the Act through Gazette notifications to be published in that regard. Different insurance schemes to suit different categories of persons and at different rates of contribution can be formulated in terms of the Act.

The overall objective of this Act is to consolidate Government Insurance Schemes and to streamline their operations to better manage such schemes and also to ensure maximum benefits to contributors.

The salient features of the Act are;

- A Board consisting of ex-officio and nominated members are in charge *inter alia* of the administration of the National Insurance Trust Fund Board(NITFB).

- The prime objective of this Fund is to provide insurance cover to all contributors against unforeseen health risks, personal accidents and damage to specified properties.

- There is also provision to provide guarantees in respect of categories of Government property as may be identified by order published in the Gazette, guarantee loans of persons entitled to benefits and safeguards under the Act and to promote beneficial participation in share acquisition through the acquisition of equity interest in any company incorporated primarily to build or upgrade dedicated wards in hospitals for the provision of facilities envisaged in the Act.

- The funds of the Trust can be invested either in shares in any company incorporated primarily to build or upgrade dedicated wards in hospitals as referred to above, in Government bonds or Government securities, as may be approved by the Board.

Since the Government objective is to provide consolidated insurance coverage, action was taken to initially transfer the monies of the Strike, Riot and Civil Commotion and Terrorism Fund, all sums of money deducted from public servants in relation to Agrahara Insurance Scheme etc, as provided for in the Act, to the National Insurance Trust Fund. In addition, any contributions made from the

Consolidated Fund from time to time for this purpose will also form part of the Fund.

New Era in Reinsurance

Considering the potential of the National Insurance Trust Fund which was established by the National Insurance Trust Fund Act No.28 of 2006, to develop a reinsurance market in line with a 2007 Budget proposal to ensure that part of reinsurance will be made with the National Insurance Trust Fund Board, steps were taken to move the relevant legislation in Parliament, having obtained Cabinet approval.

As an initial step, it is proposed that a mandatory reinsurance requirement with the Insurance Trust Fund Board will be set at 25 percent of the liability arising from contracts and policies of insurance effected by an insurer. As such;

- Proposed amendments will enable NITFB to engage in reinsurance as well as to accept reinsurance
- All insurers who are required to reinsure with the NITFB on a mandatory basis, are governed by the Regulation of Insurance Industry Act No. 43 of 2000 which requires copies of all their policies of reinsurance to be forwarded to the Insurance Regulator for purposes of review in order to ensure that the interest of insurers and the public are adequately safeguarded.
- Considering the fact that all insurers registered with the Insurance Regulator are required to do mandatory reinsurance with the NITFB, and also to ensure the Regulator's participation in the decision making process of the NITFB, it is proposed that the Director General of the Insurance Board of Sri Lanka be made a member of the NITFB.

A Closely Monitored Regulatory Framework for Insurance

The Insurance Board of Sri Lanka was established under the Regulation of Insurance Act, No. 43 of 2000 and the Insurance industry

is regulated and supervised in terms of the provisions of the Act. As such, no person can engage in insurance business in Sri Lanka, unless such person is incorporated as a public company under the Companies Act and registered as an insurer under the Act. 16 insurance companies were in operation during 2006 of which 13 insurers were engaged in composite insurance, carrying on both long term insurance business and general insurance business, while one company was engaged in long term insurance business and two companies engaged in general insurance business. Taking a stock of events in 2006;

- A decision was taken to increase the issued share capital in respect of insurance business to Rs. 250 million by end December 2008, Rs. 500 million by end of December 2010 and Rs. I Billion by end of December 2012.
- all insurance companies were requested to obtain a rating of their financial stability from a rating agency acceptable to the IBSL by end of December 2007 and publish the same within one month from the date the rating was obtained.
- Further foreign equity participation was permitted up to 100 percent in insurance companies.
- Issued share capital of insurance brokers was increased.
- Responding to a request from the Insurance Association of Sri Lanka (IASL), a decision was taken to de-tariff the Workman's Compensation Insurance (WCI), which was the only tariff based class of the general insurance business with effect from 1st January 2006.

Legal and Judicial Reforms

In addition to the efforts of the Ministry of Justice and Law Reform, the Legal and Judicial Reforms Project (LJRP) of the Government, facilitated by the World Bank, was instrumental in carrying out many landmark reforms in the Legal and Judicial spheres. LJRP implemented most of its key reforms in 2006 resulting in a virtual total disbursement of project funds. The overall implementation was guided by a Steering Committee chaired by the Honorable Chief Justice, with the participation of the

Attorney General, Secretary to the Treasury, Secretary to the Ministry of Justice, Secretary to the Ministry of Trade, Secretary, Judicial Services Commission and the Legal Draftsman.

The reform emphasis was on human resource and institutional development, facilitating legislative changes and introduction of Information Technology.

- Human resource development and knowledge enhancement was given priority through foreign and local training.

Table 4.4
Foreign and Local Training

	Judiciary	AG's Dept.	LD's Dept.	Law Schools Staff	Bar Association
Foreign Training	175	120	21	-	-
LL.M/ PhD - foreign	12	8	-	18	4
LL.M Local Law Col./ Wales Uni	8	6	-	-	26

Source: Legal and Judicial Reform Project

- Amending legislation and introducing new legislation relating to finance, tax and commercial law were facilitated.

Box 4.7

Finance/Revenue/ Commercial Law Related Legislation (2006 - 2007, April)

Statute	Objective
Protection of Government Revenue (Special Provisions) Act No. 1 of 2006	An act to provide for the protection of public revenue and prevent loss of revenue to the Government.
Prevention of Money Laundering Act No. 5 of 2006	An act to prohibit Money Laundering in Sri Lanka and to provide necessary measures to combat and prevent Money Laundering.
Financial Transactions Reporting Act No. 6 of 2006	An Act to provide for the collection of data relating to suspicious financial transactions to facilitate the prevention, detection, investigation and prosecution of the offences of money laundering and the financing of terrorism, to require certain institutions to undertake due diligence measures to combat money laundering and the financing of terrorism: to identify the authority which will be responsible for monitoring the activities of all institutions to whom this Act applies.
Value Added Tax (Amendment) Act No. 8 of 2006	An Act to amend the rates in the Value Added Tax and to provide exemption for services directly funded by foreign organizations for the relief of human or sudden natural disasters; on import of goods for the relief of human or sudden natural disasters, medical equipment, medical machinery or ambulances through foreign funds and to give benefits to growing sectors of the economy.
Monetary Law (Amendment) Act No. 9 of 2006	An Act to amend the Monetary Law Act enabling the Monetary Board to give directions to licensed commercial banks and licensed specialized banks requiring a minimum percentage of loans be extended to any identified sector of the economy.
Inland Revenue Act No. 10 of 2006	An Act to provide for the impositions of income tax for any year of assessment commencing on or after April 1, 2006, amending and consolidating the Inland Revenue Act and amendments thereto which were in force.
Finance Act No. 11 of 2006	An Act <i>inter alia</i> to provide for the imposition of a motor vehicle concessionary levy on the importation by high and tax payers with a consistent record of tax payment as stipulated in the Act and a tele drama, film and commercials levy and to Increase the SRL rate from 0.25per cent to 1 per cent.
Stamp Duty (Special Provisions) Act No. 12 of 2006	An Act to provide for the re-imposition of stamp duty, on selected categories of documents.
Economic Service Charge Act, No.13 of 2006	The Economic Service Charge (ESC), which was dealt under the Finance Act, was brought under a separate statute for better administration purposes. The new Act <i>inter alia</i> imposes the ESC on the relevant turnover of any person or partnership in respect of every quarter of every year of assessment commencing, April 1, 2006.
Betting and Gaming Levy (Amendment) Act, No.14 of 2006	An Act to amend the Betting and Gaming Levy Act, No.40 of 1988 to revise the amount of the levy payable by a person carrying on the business of bookmaker.

Banking (Amendment) Act No. 15 of 2006	An Act to amend the Banking Act No. 30 of 1988 <i>inter alia</i> to authorize Monetary Board to vary from time to time the amounts specified as the minimum amounts required to be maintained by a licensed commercial bank or a licensed specialized bank as equity capital.
National Enterprise Development Authority Act No. 17 of 2006	To establish the National Development Enterprise Authority to promote, support, encourage and facilitate enterprise development in the country with special emphasis on the small and medium enterprise sector
Electronic Transactions Act No. 19 of 2006	An Act to recognize and facilitate the formation of contracts, the creation and exchange of data messages, electronic documents, electronic records and other communications in electronic form in Sri Lanka; and to provide for the appointment of a certification authority and accreditation of certification service providers
National Insurance Trust Fund Act No.28 of 2006	An Act to provide for the establishment of a fund called the National Insurance Trust Fund to streamline all Government insurance and such other benefit schemes applicable to public servants, provincial public servants and those in more vulnerable segments of the society
Payment Devices Frauds Act No. 30 of 2006	An Act to prevent the possessions and use of unauthorized or counterfeit payment devices, to create offences connected with the possession or use of unauthorized payment devices, to protect persons lawfully issuing and using payment devices and to make provisions for the investigation, prosecution and punishment of related offences.
Banking (Amendment) Act No. 46 of 2006	Since the Banking Act did not permit the transfer of assets and/or liabilities of one Specialized Bank to another, appropriate amendments were made to the Banking Act to provide for the transfer of assets and liabilities of certain failed banks to a State Bank.
Appropriation Act No. 47 of 2006	An Act to serve for the Financial Year 2007, to authorize the raising of loans in or outside Sri Lanka, for the purpose of such service; to make financial provisions in respect of certain activities of the Government during the financial year; to enable the payment by way of advances out of the Consolidated Fund or any other fund or moneys, of or at the disposal of the Government, of moneys required during the financial year for expenditure on such activities to provide for the refund of such moneys to the Consolidated Fund.
Finance (Amendment) Act No.48 of 2006	An Act to amend the rates of the Port and Airport Development Levy providing exemptions and imposition of concessionary rates on items which are regarded as important to the interest of the national economy.
Value Added Tax (Amendment) Act No.49 of 2006	An Act to increase the markup on CIF for charging VAT at the point of customs with a view to minimizing the government revenue loss due to undervaluation of goods being imported.
Excise (Special Provision) Amendment Act 50 of 2006	An Act to increase the markup on CIF for charging Excise duty at the point of customs with a view to minimizing the government revenue loss due to undervaluation of goods being imported.

Regional Infrastructure Development Levy Act No. 51 of 2006	An Act to provide for the imposition of a levy applicable for the motor vehicles, which are liable for payment of Excise duty under the Excise (Special Provisions) Act.
High Courts of the Provinces (Special Provisions) (Amendment) Act No. 54 of 2006	High Courts of the Provinces were vested with appellate and revisionary jurisdiction in respect of judgments, orders and proceedings of the district court within the relevant province
Companies Act No. 7 of 2007	An Act to amend and consolidate the law relating to companies. The incorporation process of a company has been made easier and simpler, recognizes single shareholder companies, has introduced provisions for solvency tests and capital maintenance, provides for minority buy-out and exit options, stipulates Directors' duties statutorily, provisions relating to resolutions have been made easier, has recognized Statutory Derivative Action, has introduced Company Disputes/Administrator for reorganization, recognizes the shareholdings of Secretary to the Treasury, sets out provision for electronically stored documents etc.
Control of Insurance (Amendment) Act (<i>being printed to be certified by the Speaker</i>)	To enable the National Insurance Trust Fund which has been establish to streamline all Government insurance activities to venture into reinsurance business.

- An automated document and workflow management system with a Local Area Network was introduced to the Attorney General's Department in 2006 to modernize the Department and to improve the efficiency and quality of work



Automated Colombo Commercial High Court

- LawNet Phase II, Sri Lanka's up-to-date and modern legal database was setup in 2006, through which all laws, by-laws, important judgments, day's list of Superior Courts etc. are available to the public through the World Wide Web. www.lawnet.lk This is to give ready access to legal information to the public, in order to create greater awareness and access to legal information.



LawNet Website

- 8 selected courthouses in Colombo and Kandy were automated in 2006, aimed at avoiding laws delays and reducing possible human intervention to make the judicial system more efficient and transparent In this process an integrated audio and video recording of court proceedings and a centralized record tracking system were introduced to facilitate judicial proceedings.



Kandy Court Complex – Automated in 2006

- Infrastructure was improved and in this effort, 2 new Court Complexes were built in Jaffna and Trincomalee and 28 other existing court houses spread island wide were refurbished / renovated to be able to give better facilities to the public who seek redress at such court houses as litigants.



Jaffna Court Complex - Completed in June 2006

Renovation/Construction of Courthouses 2004 -2006



- Law books were provided to libraries of the judiciary, the AG's and LD's Departments and the law schools and new course manuals were developed for Law schools and the Sri Lanka Judicial Training Institute through local and foreign consultancies. This was to facilitate updating knowledge to be able to better serve the public and to permit research to be able to write quality judgments, opinions etc.
- Alternate Dispute Resolution was promoted with the setting up of a Commercial Mediation Center with the assistance of the Ceylon Chamber of Commerce and by training 35 mediators. This was to facilitate reducing laws delays and cost of litigation of the public seeking redress through the judiciary, specially in relation to minor commercial disputes
- Going further to ensure a total impact, the supposed staffs of the judiciary were given training on word processing and speed development at the institute of Government Accounting and Financing (INGAF). English language, communications skills were sharpened through training conducted by the British Council.

An assessment of cases filed and dispensed reveals that there is an increase in the number of cases filed with the judiciary. When considering other factors that have an influence on the need to file cases, such as number of accidents, number of those who seek dispute resolution through mediation etc. which show a downward trend, it appears that there is an increasing reliance on the judiciary for administration of justice. On the other hand the number of cases dispensed also shows a declining trend. Focused training accorded to judges, closer monitoring by the Judicial Services Commission on the dispensation of cases and their quality, strengthening of the support staff of the Judicial Services Commission and courts, appear to have contributed to this trend. The impact of automation of model courts and the establishment of Appeal Courts of the Provinces, are yet to be felt since both measures were taken towards the end of 2006.

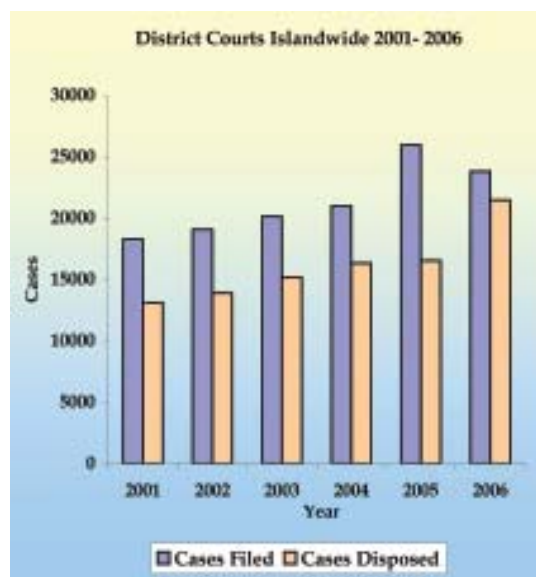
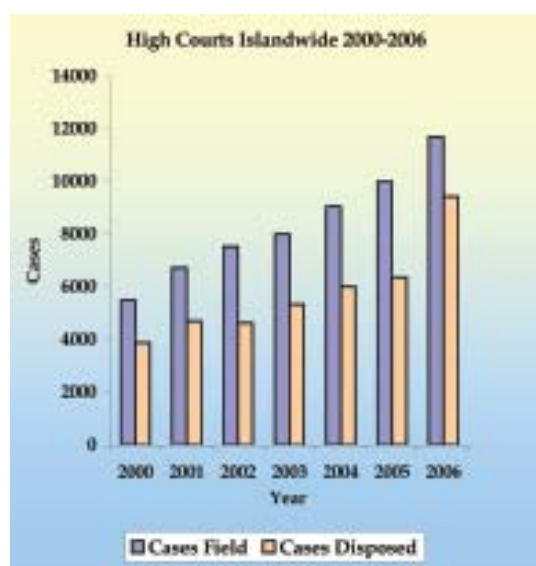
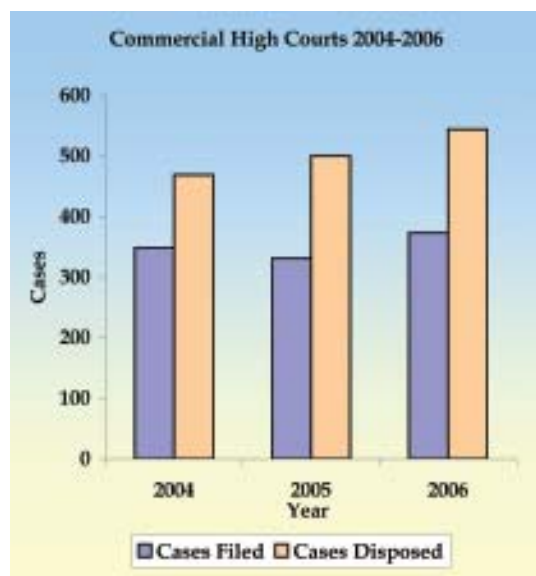
Table 4.5
Mediation- 2006

Year	Applications	Mediate	Settled Direct	Declined to Mediate	Settled
2001	6	3	-	3	3
2002	4	-	2	2	-
2003	95	4	29	55	2
2004	163	3	32	128	1
2005	32	4	9	19	3
2006	17	2	12	13	1
Total	317	16	74	220	10

Source: Mediation Centre – Ceylon Chamber of Commerce

This statistics reveals that the number of cases referred to mediation has not been significant. Further, it is also evident many cases have been settled direct prior to being mediated. Cases settled through mediation have been minimal. It appears that there is grater public preference on the judicial process towards settlement of disputes.

Chart 4.3
The Trend in Cases Filed and Disposed



An ongoing assessment of deficiencies in the regulatory and legal structures, which can be addressed only through sustained reforms have been undertaken to reduce transaction costs and deepen the investment climate in favour of Small and Medium Enterprise sector development, whilst promoting corporate and foreign direct investments. In assessing areas that warrant further reform, it has been found that regulatory risks, complex administrative and legal procedures, governance deficiencies and the effects of terrorism and crime, have resulted in high transaction costs, thus affecting the global competitiveness of the Sri Lankan economy. There is also an informal economy operating outside the legal system resulting *inter alia* in dead capital. This has caused social and economic exclusions and increased inequality, thereby restraining economic growth and limiting results of anti-poverty efforts.

Although the government has already introduced several initiatives in the areas of banking and finance, capital markets, governance, taxation, procurement, trade, investment, dispute resolution and in the judiciary, the coverage of reforms needs to be expanded and the momentum needs to be sustained. In this backdrop, as emphasized in the 2007 Budget Speech, the Government envisages to proceed with further Legal and Judicial Reforms.

Priority areas that have been identified with the assistance of the Legal Cluster of the National Council for Economic Development that warrant further reforms to facilitate achieving the targeted economic growth, in excess of 8 per cent as envisaged in *Mahinda Chintana - Vision for Sri Lanka: 10 Year Horizon Development Framework*, include the following;

- Develop a judicial strategy recognizing short, medium and long-term priorities of the Sri Lankan Judiciary, adopting a wide participatory approach with the support *inter alia* of the Legal Cluster of the National Council for Economic Development.

- To carry out an assessment of the impact of legal and judicial reforms, develop an appropriate database mainly with the assistance of the existing government network available for data collection and tabulation involving the Department of Census and Statistics.
- Introduce new HR tools for better and more effective human resource management in the judiciary, specially to make the support staff of the judiciary more efficient
- Automate the Companies Registry and introduce measures to reduce the start-up time/ registering a business. Complement the process by taking measures to expedite related EPF/ETF registrations *inter alia* with the Department of Labour, to bring down the time associated with starting -up time/ doing business in Sri Lanka, to set the background to be able to use the Companies Registry as the gateway to ensure registration by companies, for taxation purposes.
- Create an efficient and effective exit mechanism to facilitate investors in the event of a closure of their business, through the passage of appropriate legislation covering insolvency and winding up aspects, in order to promote investor confidence and reduce transaction costs.
- Identify factors leading to the existence of dead / extralegal capital and remove any associated obstacles created through the formal legal system, thereby creating capital to finance development and reduce costs associated with land related disputes.
- Contribute to develop human resources and institutional capacity through appropriate local and foreign training. Facilitate local training with the construction of a modern Judicial Training Center in Colombo with residential facilities.
- Improve the judicial infrastructure through the construction of 4 new Court Complexes at regional level in Galle, Matara, Kalutara and Kurunegala. This is to improve administration of justice at provisional level *inter alia* through better facilities

- Information technology advancements which have been already introduced on the basis of a pilot to be rolled out project, to the Regional Court Complexes proposed to be built in Galle, Matara, Kalutara and Kurunegala. In addition, to introduce a case management system to the already automated 8 Courts Houses in Colombo and Kandy, to make the judicial process more efficient.

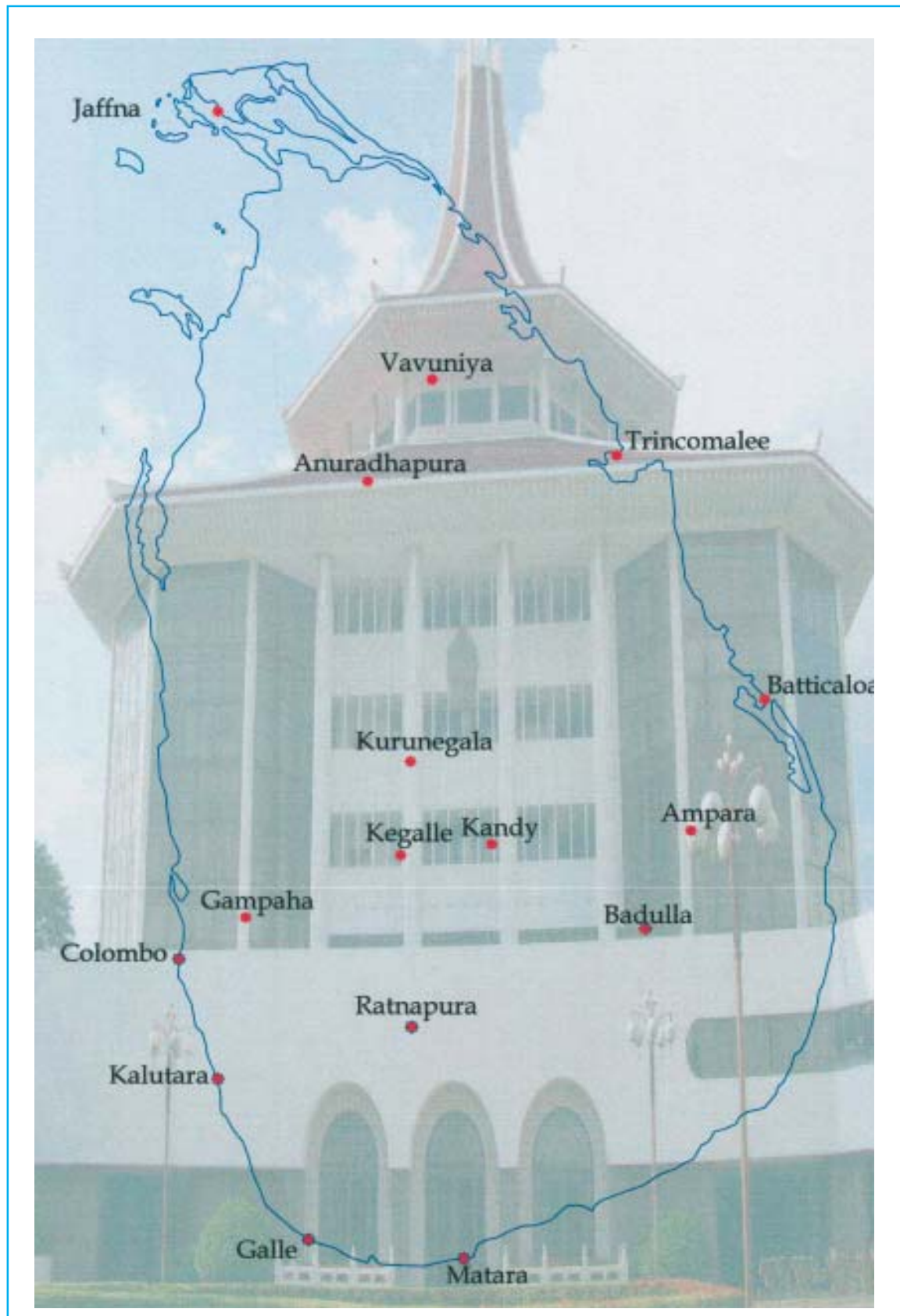
Demonstrating Government's firm commitment to facilitate a sustainable reform process, the Treasury has already allocated funds through the Budget - 2006 for the setting up of the Judicial Infrastructure Maintenance Trust, which is being setup. The Government has also agreed to provide the required land to construct the proposed 4 regional Court Complexes at Galle, Matara, Kalutara and Kurunegala and the Judicial Training Center in Colombo.

High Courts of the Provinces

Addressing a long felt need of decentralizing the Appeal process, High Courts of the Provinces were setup in terms of High Court of the Provinces (Special Provisions) (Amendment) Act No. 54 of 2006. Until the passage of this Act, Civil appeals were heard only by the Court of Appeal in Colombo, resulting in all associated parties having to come to Colombo and also causing a massive backlog of around 15, 000 cases pending in appeal. as of 2006.

With the enactment of this statute, the High Courts of the Provinces were vested with appellate and revisionary jurisdiction in respect of judgments, orders and proceedings of the district courts within the relevant province. The High Courts of the Provinces will hear cases with two judges sitting together and steps have been taken to appoint at least 18 new judges to these Courts. This will take the process of administering justice closer to the people, with people from distant areas not having to travel any more to Colombo for appeals in civil cases. It is also a major step towards reducing laws delays.

Newly Established High Courts of the Provinces are Vested with Appellate/
Reversionary Jurisdiction of District Courts within the relevant Province



A Sustainable Plan to Maintain Judicial Infrastructure

The Government has recognized the need for an ongoing assessment of the deficiencies in the regulatory and legal structures, which can be addressed only through sustained reforms. Further, attention widespread reforms such as legal and judicial reforms show visible results by way of improved infrastructure, better quality judgments, automated surroundings etc., the desired results on reducing laws delays, speedier dispensation of cases etc. would be shown incrementally over a period of time. In this backdrop there is unanimity that legal and judicial reforms need to be sustained.

Another important aspect is that the legal and judicial infrastructure, including those that were built and renovated through the reform initiatives, as well as the Information technology advancements introduced, need to be updated and maintained. Lack of maintenance has been identified as the route cause for the rundown in infrastructure, even at the time the reforms were originally taken on.

Although certain inbuilt measures have been taken such as commitment to maintenance by vendors through maintenance agreements in relation to IT hardware and software, there also must be focused commitment towards the overall maintenance if reforms are to give maximum benefits to the country.

In this backdrop steps were taken to set up a Judicial Infrastructure Maintenance Trust in terms of the Trust Ordinance and in the 2006 Budget an allocation was made to form the initial capital of this Trust Fund. This allocation has been made utilizing a part of funds recovered by the courts by way of fines and penalties. The interesting link is that the Government committed to make this allocation has revised the fines structure in over 85 statutes through the Increase of Fines Act No.12 of 2005, which is also a measure taken through legal reforms.

Judicial Infrastructure Maintenance Trust Fund;

- The Author/ Settlor of the Trust is the Secretary to the Treasury

- The Trustees include Secretary - Judicial Services Commission, Secretary - Ministry of Justice, Director General - Department of Public Finance, Chief Accountant - Ministry of Justice, Registrar - Supreme Court and Registrar - Court of Appeal

- The objects of the Trust;

Provide funding and assistance to maintain Judicial and Legal Infrastructure in Sri Lanka including;

- Court Houses
- Record Rooms/ Production Rooms
- Judges Chambers
- Offices of the Registrars
- Judges Libraries
- Common Areas of the aforesaid premises
- IT Infrastructure, office equipment and furniture of the said premises

- To remunerate the staff carrying out such maintenance and to meet expenditure associated with any such maintenance/ outsourcing arrangements.

- To meet any expenditure to provide lease lines and such other facilities required for the effective use of IT infrastructure and for the procurement of related IT consumables.

- An annual contribution will be made from the Consolidated Fund to the trust account, which will constitute the Trust Property. In addition, the Trustees may receive public contributions, donations or grants in the form of cash, for the furtherance of the Trust.

- The Trustees are expected to make rules or guidelines pertaining to the manner in which work relating to the objects of the Trust are to be executed, including the procedure governing meetings of the Trustees and the manner in which decisions are to be reached.

- The Trustees are expected to work in consultation with the Development Committees, which have been established at regional level to assist in maintaining legal and judicial infrastructure. This is to ensure that an onsite needs assessment is made known to the Trustees, by the regional network of Development Committees, for the Trustees to be able to take need based and fast decisions.
- To ensure transparency and accountability, the Trustees are required to cause proper accounts to be maintained of the Trust funds and to cause such accounts to be appropriately audited at the end of each calendar year, and cause such audited accounts to be published. In the event of a revocation of the Trust, any monies belonging to or lying to the credit of the Trust anywhere is to be, at the earliest, transferred to the Consolidated Fund after which the Trust would stand dissolved, ensuring accountability.

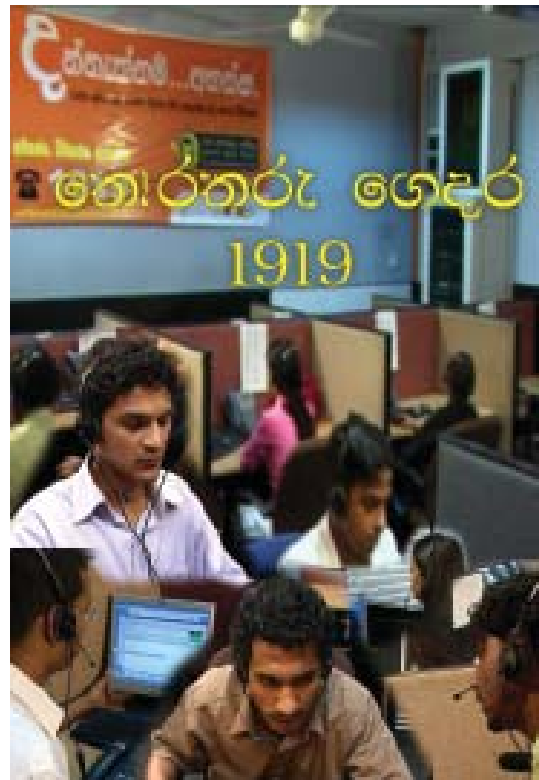
Other Initiatives

E- Governance

There was much emphasis on e-Governance during 2006. The Electronic Transactions Act No.19 of 2006 was enacted setting out the legal parameters. Consequent to the enactment of this Act, Sri Lanka became one of the first three countries in the Asian Region (and first country in South Asia) to sign the *United Nations Convention on the Use of Electronic Communications in International Contracts* (commonly known as the e-Contracting convention).

During 2006, the ICT Agency of Sri Lanka has;

- Setup a Government Information Center (GIC) through which citizens are provided answers to their queries by dialing 1919 or through the website www.gic.gov.lk. This trilingual call center is a single point of contact for information and guidance for citizen services in the government.
- Opened 175 *Nenasalas* throughout the island to bring the total to 368. *Nenasalas* are multi service centers, which address the multiple ICT needs of communities. The adoption of ICT services is expected to improve the lives of the communities through ready access to information communication services.



1919 - Government's Central Information Hotline

Table 4.6
Nanasala Centers at District Level

District	Number of Centers
Ampara	11
Anuradhapura	33
Badulla	34
Batticaloa	2
Colombo	6
Galle	17
Hambantota	27
Jaffna	5
Kaluthara	9
Kandy	32
Kegalle	13
Kurunegala	28
Mathale	9
Matara	22
Monaragala	28
Nuwara Eliya	17
Polonnaruwa	10
Puttalam	12
Rathnapura	34
Trioncomalee	14
Vauniya	5
Total as of End April , 2007	368

Source: ICTA - Sri Lanka

- Established *Sri Lanka CERT* to address cyber security in Sri Lanka, to coordinate protective measures and responses to security attacks on information systems in Sri Lanka. It will review emerging technologies, carry out awareness programs on cyber-security, carry out cyber-security related information dissemination and make security announcements. Website is www.slcert.gov.lk
- Commenced the process to set up a Lanka Government Network (LGN) to make available a reliable underlying information infrastructure backbone that connects government organizations cost-effectively to provide Internet, email and IP based voice services. The procurement activities were completed in 2006 and the award was made. The selected party conducted the basic awareness workshops for the government organizations and completed the site survey for 94 government organizations.
- Launched the Birth, Marriage and Death (BMD) Certificate conversion project to convert BMD certificates into electronic form and build a database, which will facilitate searching, and verification.

- Setup 30 websites in Government Organizations, to encourage government organizations to disseminate information and deliver services through the Internet,. The new web portal www.gidc.gov.lk was created to publicize these websites.

- Commenced developing the Parliament website in Sinhala, Tamil and English, based on a Unicode. The website in English was completed and launched.

- Facilitated the use of local languages for Computing by making progress on the UNICODE compatible products.

- Awarded partnership grants under the e-Society Program's, Partnership Grants Program, after review of 247 applications. Grants have enabled the development of Digital talking books for visually handicapped, develop Local language educational software (Shilpa Sayura), Translation and digitization of technical processes relevant to micro enterprises and video-audio trilingual disaster alert system. In addition a total of 35 contracts were awarded under the e-Society Program's Community grants program covering agriculture, health, education, handicrafts and tourism sectors

Tourism Development Trust Fund

Tourism Industry has been accorded high priority by the government considering its potential for foreign exchange earning and employment generation as well as for poverty alleviation. The industry has experienced setbacks in the past two decades due to various reasons, including the absence of a proper promotional campaign. The industry is of the view that US \$ 1 billion earning target can be achieved within a two to three year period if an accelerated marketing plan is implemented early. The promotion of Tourism, in addition to generating employment opportunities and foreign exchange earnings, will also promote a favorable image in the economic outlook of Sri Lanka.

The new Tourism Act No.38 of 2005 passed by the Parliament in October 2005 has introduced a dynamic institutional structure for the private and public sector to work together in taking the industry forward. However concerns have

been expressed by several stakeholders on the adequacy and appropriateness of certain provisions in the new law in ensuring full participation of all stakeholders and total development of the sector. These concerns require a careful review and hence operationalizing the new Tourism Act was postponed in order to identify the amendments needed to the Act.

In this background it was proposed to establish a Trust for the administration of the Tourism Development Fund established under the provisions of Finance Act No. 25 of 2003, as an interim measure till the Tourism Act No. 38 of 2005 becomes operative.

The main objectives of the Trust are,

- to finance annual development programs of the Sri Lanka Tourist Board (SLTB), Sirimavo Bandaranaike Institute of Tourism & Hotel Management and the Sri Lanka Convention Bureau in the area of tourism development
- to finance or co-finance the initiatives and proposals of the private sector for the promotion and marketing of Sri Lanka as a tourist and travel destination of quality in accordance with tourism development plans and guidelines approved by the Government
- The Board of Trustees will be the Deputy Secretary to the Treasury, Secretary- Ministry of Tourism, Chairman-SLTB and 03 private sector representatives.

The Trust documents have been finalized and will be declared shortly. The Tourism Levy collected through the provisions of the Finance Act No. 25 of 2003 will be credited to this Trust. The Beneficiaries under this Trust are the Ministry of Tourism, Sri Lanka Tourist Board, Sirimavo Bandaranaike Institute of Tourism and Hotel Management, Sri Lanka Convention Bureau and the private sector establishments to be identified from time to time.

Road Maintenance Trust Fund

A Road Maintenance Trust Fund (RMTF) has been established under the provision of the Trust Ordinance, to finance routine and periodic road maintenance programs of

national and provincial roads. The operations of the Trust Fund commenced in January, 2006.

- RMTF is managed by a Board of Trustees comprising Deputy Secretary to the Treasury as the Chairman, the Secretary Ministry of Highways and the Chairman of the Finance Commission.
- In addition, a Technical Advisory Committee has also been appointed to evaluate the road maintenance proposals.
- This is a special mechanism to ensure the availability of funds needed for regular maintenance of the road network and thereby contributing to sustainable development of the road sector. The estimated maintenance cost of national roads was Rs 5.4 billion in 2006 and it will increase to Rs. 5.9 billion in 2010.
- From the year 2006 all budgetary allocations earmarked for road maintenance are deposited to the RMTF. In addition to the normal budgetary allocations, it has been agreed to charge Rs1.00 from each liter of petrol and 50 cents from each liter of Diesel sold and deposit the proceeds in the RMTF with effect from 1st January 2006. The revenue collected accordingly amounted to Rs. 1,400 million in 2006
- The RMTF has released Rs. 2,933mn. in 2006. to the RDA for road maintenance activities. It is expected to meet the total road maintenance requirement by 2010 through the Trust Fund. The Trust Fund Account is maintained in the Central Bank and managed by the Board of Trustees.

A Standard Procurement Manual for Foreign Funded Projects

Despite the National Procurement Agency (NPA) publishing Procurement Guidelines – 2006 harmonizing the procurement process to be followed by Foreign Funded Projects, there has been no standard Procedure Manual that is agreed with the Donor Agencies in relation to Foreign Funded Projects. This has led to confusion causing delays at the stage of implementation and bring about audit concerns.

As such, action was taken to develop a General Operations Manual, which can be used in respect of all Foreign Funded Projects, taking into account Procurement Guidelines – 2006, Financial Regulations and other Circular Instructions issued by the government in which matters relating to Foreign Funded Projects have been dealt with. This Manual is proposed to be implemented in consultation with Donor Agencies.

This manual is meant to serve as a reference document for the proper conduct and successful implementation of all foreign funded projects in relation execution, resource utilization, procurement and such other factors. It provides that in case of an ambiguity, the same could be clarified by the Project Management Unit from the Government/NPA. The key features in the Standard Procedure Manual are the following;

- Introduction of the Project – to be filled appropriately.
- Project Objectives – to be filled appropriately.
- Project Components and implementation schedule- to be filled appropriately
- Project key performance and monitoring indicators with target dates to ensure the timely implementation of Project Components - to be filled appropriately.
- Implementing agencies associated with the Project and their focal points for the purpose of coordination with the Project Management Unit for the effective implementation of the Project through an ongoing dialogue/ consultation process - to be filled appropriately.
- Project Organization

The Chief Accounting Officer

The Chief Accounting Officer of a Project will be the Secretary of the line Ministry under whose purview the project is placed. There will be a Steering Committee in charge of the overall management of the project of which the Secretary to the line Ministry is a member. The Project Director will be responsible for the execution of the project with the relevant

approvals, guidance and supervision *inter alia* of the Steering Committee.

- The Steering Committee to be appointed by the Government

The Steering Committee will consist of high-level officials representing the participating agencies. The Donor Agency may be represented by a member with observer status. The Government will nominate a Chairman of the Steering Committee. The Steering Committee will meet regularly. The convening, preparation of relevant documentation, maintenance and distribution of minutes and all matters related to Steering Committee proceedings will be the responsibility of the Project Director.

- Project Management Unit

A Project Management Unit (PMU) is to be setup by the Government consisting of such number of officers as may be necessary. The Project Director and Staff to be appointed and remunerated etc. in accordance with the relevant Management Services Circular effective for the time being. The day- to- day implementation is effectively carried out in consultation with all participating agencies and other stakeholders.

An Overview of Procurement Aspects

- Risk Rating

The overall procurement risk rating of the Project will be determined by a joint assessment to be done by the Treasury/NPA and the Donor Agency. The rating will be reviewed during Donor's procurement support missions, which will be carried out periodically with the concurrence of the Government. In the event the risk rating is revised, the frequency of support missions may be adjusted, as appropriate as may be agreed between the Government and the Donor Agency.

- Procurement Threshold Limits and Authority Limits

The procurement process will be carried out by the relevant Procurement Committees and other authorities following the thresholds given

in Procurement Guidelines published by the NPA. The method of procurement can be accordingly agreed between the PMU and the Donor Agency and appropriately included in the Procurement Plan.

- Applicable Procurement Guidelines

Procurement of goods, works and non-consultant services would be carried out in accordance with NPA Guidelines; However Donor Guidelines pertaining to For the selection of Consultants, the Donor Guidelines will prevail until NPA publishes such guidelines in consultation with the Donor Agencies. In the event of any ambiguity or lacuna, the Project Management Unit is required resolve the same in consultation with the Treasury, National Procurement Agency and the Donor Agency..

- Procurement Plan

The Procurement Plan shall be prepared by the Project Management Unit substantially in the format given in the NPA Procurement Manual. This may be amended/updated suitably in consultation with the Donor, to reflect specific project implementation needs.

- Procurement Review

Activities to be prior reviewed shall also be identified and agreed upon between the Treasury and the Donor Agency.

- Bidding Documents

The Standard Bidding Documents of the Donor Agency will be used for all International Competitive Bidding and for the selection of Consultants till such time any alternate bidding documents are prepared by the NPA and adopted in agreement with Donor Agencies. In respect of other categories where NPA has provided standard bidding documents, the same shall be used. In the vent of any discrepancy the provisions in the Donor Agency documents will prevail till an agreement there to is reached between the Donor Agency and the NPA.

Any changes to such standard bidding documents can be made only with the prior consent of the Treasury.

- Maintenance of Files

The Project Implementation Unit should maintain a proper filing system, including procurement files, containing all documents relating to each procurement, the contracting process from invitation through final payment and certification.

- Financial Management and Disbursement Procedure

The Financial management and disbursement procedures covering delegation of authority, planning, budgeting and fund flow, maintenance of proper books of accounts, receipts and payments, cash management, monitoring of deposits and advances, fixed assets management, internal controls and audit, financial reporting and project winding up process etc. shall be carried out by the Project Management Unit, in line with Financial Regulations/ other relevant circulars of the Government. Any quarterly or annual reports required by the donor to be agreed upon, to be prepared and submitted to the Donor Agency by the Project Management Unit.

‘Bim Saviya’

In the Sri Lankan context in which people have a unique relationship with land, *Bim Saviya*, the land titling program of the Government, will pave the way for people to elevate their living standards by gaining land ownership, which so far formed an under performed capital due to title defects.

In relation to private land, there are disputes associated with determining ownership, which involve lengthy and costly legal and surveying processes, to reach settlement. The related legal proceedings which are lengthy aggravate laws delays. These disputes also prevent the development of such lands, thus curtailing associated benefits to the owner as well as the country.

Some lands do not have acceptable title rights, due to diverse reasons. Delays in obtaining grants in the case of state lands, non-

availability of associated title documentation, issues related with testamentary proceedings in the event of a death of a landowner, conflicting interests among heirs are common problems. This segment of land is estimated to be as high as thirty percent in certain areas and result in grossly underutilized capital, hampering development. As such this is an area that warrants immediate attention.

Further, taking advantage of weaknesses that prevail in the registration process of lands, many fraudulent land sales also take place. This has caused serious repercussions in the land market even giving rise to unrest and organized crime. Above all, execution of a title deed is by itself a complex process involving high expenditure and the requirement of the assistance of a Notary Public to execute the related deeds. A simpler and straightforward document is deemed desirable.

Bim Saviya Program is used as a basic component of *Gama Neguma* activities introduced by the *Mahinda Chintana* Program to provide a clear and government guaranteed ownership to all legitimate land owners by empowering them to develop their lands better and to enhance their personal development by using the land to generate income. At the same time this program aims at providing a land information database, which will be base efficient and will enable scientific land management.

Bim Saviya Program has two basic activities;

- Determination and confirmation of ownerships, which are not considered as clear at present.
- Survey and prepare plans for every land parcel and register the land parcel along with the ownership and the rights or encumbrances and issue a Title Certificate.

This proposed Title Certificate, will carry a plan of the land, owners name and identification information and is expected to be a simple proof of ownership. This process is being carried out under the Registration of Title Act No. 21 of 1998.

Pilot Program and Outcome

A pilot program has been carried out by *Bim Saviya* and much progress has been achieved in 2006 in six Divisional Secretary Areas (Udawalpala, Doluwa, Balangoda, Divulapitiya, Homagama and Tambuttegama). A procedure adoptable in Sri Lanka has been identified. Necessary Institutional, Legal and Procedural improvements are being carried out in preparation to venture into the national level activities. Amendments to the Registration of Title Act No.21 of 1998, have been identified and the amendments are being finalized by the Legal Draftsman to be submitted to the Parliament.

Long Term Approach

It is estimated that there are about ten million land parcels in Sri Lanka. A 15 year program is being prepared to cover the entire country through the *Bim Saviya* initiative. The Survey General's Department is expected to carry out the surveying of lands and the preparation of plans, while the Land Settlement Department is expected to carry out determination of ownership. Such information will thereafter be transmitted to the Registrar General's Department, which is expected to register the details and ultimately issue a Title Certificate.

Through the *Bim Saviya* Program, a digital Land Information System is expected to be established which could be made available for planners and decision makers, enabling a scientific land administration process.

This program is being administered by a council established under the Registration of Title Act. No. 21 of 1998.

'*Mathata Thitha*'

The prime objective of this new move was to set out parameters pertaining to smoking and consumption of alcohol in public places and to prevent the younger generation from smoking and consumption of alcohol.

- Strengthening the Legal Framework

The existing legal framework in terms of the Excise Ordinance, Poisons, Opium and Dangerous Drugs Ordinance and Tobacco Tax

Act No. 8 of 1999 was strengthened with the enactment of the National Authority on Tobacco and Alcohol Act No. 27 of 2006.

Members were appointed to the National Authority on Tobacco and Alcohol (NATA) established in terms of the National Authority on Tobacco and Alcohol Act No. 27 of 2006. Framework Convention on Tobacco Control (FCTC) negotiated under the auspices of the WHO had become international law on 27th February 2005. Sri Lanka was the first country in the region (and the fourth in the world) to ratify the FCTC. This convention published by the WHO provides comprehensive guidelines on measures relating to tobacco controls. Within the FCTC, the NATA Act provides information on matters relevant to Sri Lanka. There is emphasis to prevent those under the age of 21 years from smoking and consuming alcohol by curtailing their access to tobacco and alcohol. Under this Act, Excise Officers are also given powers of detection. The Act came into operation on 01st December 2006 and up to now Excise Officers have conducted around 300 detections and the related collection of fines is in excess of Rs. 1 Mn.

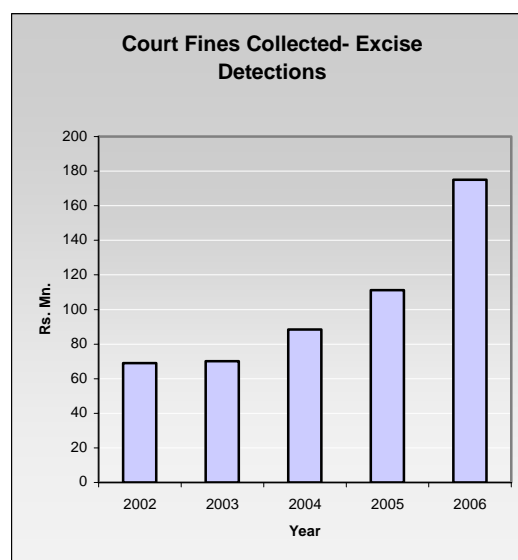
- Higher Excise Duty desired to have a countervailing impact
Excise duties on alcohol products have been adjusted upwards annually, resulting in high real prices of alcohol, amounting to an effective countervailing economic consideration.
- Restriction on Availability and Accessibility
Availability and accessibility to alcohol products have been restricted to minimize

Table 4.7
Excise Duty Increases

Item	19.11.2004	09.11.2005	09.12.2005	05.10.2006	13.03.2007
Arrack - per proof Ltr	366/-	381/-	396/-	421/-	446/-
Foreign Liquor -per proof Ltr	490/-	510/-	525/-	550/-	575/-
Beer - A.S. below 5% - per Ltr	27/50	32/50	37/50	37/50	37/50
Beer - A.S. above 5% per Ltr	43/50	48/50	53/50	53/50	53/50
Wine -per Ltr	200/-	225/-	250/-	275/-	300/-

Source: Department of Excise

Chart 4.4



and eliminate social and economic costs by reducing consumption. A Special Investigating Team has checked the licensed places at night particularly in the Colombo City in order to control illegal activities in those places. No new excise licenses were issued, except issuing licenses for Tourist Board approved Establishments in order to encourage the tourism industry. Existing legislation on hours of sale of alcohol and sale of alcohol to minors has been strictly enforced. Strict supervision was enforced over the liquor-licensed places to reduce malpractices. The Licensees who have violated excise rules and regulations were heavily punished through the imposition of penalties permitted under Increase of Fines Act No.12 of 2005. During the year 2006, 5203 Technical Crime Reports have been submitted to Excise Licensees who have violated excise rules and regulation

Source: Department of Excise

- Heavy Fines have Worked as a Deterrent

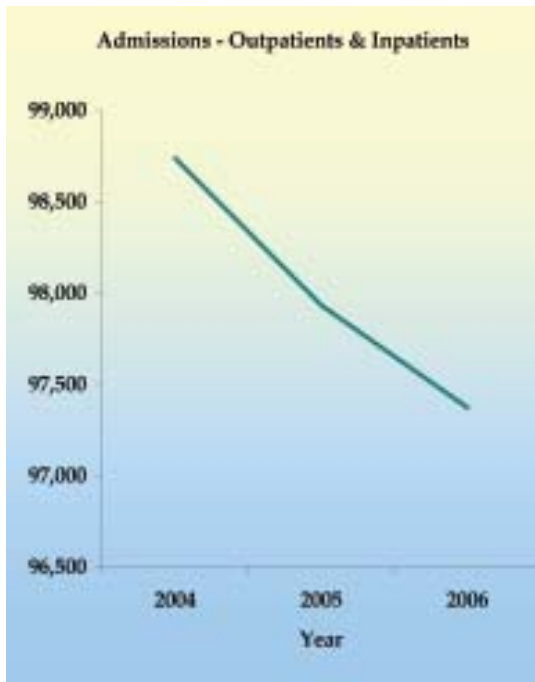
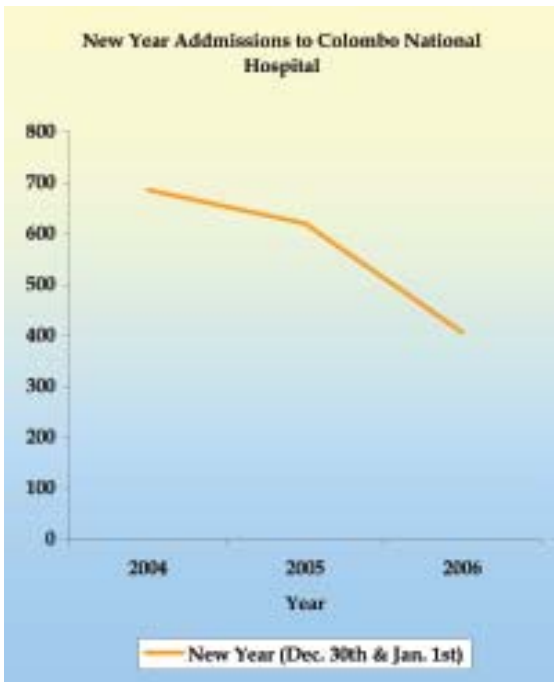
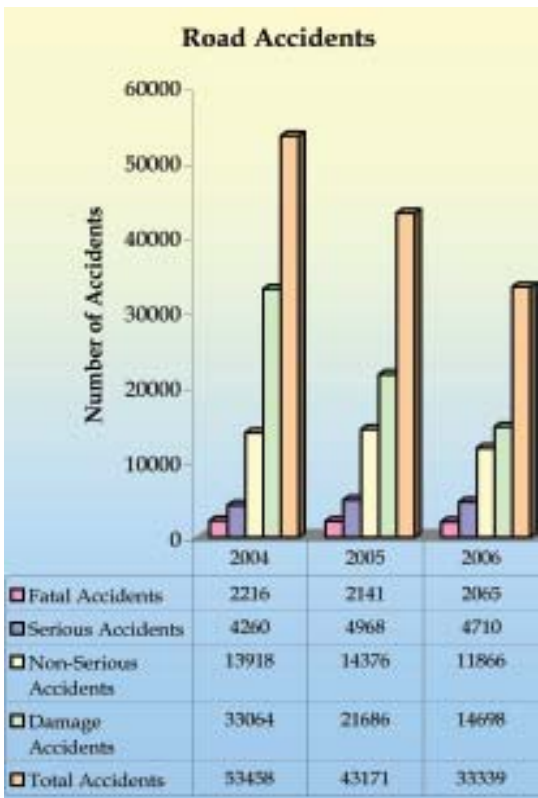
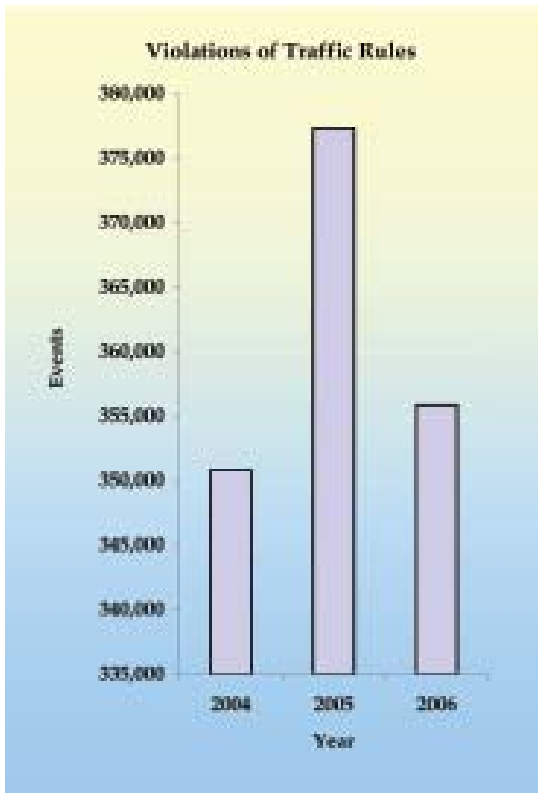
The heavy fines introduced through the Increase of Fines Act No.12 of 2005, appears to have acted as a deterrent. Some of the revised fines are as follows;

Box 4.8

Offence	Earlier Fine Rs.	Revised Fine Rs.
Identification of number Plates	100	500
Revenue license to be carried	100	500
Restriction on use of motor vehicles in contravention of revenue license	50	1,000
Prohibition of driving without a license	150	2,500
Employing persons without a driving license	150	3,000
Driver under the age of 18 years old	150	5,000
Speeding	200	1,000
Breaching rules of the road	100	500
Signals by drivers when driving	100	500
Failure to wear protective helmets	100	500
Traffic directions and signals of police officers	150	1,000
Halting/parking of motor vehicle on highways	150	500
Motor vehicle being halted or left on highway	150	500
Driving after consumption of alcohol or drugs	Not less than 2,000	Min. 3,500 Max 7,500
Driving certain vehicle after consumption of alcohol or drugs	Not less than 3,000	Min 4,000 Max. 7,500
Injury to persons by driving a motor vehicle	Not less than 5,000	Min 6,000 Max. 50,000
Driving recklessly	Not less than 750	Min. 1,500 Max 25,000
	Second conviction, not less than 1,000	Min 2,500 Max 25,000
	Third / Subs. conviction, not more than 1,500	Min. 3,500 Max 25,000
Driving negligently	Not less than 500	Min 1,500 Max. 25,000
	Second Con. not less than 1,000	Min 2,500 Max 25,000
	Third/ Subs. Con. not more than 1,500	Min 3,500 Max 25,000
Driving without insurance	Not less than.500	Min 5,000 Max 25,000
Giving false information	Not less than.1,000	Min 2,500 Max 5,000
Fraudulent use of identification plates, certificates of registration, driver's license, etc..	Fine not less than 1,000	Min 7,500 Max 25,000
Forgery or fraudulently imitation or alteration of certificate of insurance or certificate of security	Second/Subs. Con ,not more than 1,500	Min 7,500 Max 50,000
Issuing a certificate of insurance or a certificate of security which is known to be false.	Fine not less than 1,000	Min 7,500 Max 50,000

Source: Budget Speech 2006

Chart 4.5



- Stricter Enforcement

Department of Excise has taken a stringent approach towards the strict implementation of legislative provisions regarding production, transport and sale of illicit alcohol.

Table 4.8
Raids Conducted by the Department of
Excise

Month	2005	2006	2007
January	3181	3300	3245
February	4015	4157	4620
March	4352	5801	5328
April	3588	3165	
May	4457	5548	
June	5079	5414	
July	3408	3532	
August	3277	4508	
September	2888	4537	
October	3289	4676	
November	3129	4634	
December	5330	4408	
Total	45933	52590	

Source; Department of Excise

Chapter 5

Foreign Aid

Foreign aid received from both multilateral and bilateral donors by way of concessional loans and outright grants have contributed towards promoting economic development in Sri Lanka. The Mahinda Chinthana: Vision for a New Sri Lanka – A Ten Year Horizon Development Framework 2006-2016 places a major emphasis on the development of infrastructure facilities in the country connecting lagging regions into the development process and achieve a higher economic growth in excess of 8 percent. The response from both multilateral and bilateral donors to achieve this objective has been encouraging.

The total aid commitments made by the donors to Sri Lanka by signing necessary loan/grant agreements in 2006 amounted to US\$ 1,292 million. At the end of 2005 the total Committed Undisbursed Balance (CUB) available for the government's development programmes (including post tsunami reconstruction activities) amounted to US\$ 4.1 billion (*Annex -1*).

The amount disbursed during 2006 was US\$ 1,094 million. Accordingly, the Committed Un-

disbursed Balance at the end of 2006 was US\$ 4.28 billion. The utilization of these commitments involves 3 to 5 year time frame depending on the duration of the project implementation. Generally, a utilization of one-fifth to one-fourth of the committed funds each year is considered satisfactory. Multifaceted factors often affect the efficient utilization of committed aid.

Foreign Aid Commitments - 2006

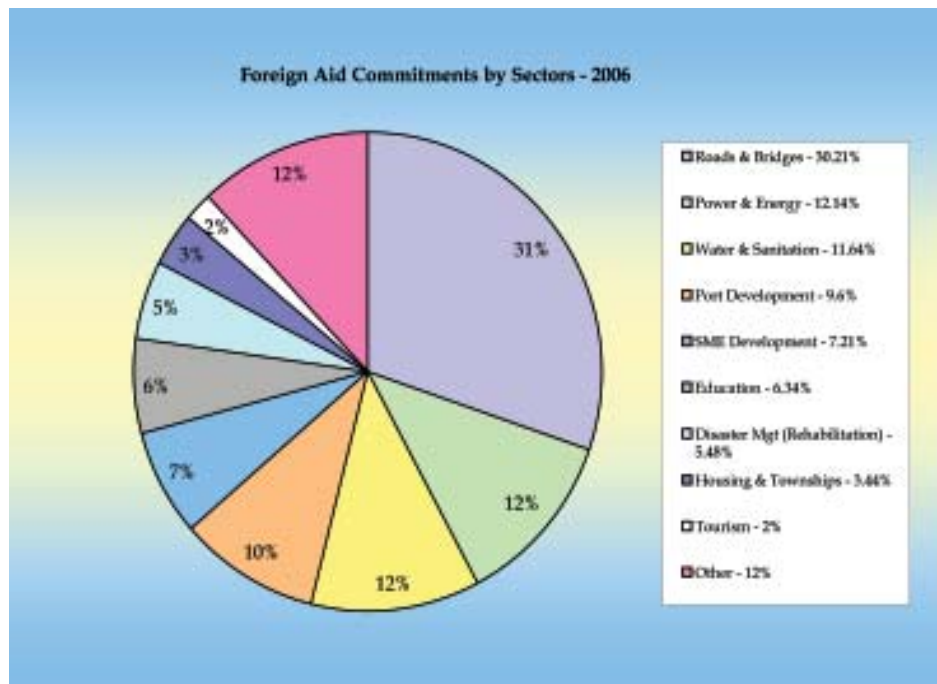
The total commitments of US\$ 1,292 million made in 2006 were in the form of project loans and grants. The project loans accounted for US\$ 1,098 million and grants totaled US\$ 194 million. The sector-wise details of all agreements signed in 2006 are given in Annex 2. Keeping in line with the priority sectors identified by the government for economic development, almost 30 percent of the total commitments in 2006 (US \$ 391 million) were targeted for projects in roads and bridges sector, while power and energy sector and water and sanitation sector received commitments of 12 percent each.

Table 5.1
Foreign Aid Commitments during Year 2006 by Sector

Sector	Loan	Grant	Total	(US\$ Mn)
				As Percentage of the Total
Road & Bridges	377.7	12.8	390.5	30.21
Power & Energy	156.9		156.9	12.14
Water & Sanitation	136.9	13.5	150.4	11.64
Port Development	124.1		124.1	9.60
SME Development	93.2		93.2	7.21
Education	19.4	62.6	82.0	6.34
Disaster Mgt (Rehabilitation)	31.5	39.4	70.9	5.48
Housing & Township	20.1	24.4	44.5	3.44
Tourism	23.0	0.3	23.3	2
Other	115.9	40.8	156.7	12
Grand Total	1,098.7	193.7	1,292.4	100.00

Source: Department of External Resources

Chart 5.1



The World Bank, Asian Development Bank (ADB) and the Government of Japan committed US \$ 288 million for the road sector projects. The ADB and the World Bank provided assistance for road sector development amounting to US\$ 150 million and US \$ 100 million respectively. The World Bank and ADB funding have been earmarked for the development of approximately 1,700.km road network covering Puttalam-Padeniya, Puttalam-Anuradhapura, Ingiriya-Ratnapura, Nuwara Eliya-Badulla,

Wellawaya-Siyambalanduwa-Ampara, Nittambuwa-Kandy, Habarana-Kantale, Kandy-Mahiyangana. The commitment of US \$ 38.2 million from Japan will be utilized for the rehabilitation of part of the main highway in the Eastern Province affected by the Tsunami disaster. In addition, Japan has committed US \$ 124 million for Galle Port development and US\$ 22.3 million for tourism resources improvement.

The Galle Port development project will facilitate the Southern region development plan presently being implemented by the government. The ADB has contributed to develop technical education and for the strengthening of the local government infrastructure during this period by providing loans amounting to US \$ 20 million and US \$ 50 million respectively. In addition, the Government of China has committed to provide a total of US \$ 455 million for the Norochcholai Coal Power Project. (Phase - I with 300MW of power generation capacity)

Committed Un-disbursed Balance of Foreign Aid

At the end of 2006 the Committed Un-disbursed Balance available for the government's development programme amounted to US 4.28 billion. Table 5.2 indicates the sectoral classification of the committed un-disbursed balance.

Table 5.2
Committed Un-disbursed Balance of Foreign Aid by Sector as at 31 Dec. 2006

Sector	Amount (US\$ Mn.)	As a Percentage of the Total
Tsunami Rehabilitation	908.1	21
Roads, Bridges, Ground Transport, Ports & Airport Aviation	853.9	20
Power & Energy	607.4	14
Water Supply & Sanitation	363.2	8
Health, Education & Vocational Training	312.7	7
Agriculture, Irrigation, Land, Plantation & Fisheries	238.8	6
Trade, Tourism	190	4
Rehabilitation	157	4
Financial Management	141.8	3
Rural Development	111.5	3
Environment & Forestry	110.8	3
IT, Science & Technology, Institutional Development	88.5	2
Housing & Urban Development	82.7	2
Other	118.9	3
Total	4,285.3	100

Source: Department of External Resources

Chart 5.2
Committed Un-disbursed Balance of Foreign Aid by Sector as at 31 Dec 2006

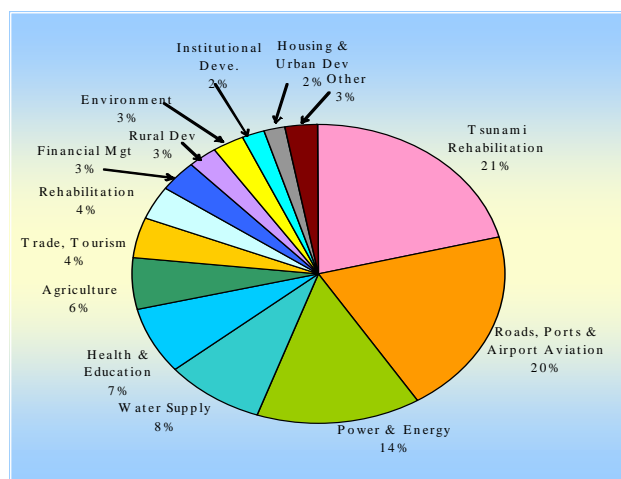


Table 5.3 provides the donor wise classification of the Committed Un-disbursed Balance

Table 5.3

Donor	Amount (US\$ Mn)	As a Percentage of the Total
ADB	1056.8	24.7
World Bank	480.8	11.2
Japan	1021.4	23.8
France	96.6	2.2
China	529.9	12.4
Germany	127.7	3.0
USA	88.6	2.1
UN Agencies	134.4	3.1
European Investment Bank	123.6	2.9
Export Credit	176.2	4.1
Others	449.3	10.5
Total	4,285.3	100

Foreign Aid Disbursements

The total foreign aid disbursement by 31st December 2006 amounted to US \$ 1,094 million on account of project loans, programme loans and grants. Of the total disbursement, project loans accounted for US \$ 734 million (67.0 per

cent), programme loans US \$ 52 million (4.8 per cent) and grants US \$ 309 million (28.2 per cent). The details of disbursements by each donor is given in Annex 2. Compared with the past two years, 2006 showed a further improvement in the disbursement of funds.

Table 5.4
Foreign Aid Disbursements 2004 -2006 (US\$ mn.)

Donor	2004		2005		2006	
	Amount	%	Amount	%	Amount	%
China	3.6	0.4	10.2	1.0	9.4	0.9
Germany	40.3	5.0	62.5	6.1	106.6	9.7
India	31.6	3.9	7.4	0.7	11.1	1.0
Japan	290.4	36.1	238.6	23.1	301.2	27.5
Korea	6.3	0.8	17.5	1.7	19.7	1.8
Sweden	12.8	1.6	6.4	0.6	9.6	0.9
United States	7.8	1.0	17.0	1.6	19.1	1.7
ADB	189.1	23.5	213.9	20.7	199.5	18.2
(IDA,IBRD)	72.1	9.0	156.3	15.2	167.7	15.3
UN Agencies	13.7	1.7	96.5	9.4	92.3	8.4
European Investment Bank	25.8	3.2	17.9	1.7	33.0	3.0
Commercial Banks	0	0.0	103.64	10.1	0	0.0
.Export Credit	85.9	10.7	45.99	4.5	87.7	8.0
Others	25.9	3.2	37.01	3.6	37.3	3.4
Total	805.3	100.0	1,030.7	100.0	1,094.3	100.0

Source: Department of External Resources

Chart 5.3

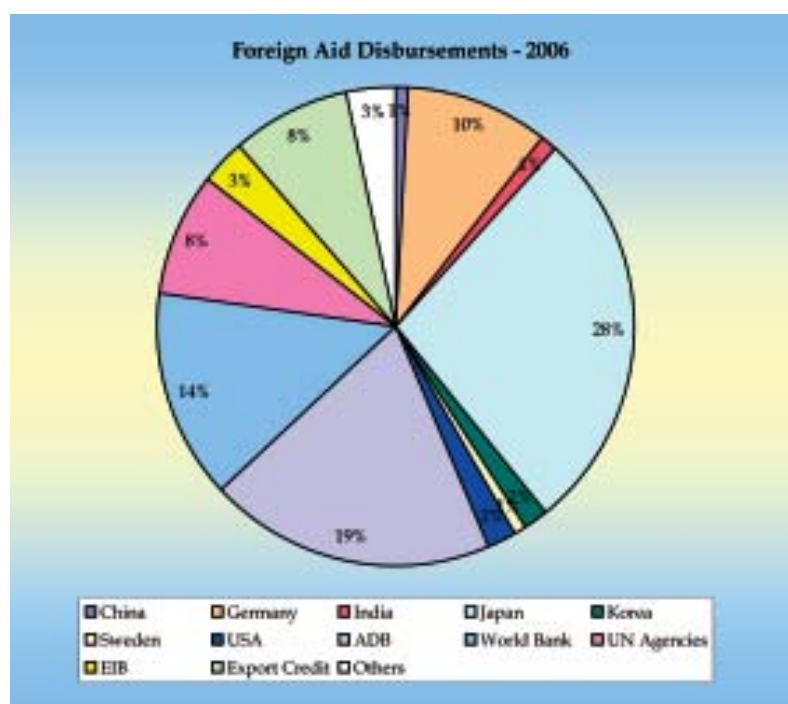


Table 5.5

Projects with Foreign Aid Disbursements over US\$ 10 mn in 2006		
Projects	Donor	Amount
(a) Loans		
Walawe Left Bank Irrigation. & Extension. Project.(II)	Japan	10.77
Kalu Ganga Water Supply Project for Greater Colombo.	Japan	17.16
Bandaranaike International Airport Development Project	Japan	43.76
Southern Highway Construction Project	Japan	26.02
Greater Kandy Water Supply Project	Japan	15.94
Upper Kotmale Hydro Power Project	Japan	17.34
Small Scale Infrastructure Rehabilitation & Upgrading (SIRUP I)	Japan	22.89
Small-Scale Infrastructure Rehabilitation & Upgrading (SIRUP II)	Japan	15.75
Small & Micro Industries Leader & Entrepreneur Promotion(SMI LE III)	Japan	24.68
Sri Lanka Tsunami Affected Area Recovery and Take Off (STAART) Project	Japan	28.49
Road Network Improvement Project	ADB	15.25
Southern Transport Development Project	ADB	23.42
Road Sector Development Project	ADB	18.94
Rural Finance Sector Development Program.	ADB	20.00
Fiscal Management Program	ADB	15.00
Renewable Energy for Rural Economic Development Project	IDA	19.18
North East Housing Reconstruction Project	IDA	16.03
Tsunami Emergency Recovery Project Phase II	IDA	24.77
Road Sector Assistance Project	IDA	13.60
Towns South of Kandy Water Supply Project (Export Credit)	Denmark	12.30
Pakistan Line of Credit (Export Credit)	Pakistan	20.00
Solar Energy for the Development of Health & Education Facilities in Rural Areas (Export Credit)	Finland	21.40
DFCC IV Private Sector Development	Germany	18.23
NDB V -Private Sector Promotion Programme	Germany	10.08
Sapugaskanda Diesel Power Plant Project - First Extension	Germany	16.67
Post Tsunami Line of Credit - (Contract A)	EIB	25.40
Total		513.07
(b) Grants		
Non Project Grant Aid - Relief Rehabilitation & Reconstruction of Tsunami Affected Areas	Japan	19.27
Tsunami Recovery & Reconstruction Support	USA	10.84
Tsunami-Affected Areas Rebuilding Project	ADB	12.61
Health Sector Development Project	IDA	27.98
Education Sector Development Project	IDA	11.97
Sri Lanka UNICEF Country Programme 2002-06	UNICEF	10.77
Tsunami Response Plan 2005-07 Rebuilding with Children	UNICEF	45.34
Total		138.78
Grand Total		651.85

Source: Department of External Resources

Foreign Aid Utilization Rate

A comparison of the aid utilization rates is given in Table 5.6 where the utilization rates for the year 2006 are compared with that of the past two years. Accordingly, the highest level of utilization rate of 27.7 percent was recorded in 2006. The utilization rates need to be considered in the context of the type of assistance received, as some of the mega projects would involve a very large initial commitment but to be spent over a longer period of time depending on implementation cycle while some programme loans disburse significantly large amounts in one or two tranches.

Table 5.6
Comparison of Foreign Aid Utilization Rates

Donor	Utilization Rates		(%)
	2006	2005	2004
Japan	20.4	13.1	17.5
ADB	18.9	17.5	18.9
World Bank	26.9	24.7	20.9
Germany	49.2	66.5	30.5
Others	38.6	66.1	30.4
Overall	27.7	26.5	21.0

Source: Department of External Resources

The utilization of committed aid is affected by several constraints such as tender board delays, land acquisition problems, inadequate capacity in project management units, insufficient supervision and attention to timely implementation, irregular release of domestic counterpart funds by the Treasury, procedural complexities, rigidities and bureaucracy in donor agencies, changing conditions and applicability of the projects, cost escalations, governance weaknesses, changes in scopes and

security conditions in non-liberated areas in selected districts of North and East Provinces. These issues are being addressed at all levels. The continuous improvement in the aid utilization has been the result of number of measures taken by the government. These include:

- Establishment of the National Procurement Agency (NPA) to streamline procurement systems and procedures. A revised set of Guidelines with the standard bidding documents for procurement that can be applied to donor funded projects are now in force
- Completion of preliminary work such as setting up of project management offices with core staff and preparation of procurement plans well in advance of the signing of Credit Agreements
- Improvement in the release of funds for foreign aid funded projects by the Treasury
- Enhancement of implementation capacity of the project management units
- Resolving contractors problems and issues related to land acquisition and resettlement
- Regular review of project implementation with implementing agencies and aid agency representatives
- Realign donor portfolios with government development policies and reallocation of unspent resources to high priority activities i.e. Spring Cleaning of ADB Portfolio

Box 5.1

Spring Cleaning – ADB Project Portfolio

In 2006, the Government and the Asian Development Bank (ADB) reviewed the ADB's active portfolio to reassess its relevance under the present circumstances and take actions aimed at improving its quality and the efficiency of implementation. Changes in Government policies, the advent of the 2004 tsunami, and a different security situation prompted this review. A number of circumstances affecting project implementation were identified: (i) changes in conditions, policies, and Government priorities since the time the loans were designed, which make some projects or components no longer relevant; (ii) complex structure of some loans, which makes implementation difficult; and (iii) severe delays in the implementation of some loans, leading to low use of loan proceeds which can be more productively used in other developmental activities.

Through meetings held starting on 31 July 2006 and a high level mission headed by Mr. Kunio Senga, ADB Director General for South Asia, fielded on 29 and 30 August 2006 and Secretary to the Treasury along with the Government officials reviewed the ADB portfolio, identified savings and discussed priority actions to remove bottlenecks to implementation. It was agreed to cancel immediately loan savings totaling \$ 67.06 million, out of which \$ 37.06 million to be reallocated to other fast-moving components within the same project in need of additional funds. As a result of this exercise the following changes were made to the ADB funded project portfolio.

1. Plantation Development Project – \$ 6.5mn has been reallocated to a new component for rehabilitation of estate roads and \$ 1.5mn for quality certification
2. Southern Province Rural Economic Advancement Project- \$ 3.4 mn has been reallocated for the rehabilitation/ reconstruction of roads and bridges and \$ 2.6mn for reconstruction of flood-damaged pedestrian bridges
3. Aquatic Resource Development and Quality Improvement Project – since the credit line was not moved because of discrepancies in the interest rate, construction of fishery market has been identified as a priority and \$ 4.2mn has been allocated for this purpose
4. \$ 18.7 mn has been transferred to the supplementary loan for Secondary Towns Water Supply and Sanitation Project

The Asian Development Bank's active portfolio as at 31st December 2006 includes 47 loans, totaling \$1,745 million, of which \$1,235 million is from the Asian Development Fund (ADF) and \$346 million from Ordinary Capital Resources (OCR) and \$164 million from Asia Tsunami Fund (ATF). These funds were allocated mainly for the development of road sector (US\$ 430 mn), industries and financial sector (US\$ 325mn), urban development and water supply sector (US\$ 280mn), education sector (US\$ 181mn), agriculture and forestry (US\$ 277mn) and energy sector (US\$ 79mn). In addition US\$ 154mn were allocated for the rehabilitation and reconstruction activities in the North and the East Provinces

Technical Cooperation

In addition to project financing, the government received 760 scholarships in 2006 under Technical Cooperation, which include both long-term and short-term training courses. Of these training programmes, 50 placements were for long term postgraduate diplomas and masters programmes with duration of 8 months or over. The areas of training included, development administration, agriculture and livestock, irrigation, information technology, governance environment, human resource development and management. The total value of these scholarships exceeded US \$ 40 million. The distribution of scholarships among the ministries is given in Annex 3.

Department of External Resources (DER) performs the co-ordination function between the donors and line ministries/agencies in identifying suitable candidates for foreign training opportunities. DER is maintaining a database to improve the efficiency and ensure transparency and accountability of the foreign training management process.

Identification of agencies for foreign training offers is done through the annual demand survey conducted by DER in the first quarter of each year. The data collected through the survey are fed in to the database and subsequently match with the offers made by donors to identify suitable agencies.

The short term training, seminars, conferences and workshops are offered to middle and senior level public officers to enhance their knowledge and expose themselves to the development taking place in other countries. Short to medium term training opportunities are offered to middle level public officers to improve their technical and professional skills. Mostly, these training courses are conducted at specialized training institutions and universities. The long term training opportunities leading to post-graduate diplomas and Masters level degrees are offered to junior and middle level officers to enhance their academic and professional skills which are required for their future career development. Thus, training opportunities provided by the development partners through their technical cooperation programmes make an important contribution towards the human resource development in the public sector.

The Government of Japan was the major provider of short term scholarships while the Netherlands, India, Republic of Korea, Australia, Norway, and Thailand provide the long-term scholarships. Germany, Singapore, Colombo Plan, CFTC, ADB, Indonesia, United Nations Agencies, China, Israel, Malaysia and Pakistan are the other providers of short term scholarships.

Further, as part of technical cooperation support from the donors, the Government of Sri Lanka received about 160 volunteers from countries such as Japan, Korea, Canada, Australia and the UN agencies in the year 2006. Generally, these volunteers work in Sri Lanka for a period of two years and therefore the actual number of international volunteers working in Sri Lanka in 2006 would have been over 250. The volunteers work as computer instructors, web design engineers, language (Japanese and Korean) instructors, sport coaches, community development specialists and vocational training instructors. As the volunteers work at grassroots level with communities, they are able to impart their expertise effectively contributing to enhance the living standards of the community.

Centre for Non-Government Sector (CNGS)

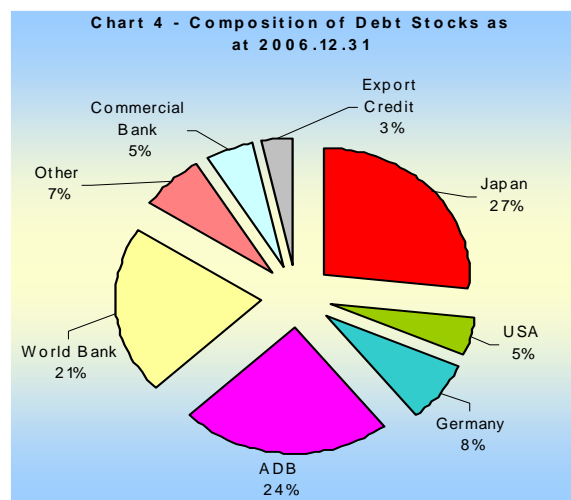
The CNGS is facilitating better coordination of Non Governmental Organization (NGO) activities with a view to providing a platform for NGOs to become a credible development partner. CNGS is responsible for assessing applications and proposals received from organizations for registration as international NGO(INGO) / local NGO (LNGO) in Sri Lanka and make recommendations for registration to the NGO Secretariat of the Ministry of Social Service and Social Welfare. In addition to this, CNGS is involved collecting of information on INGO/ LNGO activities and maintain records to streamline the operations of NGO in Sri Lanka. The CNGS, through the Ministry of Finance and Planning has taken steps to issue guidelines to NGOs with a view to ensure that their involvements and operations fall within the government's development framework and that the funds channeled to various development projects are not associated with "Money Laundering" and/or "Terrorist Financing" and/or any other activity undermining national interest.

During 2006, the CNGS was able to recommend 22 new INGOs and 37 new LNGOs for registration. Further, it has collected and disseminated information on assistance received from major INGO/LNGO to sectors such as housing, education, health, fisheries, water and sanitation, environment and natural resources and other livelihood development activities. A series of meetings were conducted at the Treasury with the INGOs/LNGOs to provide guidelines, facilitation of project implementation and monitor development/social activities.

External Debt

The external debt of the Government as at 31. 12. 2006 amounted to US\$ 10.6 billion. Of this, 47 percent is due to bilateral donors, 45 percent to multilateral donors, 5 percent to commercial banks and the balance 3 percent to the export credit agencies. A graphical representation of the composition of the external debt stock as of end 2006 by the major donor category is demonstrated below.

Chart 5.4
Composition of Debt as at 31st December 2006



Slightly over three quarter of the government external debt has been utilized for the financing of development projects. While, the amount drawn under programme loans accounts for about 9.2 percent, the utilization of funds for commodity and cash loans has been at 7.9 percent and 4.3 percent respectively. Table 7 indicates the composition of external debt stock by use of funds.

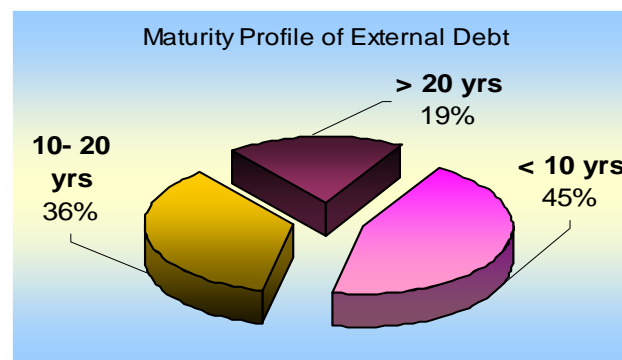
Table 5.7
Composition of External Debt by Use of Funds

Use of Funds	US\$ (mn)	%
Project	8,093.1	76.2
Programme	978.3	9.2
Commodity	835.8	7.9
Cash loans	450.7	4.3
Other	259.1	2.4
TOTAL	10,617.0	100.0

Source: Department of External Resources

The maturity profile of the Government external debt is given in the Table 5.5. As shown in the Chart, about 45% of the debt stock will be matured in the 10 year period commencing from 2007. Nearly, 36% of the debt stock will be matured in the next 10 year period commencing from 2017. The balance 19% is to be matured after 20 years.

Chart 5.5



External Debt Service Payments

In 2006, debt services came back to normal level after benefiting one year debt relief granted by the donors to facilitate the post-tsunami recovery programme. Table 5.8 illustrates the status of external debt service payments from year 2003 – 2006.

The total debt service payments made during the year 2006 was US\$ 585.6 million which consisted of US\$ 411.7 million in principal repayments and US\$ 173.8 million in interest payments. The total debt service in 2006 shows an unusual increase due to the low debt service payment in 2005 on account of the debt relief granted by the Paris Club in 2005 to facilitate the post tsunami reconstruction programme.

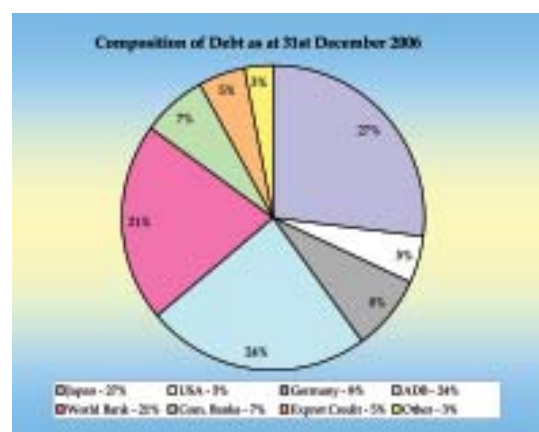
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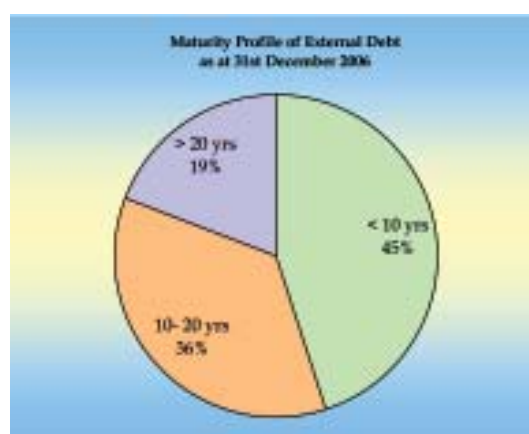
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Table 5.8
External Debt Service Payments from 2003
– 2006 in US\$ mn.

Type	Year	2003	2004	2005**	2006*
Total Outstanding Debt		8726	9490	9265	10617
Principal repayments		261	295	173	412
Interest payments		131	148	76	174
Total debt service payments		392	443	249	586

Source: Department of External Resources

* Provisional

** Low debt service payment due to debt relief

If the debt relief is not taken into account the debt service in 2005 would have been US\$ 514.48 million.

Table 5.9 illustrates the external debt service payments to creditors for the period from 2001 to 2006. The debt service payments to three major donors, i.e. Japan, ADB and the World Bank accounted for 60% of the total repayments in 2006.

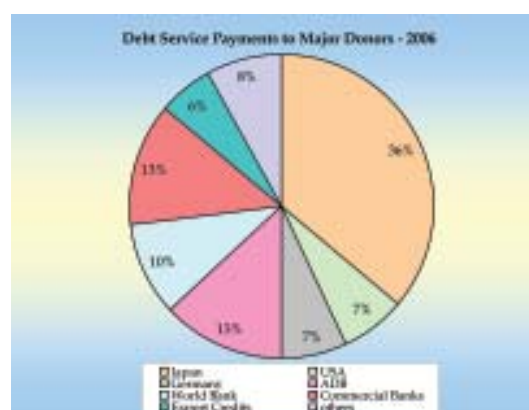
Table 5.9
Debt Service Payments to Donors/Creditors 2001 – 2006 in US\$ mn

CREDITOR	2002	2003	2004	2005*	2006
Bilateral	237	261.6	293.4	52.3	331
Japan	147.9	169.5	192	16.7	214.5
USA	43.2	43.7	43.4	8.9	41.3
Germany	18.8	22.1	22.8	15.8	40.9
France	6	7.6	7.9	0	9
Netherlands	0	0	4.9	0.6	5.3
Canada	2.7	3	3.3	0.1	4.2
Kuwait	3.1	3.2	3.1	3.3	4.7
Korea	4.1	4.6	4.9	0.1	7.4
India	5.3	3.8	4.9	3.8	0
China	2.6	2.7	3.9	2.9	2.9
Other	3.3	1.4	2.3	0.1	0.8
Multilateral	87	103.6	109.7	126.4	145.8
ADB	38.1	48.6	52.2	64.9	76.1
World Bank (IDA, IBRD)	46.2	51.7	53.7	55.7	56.7
IFAD	2.2	2.6	2.7	2.6	8.2
Others	0.5	0.7	1.1	3.2	4.8
Commercial Banks	9.3	9	10	40.2	76
Export Credits	18.9	19	19.9	29.6	32.8
Grand Total	352.2	393.2	433	248.5	585.6
Period end exchange rate	96.708	96.3518	104.3327	102.0883	107.7056

*Debt relief impact is reflected

Source: Department of External Resources

Chart 5.6



The debt service forecast based on the current debt stock is given in Table 5.10. As shown in the Table, there is no significant increase in the debt service payments based

on the current debt stock expected in the next 5 years

Table 5.10
Debt Service Forecast - 2007 to 2012- in US\$ mn

CREDITOR	2007	2008	2009	2010	2011	2012
Bilateral	418.9	434.4	441.2	382.6	382.7	392.7
Japan	262.1	265.6	265.4	216.1	220.9	224.1
USA	55	54.1	53.1	40.5	39.8	39.2
Germany	48.1	48.6	47.9	37	33.6	29.2
France	10.7	11.2	11.4	9.1	8.6	7.9
Netherlands	7	6.1	4.1	1.6	0.8	
Canada	4.8	4.8	4.8	3.7	3.7	3.7
Kuwait	4.8	5	5.3	5.8	6.2	6.1
Korea	10.8	12.8	12.8	10.9	10.4	9.9
India	9.2	12.7	14.1	13.7	13.5	13.2
China	4	10.3	16	37.8	38.9	53.2
Other	2.4	3.2	6.3	6.4	6.3	6.2
Multilateral	162.4	202	229.6	247.1	281.5	298.2
ADB	88.9	116.9	137.3	151	170.6	179.1
World Bank (IDA, IBRD)	65.3	71.2	73.1	76.5	83.9	86.7
IFAD	2.4	3.1	3.6	3.6	3.6	3.6
Others	5.8	10.8	15.6	16	23.4	28.8
Commercial Banks	210.2	146	113.3	6.6	6.4	5.8
Export Credits	43.4	48.6	51	54.3	54.2	52.2
Grand Total	834.9	831.0	835.1	690.6	724.8	748.9

Source: Department of External Resources

The net flow of foreign aid during the period from 2001 to 2006 is given in Table 5.11.

Table 5.11
Net Flow of Foreign Aid - 2001 to 2006- in US\$ mn

Creditor Category	Description	2001	2002	2003	2004	2005	2006
Multilateral							
ADB	Disbursements	94.9	153.5	217.9	187.0	216.8	199.5
	Interest Payments	13.7	14.8	17.8	20.2	24.0	28.2
	Principal Repayments	20.6	23.4	30.8	32.0	40.9	47.9
	Net Flow	60.6	115.3	169.3	134.8	151.9	123.4
WB	Disbursements	44.2	94.3	210.1	72.1	156.7	167.7
	Interest Payments	11.7	12.5	13.8	15.3	16.1	15.7
	Principal Repayments	28.3	33.8	37.9	38.4	39.6	41.0
	Net Flow	04.2	48.0	158.4	18.4	101.0	111.0
IMF	Disbursements	121.5	123.5	82.1	0	0	0
	Interest Payments	3.2	2.1	0	5.7	0	0
	Principal Repayments	67.8	50.2	23.2	107.8	0	0
	Net Flow	50.5	71.2	58.9	-113.5	00.0	00.0
Bilateral							
Japan	Disbursements	231.5	183.1	250.8	276.5	235.0	301.2
	Interest Payments	51.9	53.8	60.6	65.7	6.6	56.0
	Principal Repayments	82.4	94.1	108.8	126.3	10.2	158.4
	Net Flow	97.2	35.2	81.4	84.5	218.2	86.8
USA	Disbursements	15.3	2	11	8	17	19.1
	Interest Payments	18.8	18.3	17.9	17.3	3.7	15.7
	Principal Repayments	23.5	24.9	25.9	26.1	5.2	25.6
	Net Flow	-27.0	-40.8	-32.7	-35.8	07.8	-22.2
Germany	Disbursements	38.5	15.2	26.6	39.7	64.0	106.6
	Interest Payments	4.6	6.0	7.2	8.0	5.4	10.6
	Principal Repayments	11.3	12.9	14.8	14.8	10.4	30.3
	Net Flow	22.6	-03.7	04.6	16.9	48.2	65.7
Other	Disbursements	103.0	131.3	308.1	200.9	528.0	299.9
	Interest Payments	21.8	12.6	14.1	18.7	19.9	47.6
	Principal Repayments	151.7	44.8	43.6	50.3	66.5	108.5
	Net Flow	-70.5	73.9	250.4	131.9	441.6	143.8
Total	Disbursements	648.9	703.3	1106.7	783.8	1217.2	1094.0
	Interest Payments	125.7	120.1	131.4	150.9	75.7	173.8
	Principal Repayments	385.6	284.1	285.0	395.7	172.8	411.7
	Net Flow	137.6	299.1	690.3	237.2	968.7	508.5

Source: Department of External Resources

Note: Disbursement includes grants and Loans

Net Flow = Disbursement - (Interest Payments + Principal Repayments)

Project Pipeline for the Next 3 Years

The project pipeline for foreign financing for the next three years has been finalized in line with the Medium-Term Development Framework envisaged in the overall policy of “Mahinda Chintana: Vision for a New Sri Lanka - A Ten Year Horizon - Development Framework 2006 – 2016”. As envisaged in the Ten Year Horizon Development Framework 2006 – 2016, the major focus in the medium-term development strategy would be the growth in lagging regions, including the districts in North and East provinces in order to reduce regional disparities by extending the benefits of rapid economic development to those regions. Some of the flagship projects that have been identified in the pipeline are described below.

Port Development

A landmark project expected to be commenced in 2007 with financial assistance of US\$ 400 mn from the Government of China is the Hambantota Port Development Project. This project is expected to bring in greater benefits to the country in view of its strategic location with close proximity to major international sea routes.

A Memorandum of Understanding (MOU) was entered into with the ADB to obtain assistance amounting to US \$ 300 million for Colombo Port Expansion which includes dredging and breakwater construction at the initial stage which would be sufficient to accommodate three terminals. Oluvil Port Project will be commenced in 2007 with the assistance of Government of Denmark. In addition urgent rehabilitation and improvement is planned for Kankasanthurai harbour with financial assistance from India.

Power Sector Development

In order to reduce the risk of heavy reliance on thermal power, the government initiated action to obtain financial assistance from the Government of Japan and other major Exim Banks to construct two dual fuel combined cycle power plants at Kerawalapitiya, one based on heavy fuel and another on light fuel with facility to convert to LNG option at a future stage. These projects are expected to provide

additional 600 MW to the national grid after completion in a period of about four years.

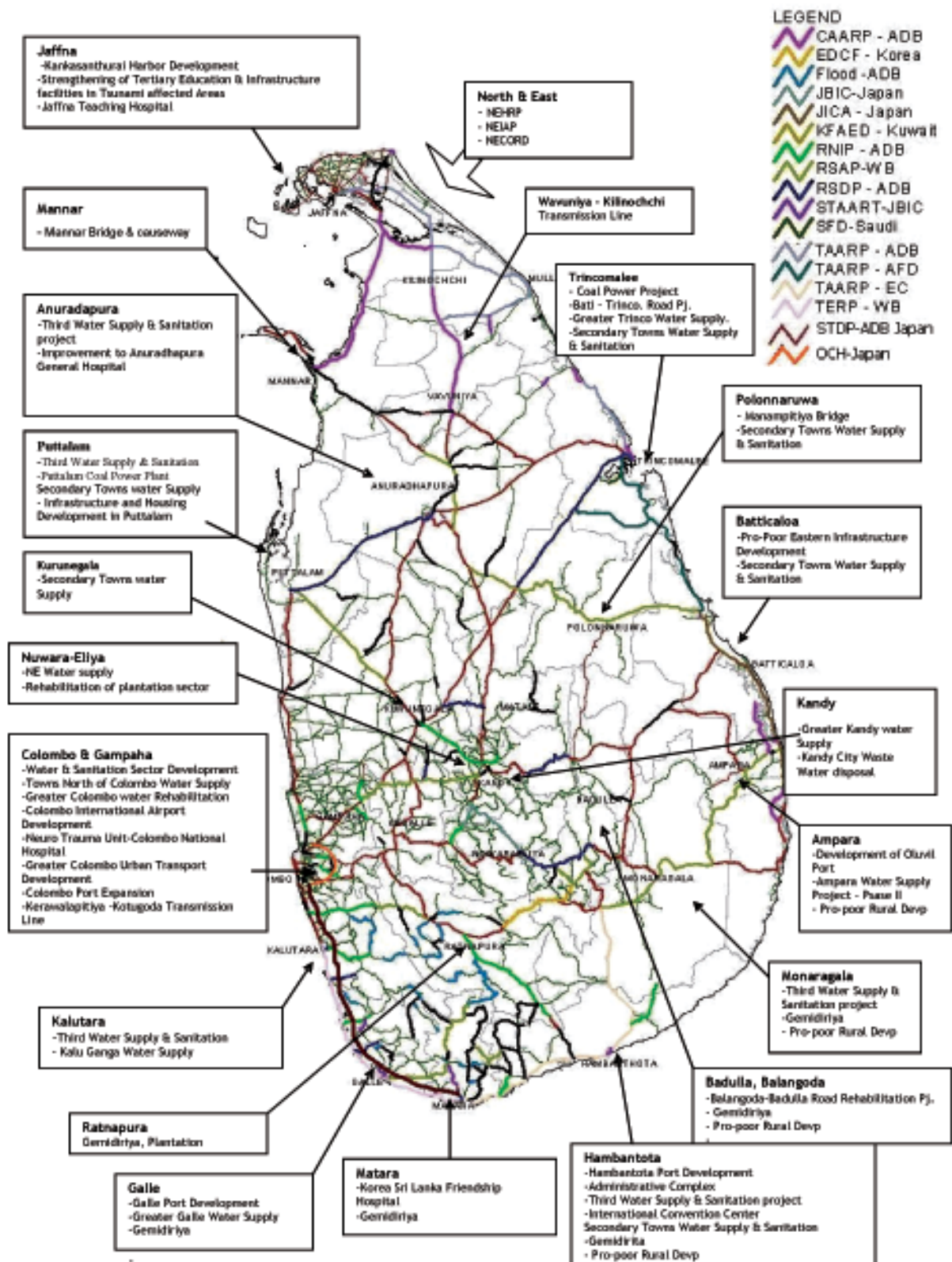
Road Sector Development

Mahinda Chinthana has set forth a broad agenda for the road sector by recognizing the importance of building a national highway system and integrated road network. This aims at linking lagging regions and production centres in the less developed regions to domestic and international markets to foster rural development. The Southern Expressway, the longest (125.6km) expressway, connecting Colombo and Matara is under construction. The ADB and the Government of Japan are expected to provide additional funding to expand the originally planned two-lane sections of the expressway to four-lanes to reduce the traffic congestions and travel time. The Greater Colombo Urban Transport Development Project (Outer Circular Highway) is another important highway which is scheduled to commence in 2007 with the assistance of the Government of Japan. The Indian Government will assist to upgrade the double tracking of Southern coastal railway line during 2007. A new highway bridges at Mannar will also be constructed with US\$ 16 million grant provided by the Government of Japan.

Water Supply and Sanitation Sector

Major projects such as Secondary Town Water Supply Project, Water and Sanitation Sector Development Project, Greater Kurenegala Water Supply Project, Water Sector Development Project, Labugama-Kalatuwawa Water Supply Project, Jaffna Water Supply and Negombo Water Supply Project, Augmentation of Water Supply to Moratuwa and Negambo Areas and Phase III of Ampara Water Supply Project have been identified to implement in the year 2007. The project pipeline for the next three year is given in the Annex 4 and some major projects for which financial agreements are expected to be concluded in 2007 are given in Table 5.12.

MAJOR PROJECTS WITH DONOR ASSISTANCE 2006 - 2010



All Island Projects: Education Sector Development/Modernization, Renewable Energy for Rural Eco.Devp, e-Sri Lanka, Community Water Supply, SIRUP-II, Legal & Judicial Reforms, Health Sector Development, SME Projects.

Table 5.12
Financial Agreements Expected to be Concluded in 2007 (over US \$ 25 mn)

Projects	Cost US \$ mn
ADB	
Colombo Port South Harbour Expansion Project	300.0
Small & Medium Enterprise Development	70.0
Jaffna Water Supply	65.0
Education Sector Development	70.0
Greater Colombo Waste Water Management	50.0
Southern Transport Development Project (Supplementary Loan)	90.0
Japan	
Water Sector Development Project – Phase I	113.0
Greater Colombo Urban Transport project (Outer Circular Highway to the City of Colombo) –phase II	186.0
Kerawalapitiya Combined Cycle Power Plant	210.0
Pro-poor Rural Development Project	35.0
Construction of Mannar Bridge	16.0
World Bank	
Legal and Judicial Reforms II	45.0
Infrastructure and Housing Development Project in Puttalam	32.0
Dam Safety and Water Resources Planning Project	50.0
Renewable Energy and Rural Economic Development Project II	40.0
Public Sector Capacity Building	30.0
China	
Hambantota Sea Port Development	400.0
Purchase of 100 Passenger Railway Carriages	27.0
Procurement of 15 Diesel Multiple Units	39.0
Denmark	
Oluvil Port Project	43.8

Projects	Cost US \$ mn
Netherlands	
Dikowita Fishery Harbour	60.0
Negombo Water Supply Project	52.0
Sweden	
Ratmalna/ Moratuwa and Ja-ela Waste Water Treatment Facility Project	73.0
Hungary	
Labugama and Kalatuwawa Water Supply Project	45.0
India	
Upgrading Double Tracking of Coastal Line Railway	100.0
Czech Republic	
North East Transmission Development	30.0
Australia	
Ampara Water Supply - III	93.0

Source: Department of External Resources

Aid Utilization for Post-Tsunami Reconstruction Activities

At the Sri Lanka Development Forum - 2005 held on 16th and 17th May 2005 in Kandy the bi-lateral, multilateral as well as NGOs pledged a total sum of US\$ 2,820 million for Post-Tsunami reconstruction activities. This is in addition to the one year debt relief totaling US\$ 441 million and emergency relief provided by various international and national donors. As at end December 2006 most of the pledges were converted into commitments. Most of the commitments have been earmarked for infrastructure development activities in the affected areas. The project designing, procurement and implementation involve a 2 – 4 year duration.

Out of the bilateral assistance projects funded by Governments of Japan, Germany, US, Switzerland, Netherlands have made substantial progress. Projects funded by

government of China involves the construction of 300 MW power generation project for which project preparation itself involve over a 1 year period. The Project completion is expected by end 2009. Multilateral donor assistance are mainly for the construction of houses, roads and water supply and provision of livelihood schemes. Nearly half of the committed assistance have been utilized at the end of 2006. The utilization rate by NGOs is 46 percent and they are largely on restoration of education and health facilities, housing and community infrastructure for affected people. At the end of 2006, a 37 percent overall utilization rate has been recorded. The total utilization is expected towards end of 2008 when most of the projects are expected to reach full completion.

Table 5.13
Donor Assistance for Post-Tsunami Reconstruction Activities

(Rs. Mn.)

Donor Countries & Agencies		Expected donor assistance	Pledges	Commitments as of 31 12 2006	Disbursements as of 31 12 2006	Remarks
a. Bilateral Donors		745	1181.7	975.1	203.09	
	France	104	104	87	0.3	Detailed designs completed for the greater Trincomalee water supply project and reconstruction of roads and bridges. Improvements to power distribution and community development program under implementation.
	Germany	81	102.5	102.5	25.8	Owner driven housing programme in Batticaloa over 70% completed and infrastructure development commenced. Material supplied for Galle water supply project and construction of the transmission line to be commenced.
	India	23	123	1.4	1.4	US\$ 100 mn for up gradation of Colombo-Galle Matara Southern Railway Corridor is under negotiation.
	Italy	69	72 *	5.1	4.1	* Funds channeled through Italian government agencies and NGOs. Micro finance programme progressing well.
	Japan	181	185	185.1	113.33	Project activities are well on target and most of them will be completed before end of the year 2007.
	Korea	35	40	33.7	1.4	Project activities have commenced and are in progress.
	USA	65	60	59.6	17.4	Construction work of the Arugambe bridge and the fishery harbours at Hikkaduwa, Devinuwara and Mirissa commenced.
	Denmark	8	8	8	5.6	Water supply projects in Hambantota, Kalutara & Ampara are progressing well.
	China	18	318	318	2	Construction work commenced. 1st disbursement of US \$ 45 mn is expected.
	Switzerland	12	18	17.4	13.3	Owner driven housing programme at Matara & Trincomalee over 90% completed.
	Canada	84 *		0.4		*Funds channeled through NGOs.
	Netherlands	11	16	27	14.4	Restoration of railway signaling 90% completed. Reconstruction of multi day boats is in progress.
	Norway	19	10 *	9.8		*Funds channeled through NGOs.
	Spain	25	55	42	1.36	Detailed design for the 4 bridges completed. Agreement for the water supply project signed.
	Sweden	5	13	12.8		Projects are in progress

Source: Department of External Resources

Table 5.13 (cont.....)

Donor Countries & Agencies		Expected donor assistance	Pledges	Commitments as of 31 12 2006	Disbursements as of 31 12 2006	Remarks
	Australia		8	7.4	2.7	Projects are in progress.
	Iceland		1	1		Fish landing sites identified for rehabilitation.
	Finland			8.7		Detailed designs are being prepared for the Ampara water supply.
	Venezuela		6.2	6.2		Funds disbursed.
	Hungary		22	22		Funds channeled through NGOs.
	Kuwait		20	20		Project preparatory activities commenced and are in progress.
	Others	5				
b. Multilateral Agencies		631	865.3	813	395.72	
	ADB	157	165	165	29.8	This includes US\$ 8mn grant from Government of Netherlands for owner driven housing programme. Projects are in progress.
	World Bank	150	175	175	112.2	This includes US\$ 25mn from IFRC. Projects are in progress.
	UNDP	69	69	17.6	15.52	Over 70% completed.
	FAO		26	25.7	21.9	Over 80% completed.
	UNFPA		11.3	11.3	10.8	Over 90% completed.
	WFP	25	49	49	49	All activities completed.
	UNICEF	21	136	136	96.3	Over 75% completed.
	IFAD	35	17	16.5		Initial disbursement of US\$ 2.5 mn will be released soon.
	EIB	90	90	90	33.8	Projects are in progress.
	EU	75	127	126.9	26.4	Projects are in progress.
	OPEC Fund	9				This loan was not pursued as the terms are not favourable for the proposed project.
Sub Total (a+b)		1376	2047	1788.1	598.81	
c. NGO & INGOs		853	773	773	352	
#Grand Total(a+b+c)		2229	2820	2561.1	950.81	

emergency relief not included

The Sri Lanka Development Forum – 2007

The Sri Lanka Development Forum 2007 was held on 29 - 30 January, 2007 in Galle, Sri Lanka, under the chairmanship of His Excellency Mahinda Rajapaksa, President of Sri Lanka with the highest level of participation from over fifty countries and international donor agencies. The Forum provided an opportunity to engage in a wider consultation process with all the donor community on “Mahinda Chintana: Vision for a New Sri Lanka – A Ten Year Horizon Development Framework for 2006 – 2016”, Assessment of Post Tsunami Recovery and Reconstruction Challenges and Emerging Issues, Gama Neguma and the Development of Lagging Regions and Partnership in Development and Peace. The government presentations also focused on issues related to security, law and order, conflict, terrorism and peace, human rights, humanitarian and resettlement challenges, reconstruction of conflict affected areas, the continuing role of civil society and donor assistance.



The development partners welcomed and commended the government on the comprehensive articulation of its Development Framework 2006-2016, prepared with wider consultation. In particular, they appreciated the focus on reducing regional and income disparities. The development partners were of the view that the country has the potential to reach these goals, with the implementation of the Development Framework while commending H.E. the President's commitment to find a negotiated solution to the conflict through a process of consensus building. Delivering the inaugural address, the President appreciated the donor assistance in rebuilding

the Tsunami affected areas and restore to near normalcy. The President referred to the gains made in managing a complex economy, while facing a series of challenges during the first year of his administration, which was also the first year of the decade committed by Sri Lanka to realize the Millennium Development Goals. He highlighted the burdens imposed on the economy and people by escalating oil prices, natural disasters, intense competition faced by export industries and the deliberate escalation of terrorist attacks. The President mentioned that the Government has accorded high priority to building a nation-wide infrastructure network to accelerate growth in lagging regions under the “Jatika Saviya-Gama Naguma” Programme, and accelerated implementation of infrastructure projects under the “Randora” programme in key areas such as power, irrigation, roads and transport, seaports, airports, and urban amenities. Equal importance was being placed on promoting human resources and a knowledge based economy by implementing “Nana Sala” and “E-villages” initiatives in the rural areas.

The President emphasised the need for development to be associated with a good value system, respect for human rights and democracy, culture and heritage for it to be wholesome and sustainable. While reiterating the need to defeat terrorism by working closely with the international community, the President expressed his determination to pursue political negotiations and constitutional solutions. President also sought the cooperation of the development partners in building a new Sri Lanka based on “Mahinda Chintana” the Ten Year Horizon development Framework to help achieve the Millennium Development Goals (MDGs).



The development partners recognised the achievements of Sri Lanka on the road towards middle income status and towards reaching the MDGs. They noted the resilience of the economy in terms of economic growth, which is estimated to have exceeded 7 per cent in 2006, the reduction in unemployment to around 6 per cent, improved revenue performance and withstanding the budgetary and balance of payments pressures amidst difficult challenges.

The Government and the development partners agreed that terrorism should be separated from finding a solution to the conflict and that a lasting solution should be found through a negotiated settlement. They recognized that such a solution, which would involve improved decentralisation and development cooperation, could expand the development horizon for the country, with higher aid and private capital inflows, including enhance assistance for development of lagging regions and reconstruction of the liberated areas.

The Forum also reviewed the progress made in the utilization of development assistance in 2006 and some of the implementation challenges. Based on ongoing negotiations, it is expected that the new development assistance over the period of 2007-2009 would be in the region of US\$ 4.5 billion.

With the existing portfolio of US\$ 4.5 billion the total development assistance available to Sri Lanka to be utilized in the medium term would be around US\$ 9 billion.

Other Important Activities

1. Commonwealth Finance Ministers Meeting

Commonwealth Finance Ministers' meeting was held in Colombo on 12-14 September 2006 with the participation of around 225 foreign delegates from 53 Commonwealth member countries. The meeting was inaugurated by His Excellency the President of Sri Lanka and the Minister of Finance and Planning, Mr Mahinda Rajapaksa. The meeting was chaired on his behalf by Hon Dr



Sarath Amunugama, then Minister of Public Administration and Home Affairs.

The special theme of the Finance Ministers' Meeting was "*An Agenda for Growth and Livelihoods*". The Finance Ministers reviewed the world economic situation and discussed a range of development and other issues. The 'plenary session' for the Ministerial Meeting focused on current world economic situation and prospects, an agenda for growth and livelihoods, special problems affecting small states and their need for support and review of Commonwealth Development Cooperation.



They agreed that; good economic policies matter for raising and sustaining growth, sustained growth is the most effective route to poverty reduction and the agenda for growth has to be articulated in specific country contexts, and priorities should differ according to country circumstances.

Finance Ministers also stressed the importance of overcoming obstacles to trade. The Ministers noted that despite positive per capita growth in many countries, higher oil prices have imposed substantial income losses and increased budgetary pressures in oil importing developing countries.

Ministers expressed their appreciation for the valuable role that the Commonwealth Fund for Technical Co-operation (CFTC) was playing in assisting member countries. It was agreed to increase their contributions to the CFTC by 6 per cent per annum in real terms for each of the next five years with effect from 2006/07.

Commonwealth Business Council's role was appreciated by the Ministers and stated that the voice of the private sector to contribute ideas and recommendations to improve public policy and create a good investment climate by fostering a platform for private/public sector dialogue. They agreed on the need to; encourage effective public-private partnerships in the provision of infrastructure and other services; ensure that banking and financial services are available to an increasing proportion of the population; and to enhance corporate governance in Commonwealth countries.

The World Bank and IMF assistance was welcomed to help countries in achieving the Millennium Development Goals. The meeting recognized the need to increase the voice and representation of developing countries in the IMF and World Bank.

2. Commonwealth Senior Finance Officials' Meeting

The Senior Finance Officials' Meeting was held on 12th September immediately before the Commonwealth Finance Ministers' Meeting. The meeting was chaired by Dr P.B. Jayasundera, Secretary, Ministry of finance and Planning



The special theme for the Senior Finance Officials Meeting was *"Reform of International Aid Architecture: User Perspectives"*. The importance of parallel moves to improve the

modalities of aid delivery, in line with the 2005 Paris Declaration on Aid Effectiveness was highlighted at the meeting. It was emphasized that the focus should be on national ownership, harmonization, alignment, results and mutual accountability. In this context, they called for recipient country leadership to drive the process of harmonization and alignment at the national level with donor support for building relevant country capacity as needed; and the establishment of independent mechanisms to monitor progress on the Paris agenda.

The proposals for reforming the international aid architecture were endorsed by the Ministers and encouraged the Commonwealth to play an active role in developing the international aid architecture and requested the Commonwealth Secretariat to establish a working group of senior officials to consider how best it can influence the continuing debate.

3. Regional Seminar on Debt Management: Using CSDRMS 2000+ for Active Debt Monitoring, Distance Learning Centre

In collaboration with the Debt Management Section of the Commonwealth Secretariat, DER organized a Regional Workshop in CS-DRMS 2000+ for Active External Debt Monitoring at the Distance Learning Centre, Colombo from 14th to 25th August 2006. CS-DRMS is the computer software package introduced in 1985 and maintained right through by the Commonwealth Secretariat to capture External and Domestic Debt of the member countries for supporting prudent Debt Management. This software is being used for reporting the country's debt stock to the IMF and the World Bank.

Key debt management officials of the Ministry of Finance and Central Bank of the governments of India, Maldives, Mauritius, Seychelles and Tanzania and fifteen Sri Lankan officials from the MOFP and CBSL were attended at this workshop. The Commonwealth Secretariat sponsored the workshop in addition to providing resource persons.

Commitments and Disbursements of Foreign Funded Loan/Grant – 2006 in US\$ mn

Donor	* Type PJ. Loan (PJL) PG. Loan (PGL) Grant (G)	Committed undisbursed balance (CUB) as at 01/01/2006	Commitments up to 31/12/2006	Disbursements up to 31.12.2006
Bilateral		2422.7	459.5	499.4
Japan	PJL	1224.0	184.6	268.4
	PGL	34.4		
	G	67.7		32.8
France	PJL	146.1		0.9
Australia	G	5.5		1.3
India	PJL	63.5		11.1
Italy	L	1.2	2.3	
	G	1.4		
Netherlands	G	27.2	20.2	1.2
Korea	PJL	41.8	20.0	19.7
	G		16.6	
Kuwait	PJL	40.4		3.8
Canada			0.3	
Finland			9.1	
Denmark	G	7.2		
Norway	G	18.8	2.0	2.9
China	PJL	327.5	155.0	9.4
	G	30.3	18.1	
Switzerland	G	3.3	8.5	4.0
Sweden	G	29.4	6.6	9.6
Germany	PJL	83.5	8.0	39.1
	PGL	16.6		16.6
	G	111.6	3.4	50.9
U.K	G	2.1		5.6
Saudi Fund	PJL	26.4		3.0
U.S.A.	G	113.1	4.8	19.1
Multilateral		1641.7	625.2	507.1
ADB	PJL	650.0	271.3	143.2
	PGL	162.0		35.0
	G	177.8	3.4	21.3
World Bank	PJL	278.6	98.8	100.1
	G	164.3	92.9	67.6
European Invest Bank	PJL		150.7	33.0
Nordic Fund	PJL	12.3		6.0
IFAD	PJL	41.1		3.5
	G	0.3		
OPEC	PJL	13.4		5.1
UNDP	G	10.0	5.0	6.4
UNICEF	G	12.4		56.1
FAO	G	16.5	0.8	14.8
UNFPA	G	10.8	2.3	6.9
WFP	G	67.8		8.1
European Commission	G	24.2		0.0
Commercial Bank	PJL	0.0		
Export Credit	PJL	125.0	207.4	87.7
Total Project Loans		3,074	1,098	734
Total Program Loans		213	0	52
Total Grants		902	194	309
Grand Total		4,188	1,292	1,094

Foreign Aid Commitments During the year 2006				
Sector	Donor	Project	Amount (US \$ mn)	
			Loan	Grant
Road & Bridges		Pro Poor Eastern Infrastructure Development Project	38.2	
	Japan			
	ADB	National Highways Sector Project	150.0	
		Local Government Infrastructure Improvement Project	49.3	
	ADB	Strengthening Local Government Infrastructure Financing Project		0.5
		Independent External Monitoring Resettlement Activities of the Southern Transport Development Project		0.4
	ADB			
	WB	Road Sector Assistance Project	98.7	
	Sweden	Emergency Bridge Project		2.4
		The Construction of Few Selected Road Elements		10
	China	Enhancement & Strengthening of the Road Infrastructure by Construction of Five Bridges	13.8	
	Austria	The Supply and Construction Prefabricated Metal Bridges	18.8	
	Spain	The Supply and Construction of Prefabricated Metal Bridges.	8.9	
	Spain	Sub Total	377.7	13.3
Water & Sanitation	Finland	Ampara Water Supply Project		9.2
		Secondary Towns Rural Community Based Water Supply Project	47.4	
	ADB			
	ADB	3rd Water Supply & Sanitation Project	5.1	
		Construction of Storm Water Drainage at Valachchenai		3.9
	Korea	Water Supply Capacity Building Project		0.5
	USA	Integrated Water Supply Scheme Ampara- II (Enhancement)	4.9	
	Australia	Towns South of Kandy Water Supply Project	53.6	
	Denmark	Nuwara Eliya District Group Water Supply Project	25.8	
	Denmark	Sub Total	136.8	13.6
Power & Energy		Rehabilitation of Electricity Supply in Jaffna Region	1.9	
	Germany			
	China	Puttalam Coal Power Project - Buyers Credit Facility	155.0	
Sub Total			156.9	0

Housing & Township	Switzerland	Post Tsunami Rehabilitation of Houses (Cash Grant)		8.5
	WB	Preparation of the Proposed Infrastructure and Housing Development Project in Puttalam	0.1	
	WB	North-East Housing Reconstruction Project		7.4
	UNDP	Community Reconstruction Housing and Sport Project		2.5
SME Development	Korea	Hambantota Administrative Complex	20.0	
	Korea	Construction of the international Convention Center in Hambantota		6
		Sub Total	20.1	24.4
	Germany	DFCC V Credit Line for SME in the North and East	6.1	
	Italy	Line of intervention to Support Microfinance Activities	2.3	
	European Investment Bank	Post Tsunami Line of Credit - Contract A	60.6	
	European Investment Bank	Post Tsunami Line of Credit - Contract B	24.2	
	Bank	EIB-DFCC Global Loan II	65.9	
		Sub Total	159.1	0
	Sweden	Establishment of E-Learning center at the University of Colombo		2
Education	Sweden	Capacity Building of Faculty of Fisheries & Marine Sciences & Technology, University of Ruhuna		0.5
	Sweden	University of Kelaniya Research Project		0.2
	WB	Education Sector Development Project		60.3
	ADB	Technical Education Development	19.4	
	ADB	Education Sector Development Program		0.7
		Sub Total	19.4	63.7
	Korea	Establishment of the Korea - Sri Lanka Friendship Hospital		6.8
Health	Germany	Promotion of Food Security and Reconciliation in Baticaloa District		3
	FAO	Special Programme for Food Security		0.2
	FAO	Immediate Assistance for Highly Pathogenic Avian Influenza Emergency Preparedness		0.4
	UNFPA	Reproductive Health Services		0.6
	UNFPA	Support for Reproductive Health		0.1
	UNFPA	Restoration of Reproductive Health Services in Tsunami Affected		1.7
		Sub Total	0	12.8

Environment	Germany	Environmentally Sound Disposal of Tsunami Debris & Reforestation of the Coastal Regions in the Batticaloa District		0.4
	Canada	Environment Assessment of the Permanent Housing Program		0.3
	UNDP	Sustainable Recovery of Natural Resources of Tsunami Affected Coastal Areas of SL		0.2
		Sub Total	0	0.9
Fisheries & Aquatic Resources	Norway	Delimitation of outer Edge of the Continental Margin of Sri Lanka		2
		Sub Total	0	2
Agriculture & Irrigation	WB	National Water Management Improvement (NAWAM)		0.5
	WB	National Water Management Improvement (NAWAM) - II		0.6
	ADB	TA for Preparing Agri-business Project		0.8
		Sub Total	0	1.9
Port Development	Japan	The Galle Port Development Project	124.0	
		Sub Total	124.0	0
Tourism Development	Japan	Tourism Resources Improvement Project	23.0	
	UNDP	Green Belt Tourism Development		0.3
		Sub Total	23.0	0.3
Cultural assistance	Netherlands	Netherlands Sri Lanka cultural Assistance program		4.2
	Netherlands	Construction of Museum cum Visitor Centre at Kataragama		0.6
	Netherlands	Conservation of Ramparts in Galle Fort		1.3
	Netherlands	Conservation of Dutch Forts in Matara & Katuwana		0.3
	Netherlands	Conservation of Dutch Warehouse in Galle & Establishment of a Maritime Museum		0.4
		Sub Total	0	6.8
Disaster Mgt	Netherlands	Upgrading of the Disaster Response Network		13.5
	Netherlands	Upgrading of the Disaster Response Network	31.5	
	WB	Tsunami Emergency Recovery Project- Phase 11		24.9
		Sub Total	31.5	38.4
Other	Sweden	Consultancy Fund 2006 - 2007		1.3
	ADB	Micro Insurance Sector Development		0.6
	ADB	Capacity Building of the Environmental & Social Division of the Road Development Authority Project		0.4
	China	Economic and Technical Cooperation Grant		7.6

	China	Assistance for South Asian Games		0.4
	USA	Integration of Disadvantaged to Community		1.4
	USA	Tsunami Recovery & Reconstruction Support		2
		Feasibility Study for Addressing Post Tsunami		
		Road Construction Equipment Requirements		
	USA	Project		0.3
		Promoting livelihood of the Tsunami Affected		
	USA	People		0.1
	USA	Emergency Communications System		0.3
	UNDP	Urban Government Support Project		0.1
	UNDP	Strengthening Plan Implementation Capability		0.4
	UNDP	Community Reconstruction Project		1.1
	UNDP	Invest in Peace - Phase 2		0.4
	Pakistan	Pakistan Line of Credit	50.0	
		<i>Sub Total</i>	50.0	16.4
		Total	1,098.5	194.5
		Grand Total		1,293.0

Foreign Training Opportunities Received by Government Officials in 2006

No	Ministry	No. of Scholarships
1	Presidential Secretariat	13
2	Prime Minister's Office	5
3	The Parliament	8
4	Auditor Generals Department	8
5	Department of Elections	2
6	Finance Commission	2
7	Advanced Technology and National Enterprise Development	2
8	Agrarian Services and Development of Farmer Communities	3
9	Agricultural Development	29
10	Agriculture, Livestock, Land and Irrigation	29
11	Child Development and Women Empowerment	9
12	Co-Operatives and Co-Operative Development	5
13	Cultural Affairs and National Heritage	1
14	Defense, Public Security, Law and Order	15
15	Disaster Management and Human Rights	4
16	Education	80
17	Enterprise Development and Investment Promotion	12
18	Environment and Natural Resources	33
19	Finance & Planning	83
20	Fisheries and Aquatic Resources	13
21	Foreign Affairs	2
22	Healthcare and Nutrition	28
23	Highways	19
24	Housing & Construction Industry and East. Province, Education & Irrigation Dev.	11
25	Indigenous Medicine	10
26	Industrial Development	10
27	Industry and Investment Promotion	8
28	Information & Media	2
29	Infrastructure Development in Eastern Province	1
30	Justice and Law Reforms	5
31	Labour Relations and Foreign Employment	2
32	Livestock Development and Estate Infrastructure	3
33	Local Government and Provincial Councils	118
34	Mass Media and Information	7
35	Nation Building and Development	4
36	Petroleum and Petroleum Resources Development	2
37	Plan Implementation	3
38	Plantation Industries	2
39	Ports and Aviation	15
40	Posts & Telecommunications	6
41	Power & Energy	12

42	Public Administration and Home Affairs	7
43	Railway and Transport	11
44	Regional Infrastructure Development	4
45	Rural Economic Development	3
46	Rural Industries and Self-Employment Promotion	8
47	Rural Livelihood Development	2
48	Samurdhi and Poverty Alleviation	8
49	Science and Technology	19
50	Small and Rural Industries	2
51	Social Services and Social Welfare	6
52	Sports and Youth Affairs	8
53	Textile Industry Development	1
54	Tourism	4
55	Trade, Commerce, Consumer Affairs & Marketing Development	14
56	Urban Development and Water supply	16
57	Vocational and Technical Training	17
58	Women Empowerment and Social Welfare	4
	Total	760

Project Pipeline for Foreign Financing (2007-2009)				
Donor	Project Name	US\$ mn		
		2007	2008	2009
ADB	Greater Colombo Waste Water Management	50.00		
	Jaffna Water Supply	65.00		
	Secondary Town Water Supply II		80.00	
	Small and Medium Enterprise Sector and Infrastructure Development	70.00		
	Colombo Port Expansion Project	300.00		
	Supplementary loan for Southern Transport Development Project	90.00		
	Road Network Improvement Project		150.00	
	Agri Business Development		60.00	
	Rural Finance Development II			30.00
	Fiscal Management Reform II			110.00
	Education Sector Development	70.00		
Australia	Ampara Water Supply Phase - III	93.00		
Austria	Kurunegala Hospital	9.75		
	Kirindi Oya Water Supply	10.80		
	Colombo Sewerage Rehabilitation (Southern Catchment)	14.00		
	Sri Lanka Institute of Advance Technology Education		13.00	

Project Pipeline for Foreign Financing (2007-2009)				
	Rehabilitation of Railway Track Valachchanai-Batticaloa		26.00	
China	Hambantota Sea Port Development Project	400.00		
	Construction of a Few Selected Road Infrastructure	10.00		
	Purchase of 100 Passenger Carriages	25.00		
	Procurement of 15 Diesel Multiple Units	37.00		
Czech Republic	North & East Transmission Development Project		30.00	
Denmark	Colombo Canal System Improvement Project		10.90	
	Kelani Right Bank Water Treatment Plant		38.80	
	Greater Kurunegala Water Supply & Sanitation	17.80		
	Oluvil Port Project	43.75		
	Strengthening of State Pharmaceutical manufacturing Corporation	4.50		
France	Rehabilitation of New Laxapana & Wimalasurendra Hydro Power Plants	20.00		
	Spatial Information Infrastructure Project	9.00		
	Construction Sector Development Project	13.00		
Germany	Load Dispatch Center (SCADA)			25.00
	Rehabilitation of Old Laxapana Power Plant	10.00		

Project Pipeline for Foreign Financing (2007-2009)				
Hungary	Reconstruction of Nuwaraeliya Hospital		91.00	
	Improvement of Hambantota Base Hospital		65.00	
	Improvement of Beliatte Hospital		65.00	
	Colombo National Hospital Ambulatory Care Unit		19.50	
	Equipment for Fisheries Harbours	21.00		
	Labugama Kalatuwawa Water Supply project	45.00		
IFAD	Small Holder Out Growers Estate Development Programme	22.50		
India	Rehabilitation of KKS Port	23.00		
	Upgrading Double Tracking of Coastal Line Railway	100.00		
Japan	Water Sector Development Project - Ph 1	113.00		
	Water Sector Development Project -Ph. II		90.00	
	Development of Bandaranaike International Airport Ph. II			210.00
	Greater Colombo Urban Transport project - Phase I	186.00		
	Reconstruction of Mannar Bridge & Causeway	16.00		
	Food Production Grant 2006	3.00		

Project Pipeline for Foreign Financing (2007-2009)				
	Pro- Poor Rural development Project	27.00		
	Greater Colombo Urban Transport project - Phase II		230.00	
	Improvement of Central Functions of Jaffna Teaching Hospital		16.00	
	Improvement of Curative Healthcare Services at General Hospital – Anuradhapura		9.50	
	Non-Project Grant Aid	10.00		
	Jaffna Power Plant		20.00	
Japan (EXIM Bank)	Rehabilitation of Ukuwela Power Station	12.00		
	Kerawalapitiya Combined Cycle Power Plant	210.00		
Korea	Greater Galle Water Supply Project Phase II	6.42		
	SAARC Cultural Centre for Matara	5.00		
	Upgrading Niyagama Technical College	9.00		
Kuwait	Improvement of Infrastructure Facilities at the South Eastern University	8.70		
Netherlands	Negombo Water Supply Project		52.00	
	Dikowita Fishery Harbour	60.00		
	Sri Lanka Institute of Advance Technology Education		14.00	
Nordic Investment Bank	New Galle Substation & Transmission Project	18.00		

Project Pipeline for Foreign Financing (2007-2009)				
Norway	Eastern Province Power Transmission Project		15.00	
Saudi Fund	Comprehensive Care Program for Epilepsy	20.50		
	Development of Health Facility in Colombo	2.90		
Spain	Improvement to Karapitiya Hospital & Other Healthcare Institutions	16.00		
Sweden	Industrial & Residential Wastewater Treatment Plants for Ratmalana/Ja-Ela	73.00		
	Facilitation of Democratic Values and Pluralistic Values Through Primary & Secondary Education		3.00	
World Bank	Private Sector Development		50.00	
	Renewable Energy Development -II	40.00		
	Local Service Delivery		50.00	
	Gamidiriya - II		50.00	
	Social Protection		50.00	
	Judicial Legal Reforms & Capacity Building -II	45.00		
	Infrastructure and Housing Development In Puttalam Housing	32.00		
	North East Operations			70.00
	Agriculture Research		30.00	

Project Pipeline for Foreign Financing (2007-2009)				
	Dam Safety and Water Resources Planning	50.00		
	Northern Expressway			250.00
	Public Sector Capacity Development	32.00		
	Preparedness for Avian Influenza	6.00		
	Total	2,575.62	1,328.70	695.00

Chapter 6

Sectoral Perspectives

Agriculture

Given the importance of the agriculture sector, particularly in terms of providing livelihood to many people as potential for exports as well as import substitutions, this sector needs to be revived to be able to grow at a faster rate than in the past with modernization of agricultural practices and use of new technology. It is envisaged that agriculture will grow at 4-5 percent with a higher contribution coming from the non-plantation sector such as other non paddy food crops, fruit and vegetables, fisheries and livestock. In line with this expectation, the agriculture sector grew at about 4.7 percent in 2006 reflecting a strong recovery of the fishing industry, highest ever paddy production and a significant increase in rubber and coconut production. The tea sector recorded a negative growth rate of 2 percent in 2006 due to labour disputes that occurred in the second half of 2006 and the unfavourable weather conditions that prevailed in the plantation areas.

Compared to the sluggish growth in the past, the sector is confronted with many challenges and issues such as low competitiveness and productivity, poor economic and social infrastructure, weak institutional capacity, poor marketing facilities, and inadequate agricultural extension services etc. Therefore, revitalizing the agriculture sector is necessary by improving rural infrastructure, providing necessary inputs and strengthening ownership of land by farmers.

Realizing the Self-sufficiency in Rice

Paddy production reached 3.34 mn mt in 2006 in comparison to 3.25 mn mt in 2005 making it a year of self-sufficiency in rice. This was despite a decrease in the extent of cultivation by about 27,000 ha over the previous year. The average yield recorded at 4,137 kg/ha. The improvement in the yield is mainly attributable to increased usage of fertilizer, irrigation facilities, better quality seeds and favourable weather conditions.

Table 6.1
Key Statistics in Paddy

	2000	2004	2005	2006
Production (mn. mt)	2.86	2.62	3.25	3.34
Average Yield (mt/ha)	3.86	4.09	3.96	4.13
Area Sown ('000 ha)	878	779	937	910
Area Harvested ('000 ha)	832	643	819	808

Source: Department of Census and Statistics

The “*Dahasak Maha Wew*” programme contributed to the productivity increase and the reduction of poverty in the agricultural community in rural areas. Under this programme, 222 minor tanks and anicuts were completed in 2006. The amount allocated for this programme in 2006 was Rs. 750 million. The Government accelerated several trans-basin diversion projects and initial work commenced in 2006. Several mega irrigation projects were also commenced in 2006. Among the mega projects, the Menik Ganga Development Project (Weharagala) completed major construction works in 2006. Land acquisition and resettlement activities were extensively carried out in Moragahakanda and Deduru-oya multipurpose irrigation projects. The total investment in the irrigation sector in 2006 amounted to Rs. 4,600 million.

Fertilizer Subsidy

Today chemical fertilizer has become one of the key inputs in the crop agriculture and there appears to be a high dependency on chemical fertilizer. Gradually, fertilizer is becoming an expensive input for all growers and its rational use is becoming more important in crop agriculture production. However, both the research findings as well as experience indicate that to achieve a higher productivity in crop production, application of both chemical and organic fertilizer is necessary. Therefore, the integrated plant nutrition approach is now being promoted for improving the efficiency in plant nutrient use.

The sale price of fertilizer had been escalating during last few years. There had been growing pressure from farmers to make fertilizer available at a reasonable price. A fertilizer subsidy scheme has been implemented by the government as an indirect method of benefiting small farmers. However, Sri Lanka is highly dependent on imports of chemical fertilizer and therefore there is limited scope to reduce the market price. The scenario in the fertilizer trade has undergone changes and adjustments to become a competitive trade. Although private sector fertilizer companies enjoy the major market share in the fertilizer trade, presence of the public sector in this market ensures availability of fertilizer where it is required at a reasonable price.

The new fertilizer subsidy scheme introduced in 2006 focused mainly on paddy farmers. Urea, Potash (MOP) and Triple Super Phosphate (TSP) fertilizers were distributed to the farming community during the Maha 2005/2006 and Yala 2006 seasons at a rate of Rs. 350/= per 50 Kg bag. The subsidy was also

extended to tea, rubber and coconut smallholders owning less than 5 acres and they were provided Urea fertilizer at a subsidized price of Rs. 1,200 compared with a market price of Rs. 1,800 per 50 Kg bag.

In 2006, fertilizer consumption increased by 9% to reach 712,886 mt. Fertilizer usage in the paddy production increased by 19% in 2006. The use of fertilizer in the rubber sector increased by 33%. Tea and Other Field Crops (OFCs) consumed a lower quantity of fertilizer in 2006.

Higher Export Earnings from Agriculture

In 2006, Sri Lanka earned US \$ 1,345 mn. from all the agricultural exports as against US \$ 1,160 mn in 2005. This is a 16 percent increase over 2005. Improved prices in international markets mainly attributable to this achievement. The minor agricultural crops contributed 15 percent of the total agricultural export earnings.

- 8284a
- 1104 Families
- 8 Schemes

No	Project	FCR (Rs. Mn)
1	Sharda Gya Reservoir Project	8500
2	Mandi Ganga Diversion Project	3772
3	Rambhaha Gya Reservoir Project	2500
4	Wundilla Project	230
5	Patil Ganga Reservoir Project	273
6	Waghakunda & Sula Ganga Diversion Project	44008
7	Gul Gya River Discharge Regr. Project	275
8	Sue Gya Multi Purpose Project	20008
9	Sue Gya Basin Development Project	8700
10	Sada Gya Reservoir Project	4250
11	Shi Khimra Diversion Project	20008
12	Lower Shi Development Project	880
13	Unmadedh Sarda Rehabilitation Project	3000
14	Sharda Tada Rehabilitation Project	200



Tea – Improved Export Income

Despite a marginal decline in bulk tea production due to a decline in fertilizer usage, unfavourable weather conditions and labour unrest during the latter part of the year, the quantity exported in 2006 exceeded the amount

produced due to the export of backlog stocks. Export earnings reached Rs. 91 billion (US \$ 910 million) with favorable FOB prices, which averaged at US \$ 2.79 per kg. The increase of Cess by a further Rs. 1.50 per kg to Rs. 4.50 per kg contributed to a total Cess collection of Rs. 731 million in 2006.

Table 6.2
Performance of the Tea Sector

	2000	2004	2005	2006
Production (mn kg)	305.8	309.5	317.2	310.8
Export (mn kg)	281.4	290.6	298.8	298.7
Value added exports/ total tea exports (%)	35	36	41	37
Average Export Price (F.O.B.) (US \$/Kg)	1.84	2.48	2.63	2.79
Export earnings(US \$ mn)	437	749	815	917
Total Acreage ('000 ha)	189	211	222	222
New planting (ha)	264	22	7	10
Re-planting (ha)	1094	1245	1351	1338

*Source: Central Bank of Sri Lanka
Department of Census & Statistics*

Rubber - A Steady Growth in Exports

There was a further consolidation in the production of rubber in 2006 due to favourable prices for natural rubber in the international market. The price of natural rubber remained well above US \$ 2 per kilogram in 2006. This provided a substantial guaranteed income for producers. Production increased from 104,351 mt in 2005 to 109,153 mt in 2006 while export earnings generated Rs. 41 billion. The imposition of a Cess on export rubber products and on domestically consumed raw rubber resulted in Rs. 426.3 million in 2006 for the use of rubber sector development.

Table 6.3
Performance of the Rubber Sector

	2000	2004	2005	2006
Production (mn kg)	87.6	94.7	104.4	109.2
Area('000 ha)	157	115	116	118
Average Export Price (F.O.B.-RSS I) (US \$/Kg)	0.55	1.27	1.47	1.88
Export earnings(US \$ mn)	22	52	47	97
New planting (ha)	251	518	1032	2563
Re-planting (ha)	793	820	1257	1122

*Source: Central Bank of Sri Lanka
Department of Census & Statistics*

Table 6.4
Performance of the Coconut sector

	2000	2004	2005	2006
Production (mn nuts)	3096	2591	2515	2684
Total Acreage ('000 ha)	444	395	395	395
Export earnings(US \$ mn)	58	59	49	55
New planting (ha)	834	1098	3250	4102
Re/under-planting (ha)	714	1226	1668	997

*Source: Central Bank of Sri Lanka
Department of Census & Statistics*

Sugar Production

In order to meet the ever increasing demand for sugar, which is one of the most important basic food commodities of Sri Lanka, imports over 500,000 Mt of sugar worth over Rs. 12 billion are made annually. The per capita consumption of sugar has increased from 15Kg in the 1950s to nearly double that today. It is also estimated to increase further with improvements in the consumption patterns of people with enhanced income levels and life style. Current local sugar production of around 55,000 Mt. represents only about 10 percent of the requirement and this is produced by relatively small mills without employing modern technology. Thus, there is a tremendous potential to expand the sugar industry to meet the local demand and diversify into a variety of value added range of products, while providing a large number of employment opportunities directly and indirectly in the respective areas. Considering the fact that Sri Lanka would face much higher prices for its future sugar imports, it is necessary to expand the sugar industry (sugar cane production) to non traditional areas where comparative advantage is much higher.

Table 6.5
Local Sugar Production and Imports

	2000	2004	2005	2006
Production (‘000 mt)	64.31	58.0	54.0	56.0
Imports (‘000 mt)	562	438	418	525

*Source: Central Bank of Sri Lanka
Department of Census & Statistics*

Exploiting the Potential for Fruits and Vegetables

Given the trends in the population preferences and tastes, the nature of agricultural production may require drastic changes in the next decade. As in other developing countries, consumers are likely to demand better quality varieties of cereals while increasing their consumption of proteins, fruits and vegetables. In view of these changes in consumption patterns, agriculture will need to shift from its current ways of producing fruit crops to meet the increasing demand for a diversified group of products. Horticulture will stimulate growth, as yield can be improved within a short period of time using modern technology. This sector will also see spectacular growth once the food processing industry is established and respond to the increasing demand from both domestic and international markets. Sri Lanka has a thriving horticulture sector with 25 diverse ecological regions that are well suited to grow most of the horticultural and floricultural crops which are in demand, both in domestic and international markets.

Table 6.6
Selected Statistics in the Fruits and Vegetables Sector

700,000 smallholders are engaged in livestock husbandry.

	2000	2004	2005	2006
Vegetables				
Low country (mt)	345,645	346,869	381,533	389,609
Exotic(mt)	238,192	290,071	278,779	298,806
Potatoes('000 mt)	48	81	79	79
Big onion('000 mt)	37	37	50	69
Fruits				
Mangoes ('000 No.)	431,047	428,520	464,125	426,777
Plantain('000 bunches)	33,617	32,986	34,083	31,528
Papaw ('000 No.)	24,317	31,456	30,390	32,620
Pineapple ('000 No.)	34,602	46,574	46,721	47,640

*Source: Department of Census and Statistics
Department of Census & Statistics*

Private investment in horticulture and the food processing industry will grow at a faster rate over the next decade, mainly through increased domestic consumption following the expected rapid growth in incomes and exports. Sri Lanka's varying agro-climatic zones and its considerable untapped agricultural potential provide wide scope for adding value to food that is still mainly consumed in unprocessed form. Accordingly, the government has already initiated a number of development programs focused to reach the above development goals. As a result, the production and productivity of the horticultural sector has shown a considerable increase during recent past. The table 6.6 shows the trend in selected major fruits and vegetables production.

Livestock Industry

The livestock sector mainly consists of the dairy and poultry sub sectors which are considered high priority areas for future growth, investment and poverty alleviation. It is estimated that over

In Sri Lanka, average per capita milk consumption is low (around 100 grams per day) when compared to the world average of 260 grams. The consumption of milk and other dairy products is expected to increase over the next few decades, with increasing per capita income and living standards.

The poultry sector consists of eggs and the broiler industry. Capital intensive breeder farms, hatcheries, feed mills and processing units are fast growing activities in the industry. The poultry industry showed a considerable improvement in 2006 in terms of production of eggs and chicken. The demand for meat in the developing world is increasing at around 4 per cent per annum. The livestock sector challenge is to successfully meet it. The swine industry, goat production and animal industries are also areas which can contribute towards meeting demand.

Table 6.7
Key Statistics in the Livestock Sector

	2000	2004	2005	2006
Milk production (mn lt)	263	162	193	197
Poultry Production				
Eggs (mn)	923	871	865	901
Meat('000 mt)	-	95	97	79

*Source : Central Bank of Sri Lanka
Department of Census & Statistics*

In 2006, the livestock industry has been provided necessary equipment and technology in order to promote local entrepreneurs. With the aim of increasing a genetically superior livestock population, the Embryo Transfer (ET) technology has been introduced. This was initially practiced in goat breeding. This has now been extended to cover cattle breeding aiming at increasing a high yielding cattle population.

Dairy production has been identified as a high growth industry through which farmer income can be increased. A number of programs were implemented in the fields of breeding, milk collection and marketing with a view to boost milk production. In 2006, 84 animal breeding farms, 110 dairy villages and 56 milk sales centres were established.

Fast Recovery in the Fisheries Sector

At present the fisheries sector contributes around 2 percent to the Gross Domestic Product (GDP) while employing 250,000 persons both directly and indirectly. The total annual production of the sector is 300,000 Mt., of which 61 percent is coastal fishing, 28 percent is offshore/deep sea, and 11 percent is inland fisheries and aquaculture.

Government is endeavoring to transfer fishing from over-exploited to under-exploited areas, by providing adequate multi-day boats and trawlers to engage in deep sea fishing, developing 100 fishery harbours, anchorages and boatyards and

fishing craft centres. Apart from the marine sector, inland fisheries and aquaculture development are major thrust areas in the sector.

The fisheries sector exhibited a growth rate of 47 percent in 2006 benefiting from the rehabilitation activities after the 2004 December Tsunami disaster. Total fish production amounted to 251 million kg in 2006 - an increase of 54 percent over 2005.

Table 6.8
Key Statistics in the fisheries sector

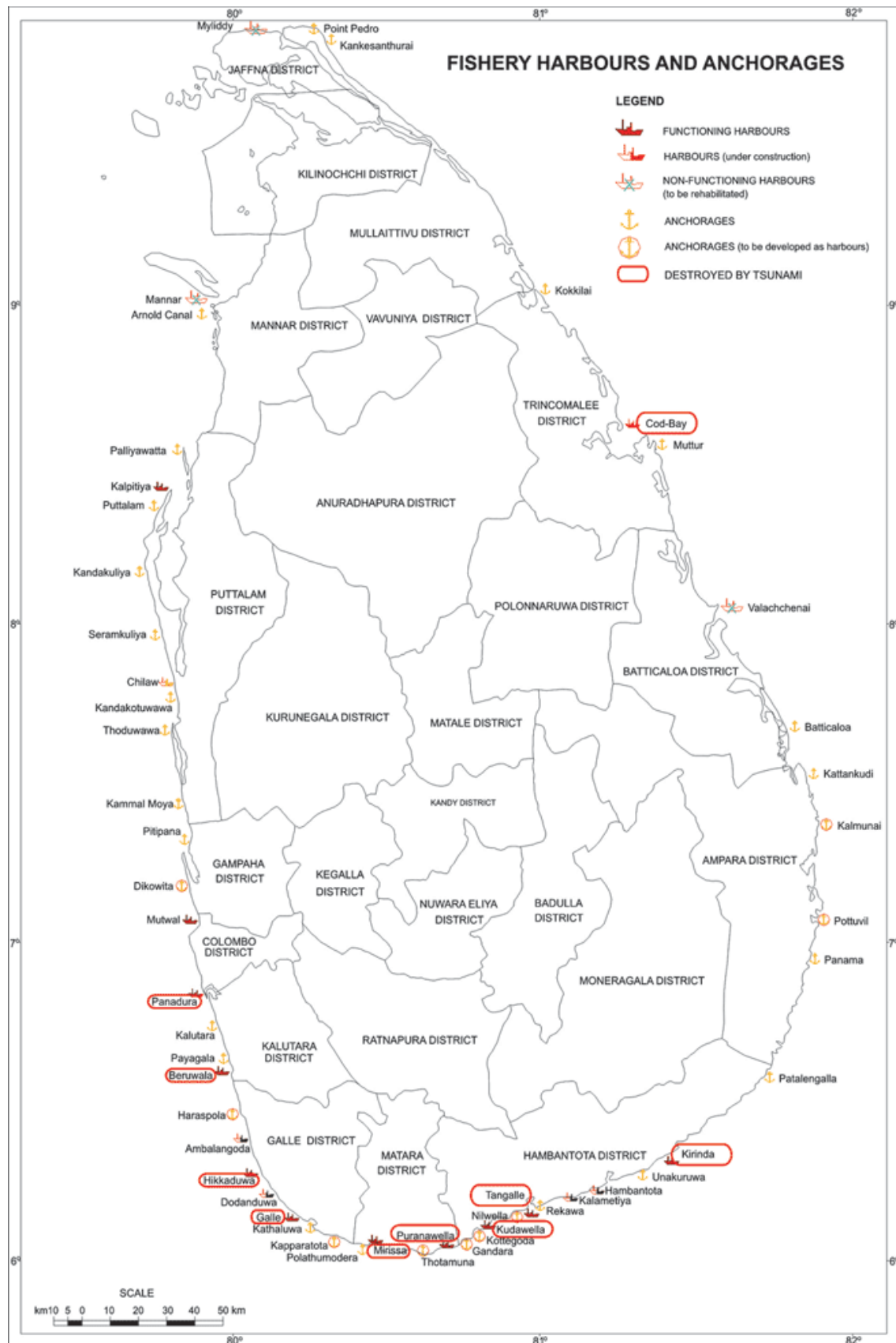
	2004	2005	2006
Fish production('000 mt)	286	163	251
Multi day Boat	1,581	1,328	1,782
Day Boat(In Board)	1,493	1,164	1,320
FRP Boat(Out Board)	11,559	11,010	12,880
Traditional Boats(out Board)	674	1,660	1,710
Traditional- Non Motorized	15,260	14,150	16,100
Inland fishing craft	7,000	7,200	7,510

Source: Central Bank of Sri Lanka and

As regards post Tsunami recovery and reconstruction, the fishery sector has shown a speedy recovery within the year 2006. The fisheries harvest has been restored to 70% of the pre-tsunami level. This is due to the resumption of the occupation by most of the affected fishermen. All damaged fishing boats have been repaired and 95% (19,741) of destroyed boats have been replaced. Thirty four multi-day boats and 100 one-day boats were manufactured and handed over to the owners.

Major infrastructure projects such as fishery harbours at Ambalangoda and Hambantota, the designing of a state-of-the-art Central Fish Market Complex at Peliyagoda, and enhancement of the off-shore fishing fleet were started in 2006.

Map : Fishery Harbours and Anchorages



Infrastructure Infrastructure Development

Mahinda Randora – Infrastructure Development Initiative

Mahinda Randora is the key development initiative to provide modern infrastructure to promote nation wide economic development and create new opportunities for investment and employment creation. This initiative prioritizes roads, electricity, water supply and sanitation, port and airport etc. During the next four years major road projects, power generation plants, transmission projects, water supply schemes, Colombo south harbor, Hambantota port, Weerawila air port etc will be constructed in line with the ten year development framework.

Roads

The road sector plays an important role in almost all the development activities as it is the dominant mode for the movement of passengers and goods. Sri Lanka has a road net work of about 116,862 km comprising 11,671 km of national roads, 16,532 km of provincial roads, 64,659 km of local authority roads and 24,000 km of roads belonging to the estates, state agencies such as Forest, Irrigation and Wild Life Departments, Mahaweli Authority etc. Average road density in Sri Lanka is 1.5 km/sqkm. Accessibility and mobility are still the problem in some areas in the country. Capacity of the national road net work has not been increased due to enormous cost of the widening of these roads and resettlement. This has increased traffic congestion. It is contemplated to construct expressway flyovers, etc. In addition, the quality and capacity of road net work have become a constraint to meet the rapidly increasing vehicle population., increase in road accidents and vehicle operating costs due to poor condition of roads, lack of coordination among national, provincial and local authorities, lack of skills, capacity and equipment in provincial level, encroachments and developments, shortage of road construction materials, and inadequate local private contractors, and inadequate finance are the main issues in the road sector in Sri Lanka.

The Government considers road development as the key to connect different regions that helps

to promote the national effort of reducing poverty and economic development. This will create opportunities through augmenting domestic development activities and will make all the regions more dynamic.

Development of rural roads is an essential component for enhancing accessibility of the rural community. This is being done by the Maga Neguma Rural Road Development programme by utilizing rural resources through community participation. It is further expected to rehabilitate 3000 km in 2007 to upgrade the rural and plantation roads under the Maga Neguma Programme.

The 2006 Budget provided Rs. 52 billion, equivalent to 1.86% of GDP, for the development of National, Provincial and Local Authority roads and it will further increase up to 67 billion in 2007 equivalent to 1.99 % of GDP. Rs. 37 billion was allocated for national road development which was a 35 per cent increase over 2005.

Table 6.9
Investments in Roads & Bridges

Item	2005 (Rs. Mn.)	2006 (Rs. Mn.)
Maintenance of national roads and bridges.	1,799	2,904
Rehabilitation and reconstruction of existing road network.	12,330	20,741
Rehabilitation of provincial roads.	2,075	3,467
Rural road development under Maga Neguma	434	1812

Source: Road Development Authority & Finance Commission

Development of Expressways

The speed of travel in existing major highways is low due to many access roads leading to costly congestion and increased travel time between Provinces. Therefore expressways are being constructed to reduce the traveling time between the main economic centers. For this purpose Rs. 6,957 million was allocated for 2006.

- **Southern Expressway**- The initial work has been completed and construction work of structures will be done in 2007 for the four-lane 138 km road from Kottawa to Matara which includes two access roads.
- **Colombo-Katunayake Expressway** - It is expected to start construction work of the 25 km expressway in the year 2007. This connects the Colombo city to the International Airport within 30 minutes.
- **Outer Circular Highway**- Land acquisition was initiated and will be completed in 2007 for Phase I of the 28 km highway, which will provide the quickest way to connect the Southern expressway to the Colombo-Katunayake expressway. The three townships of Kadawatha, Kottawa, and Kaduwela situated on this highway will be developed simultaneously.

Development of Highways

To upgrade the existing highway network to world standard, improvement, widening & rehabilitation continued in 2006. It is expected to upgrade about 300 km annually. This would cost the government Rs. 9000 million per annum. These improvements are expected to be done along with the proposed development of regional economic centers.

- **Road Development in Greater Hambantota** - Wellawaya - Siyambalanduwa (75 km) and Siyambalanduwa - Ampara (58 km) Roads are being rehabilitated. Access road to Weerawila International Airport and a 10 km alternate road for the existing A2 road, which will be abandoned for the Hambantota Port Development, will be constructed.

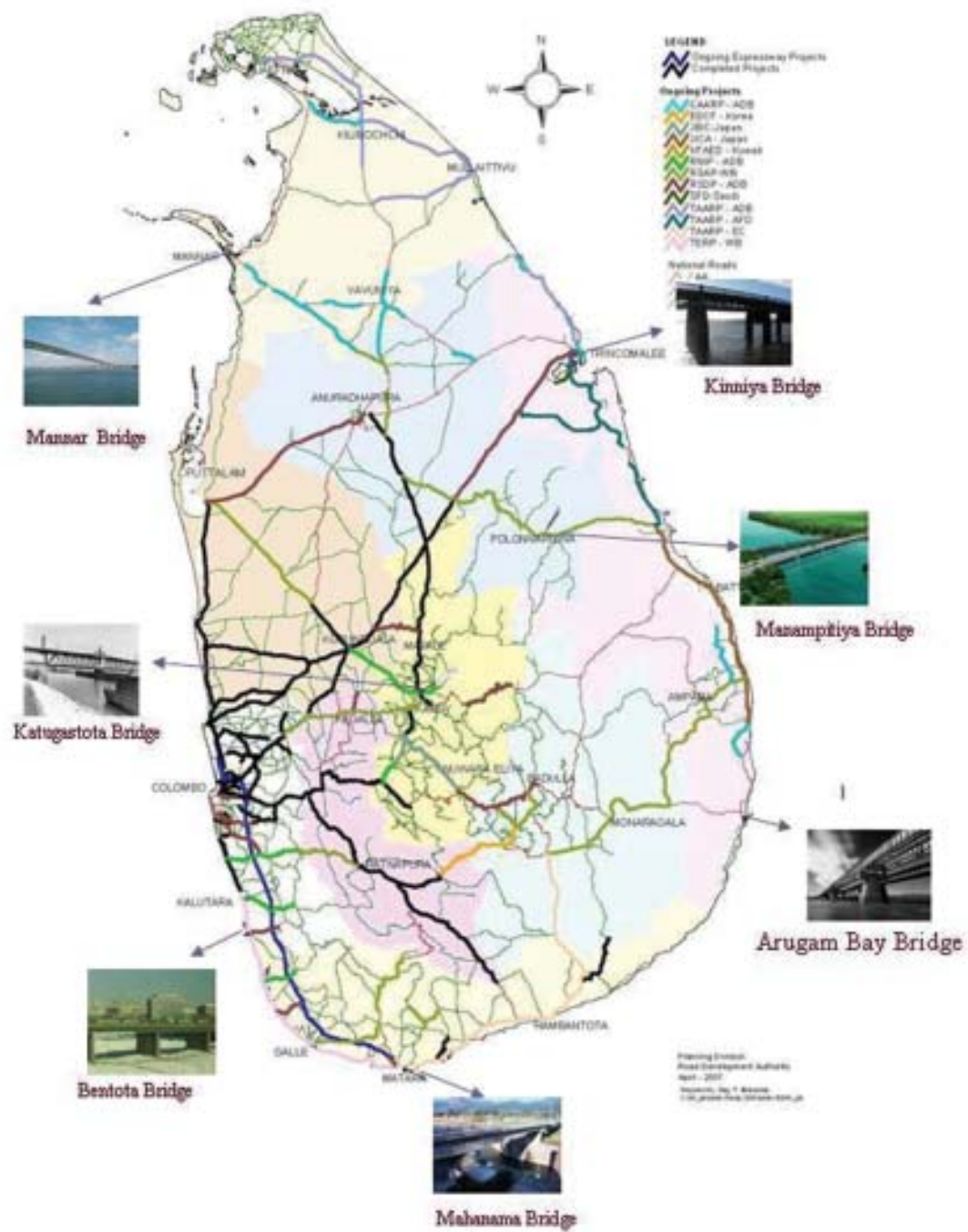
- **Road Development in Greater Dambulla** - Polonnaruwa -Dambulla, Mahiyangana - Dambulla, road section from Katugastota-Matale on A9 Roads will be rehabilitated while two new by-pass roads are to be constructed in the Greater Dambulla area.
- **Road Development in Greater Trincomalee** - Rehabilitation of Habarana - Trincomalee road and construction of Trincomalee Outer Circular Road are currently taking place
- **Road Development in Puttalam** - Anuradhapura - Puttalam, Puttalam - Padeniya roads and access roads to the Noraichchola Power Plant to be rehabilitated in the next three years.

The following roads have been rehabilitated: Gampola - Nawalapitiya (17 km), Gampola - Nuwara Eliya (54 Km), Ambatale - Kaduwela (4 km), Malabe - Godagama (11.3 km) Pasyala - Mirigama (10.1km), Nittambuwa - Urapola (8 km) Weerawila - Kataragama (25.8 km), Dickwella - Beliyata (13.3 km) Pelmadulla - Madambe - Malwatta - Timbolketiya Road (43.6 km)

The main Road Sector achievements in 2006 included the following:

- 11,773 kms of roads were maintained throughout the country.
- Urgent repairs on 4,429 bridges on national roads were completed.
- Under the 'Maga Neguma', 2000 kilometers of rural roads were rehabilitated at a cost of Rs. 1,800 million.
- Three flyovers were constructed at Ragama, Dematagoda, and Pannipitiya. Two others at Orugodawatta and Gampaha is being constructed and flyover at Nugegoda will be constructed in 2007.
- The major road projects are shown in the following map.

Major Road Development Projects 2006-2009



Electricity

As at present, the national grid serves electricity to an estimated 73.2% of the households (end 2005), while about 3% of the households are served by off-grid systems such as on solar home systems or community owned small hydro/wind/biomass power plants. By 2010, it is expected to expand the coverage of electricity in the country to 85-90 percent.

In 2005, electricity generation grew by 9.3%, and is expected to continue to grow at rates between 7-8% per year over the next fifteen years. Therefore around 150 MW need to be added to the system annually. At present, the electricity generation in Sri Lanka heavily depends on crude oil and has become a serious burden on Ceylon Electricity Board (CEB) as well as on the country's balance of payment. The government is taking measures to make a better energy balance in the long-term power generation capacity with an appropriate combination of hydro, Coal and fuel based Power Plants.

At present, the base load is supplied with thermal plants using crude oil. It is important to shift the base load from crude oil to coal, which is the cheapest possible source for base load in Sri Lanka. In order to provide the consumers with affordable electricity, it is vital to construct more coal power plants to meet the future electricity demand.

Rapid rural electrification and the demand growth in existing household customers require significant and continuous improvements to the distribution network. These improvements are required not only to serve the additional customer demand, but also to improve the reliability and quality of supply.

CEB's transmission and distribution losses have been between 15-17% of net generation over two decades. In 2006, the transmission and distribution loss was estimated to be 15.9% of net generation. It is expected to reduce total transmission and distribution losses (of the CEB network) up to 12% of net generation by 2015.

Therefore the ongoing and future development programmes for the electricity sector addresses the following key issues:

- Access to electricity
- Reforms and enabling Regulatory Environment
- Electricity tariff rationalization, debt restructuring and targeted subsidies.
- Fuel diversity and energy security in power generation
 - Conventional sources for Electricity Generation
 - Non conventional Renewable Energy
- Transmission and distribution network development
- Supply-side energy efficiency
- Demand-side energy Efficiency
- Energy sector knowledge management, planning and funding

Capacity, Power Generation and Investment in 2006

The total installed capacity of the power generation plants increased by 0.75 percent from 2,411 MW in 2005 to 2,429 MW in 2006. The installed capacity of CEB plants was 1758.5 MW, while the private sector had several power plants with installed capacity of 670.5 MW. The total power generated by the public and private sector in 2006 increased by 7.05 percent. The hydropower generated by Ceylon Electricity Board (CEB) increased by 35.02% due to heavy rainfall while the thermal generated power decreased by 22.85% in 2006. With regard to power generation by the private sector, hydropower generation increased by 24.2%, while thermal power generation decreased by 2.2 percent. The private sector produced 36.5% of total power generation for the year 2006. The hydropower to thermal power generation ratio was 1:1.54 in 2005 and 1:1.02 in 2006. The ratio of total generation of CEB to private sector generation was 1:0.57 in 2006. The total capital expenditure of the power sector in 2006 was Rs.9,541 million, an increase of 1.2 percent over the previous year.

Table 6.10
Power and Energy Sector Performance

Year	2000	2004	2005	2006
Installed Capacity of Electricity generation (MW)	1,779	2,329	2,411	2,429
Electricity Units Generated (GWh)	6,844	8,159	8,769	9,387
Electricity Sales by CEB (Gwh)	5,259	6,666	7,255	7,832
Total Investment for Power sector Development (Rs.mn)	10,289	8,976	5,199	9,541

Source: Ceylon Electricity Board

The total installed capacity of the power generation plants increased by 36.5 percent from 1779 MW in 2000 to 2429 MW in 2006. The total power generated by public and private sector in 2006 increased by 37 percent compared to year 2000. The electricity sales of the Ceylon Electricity Board increased by 49 percent in 2006 compared to year 2000. In 2006, the government allocated Rs.9,541 million for the development of power sector.

Energy Conservation Fund

The energy conservation fund plays a vital role to implement the programmes related to energy conservation in the country. During the year 2006, actions were taken by Energy conservation fund for setting up the proposed sustainable Energy Authority in order to develop the renewable energy sector in the country. In addition, two funding schemes became operational, providing the framework for facilitating energy projects, namely Sri Lanka Energy Fund for providing production subsidy for renewable energy based power generation, and the Sustainable Guarantee Facility to act as a collateral substitution for energy efficiency improvement project loans.

Box 6.1

Highlights of Programme/Project Performance of 2006

Programme	Progress
1. Norochcholai Coal Power Plant Phase I -300 MW	<ul style="list-style-type: none"> Loan agreement was signed with the government of China and contract was awarded. Activities related to site clearance and land acquisition were completed Resettlement housing schemes were constructed with 80 houses. Construction of Access roads was commenced.
2. Upper Kotmale Hydro Power Project -150 MW	<ul style="list-style-type: none"> The construction works of the project was commenced in 2006. Preparatory works namely construction of resettlement sites ,construction of engineers and employees camp, construction of access roads and construction of 33KV supply line were commenced. Contracts were awarded for main civil works for constructing dam and tunnels. Line route survey was completed for the construction of 17 Km Transmission line.
3. Rural Electrification Project 6	<ul style="list-style-type: none"> 474 electrification schemes completed. 1173 Low voltage extension schemes were completed.
4. Power Sector Development Project - Distribution	<ul style="list-style-type: none"> 192 Km medium voltage distribution lines were completed. Construction of 44 express lines (33 Kv) was in progress.
<ul style="list-style-type: none"> - Construction 385 km Medium voltage distribution lines. - Construction of 135 express lines (33 Kv) 	
5. Power Sector Development Project – Transmission	<ul style="list-style-type: none"> Construction of three 132 Kv lines was in progress.
<ul style="list-style-type: none"> - Construction of Grid substations - Construction of 132 Kv Transmission Lines 	
6.Rural Electrification Project 07	<ul style="list-style-type: none"> Construction of 202 rural electrification schemes was completed. Construction of 68 rural electrification schemes were in progress 260 Km Medium voltage lines were constructed. 829 Km Low voltage lines were constructed. 177 substations were established.
<ul style="list-style-type: none"> - Construction of 426 Rural electrification schemes 	

Rail Transport

Contribution of rail transport to passenger transport was 6% and to freight transport was 2% in 2006. While freight transport increased by 2 per cent, passenger km declined by 1 percent in 2006. Delays and cancellation of trains were the main reasons for declining passenger demand for rail transport. With the rapid economic development, demand for transport has increased rapidly. However, railway is not able to absorb increasing passenger demand due to the poor quality of the railway track, signaling system, inadequate rolling stock, lack of maintenance of the existing assets. Moreover, there is no system to review and revise of tariff. Hence, operational losses have increased.

Table 6.11

Indicators	Year			
	2000	2004	2005	2006
Passenger km. Mn.	3,493	4,684	4,358	4,311
Freight Tons Km. Mn.	88	134	135	138
Revenue Rs. Mn.	1,015	1,699	1,958	2,492
Current Expenditure Rs.Mn.	2,686	4,328	5,463	6,473
Investment Rs.Mn.	6,279	2,301	2,902	6,332
Operating loss Rs.Mn.	1,671	2,650	3,505	3,981

Source: Department of Railway

Increase in financial losses is a critical issue. It is so acute that income was not enough to meet increasing current expenditure. The result is increasing operational losses. Additional source of income should be explored to reduce financial losses. Expansion and improvement of freight transport and property development can generate substantial additional income. At present, market share of freight transport is confined to 2 per cent.

Highlights of the physical progress of 2006

- 122 carriages, 155 Wagons, and 26 engines were repaired and reintroduced to the service.
- Replacement of the existing five bridges at Ja Ela, Seeduwa, Kelaniya, Pinwatta, and Kalutara were commenced with foreign assistance. Four bridges were completed, and one bridge was about to be completed. Rs 400 million was spent in 2006.

- Passenger and freight transport revenue increased by 27% due to revision of fares and increase in passengers.
- Infrastructure facilities at many railway stations were improved.

Bus Transport

Bus service is the main mode of passenger transport. It accounts for 68% of the passenger market. Public and private sectors are responsible for operation of bus services. Private sector plays a major role in operation of bus services. In order to maintain fare competition between the private sector and the public sector, the government provides funds to the Sri Lanka Transport Board (SLCTB). Active bus fleet was increased by adding new buses and rehabilitating the existing buses. Hence, contribution of SLCTB to passenger transport increased by about two percent in 2006. As a result of annual revisions of tariff, revenue has increased. Despite the annual revisions of bus fare the SLCTB continued to operate at a loss.

Highlights 2006

- The market share of the public bus passenger transport was around 68%, of which Sri Lanka Transport Board (SLTB) contributed 23% and private bus operators contributed 45%.
- SLTB managed a registered fleet of 9,171 buses, but only 3,850 (42%) operated per day.
- In addition there were about 17,000 buses which were operated by the private operators.
- Passenger bus fares were increased by an average of 16% and according to the fare revision, revenues increased by 21% in the last year. Nonetheless SLTB continued to run at a large loss. SLTB problems included:
 - Inadequate services due to lack of functional buses and poor organization and logistics leading to low quality of services.
 - The needs for the rehabilitation of transport infrastructure facilities such as bus fleets, depot facilities, and bus terminals to maximize the level of service.

In spite of the serious problems facing the sector, significant steps were taken to improvement of the bus service in Sri Lanka in 2006:

- 722 new buses were added to the bus fleet for strengthening the state bus services in 2006 at a cost of Rs 2 billion.
- 109 buses were rehabilitated and were added to the fleet.
- 35 engine kits were purchased and fitted into buses which were in garages for many years.
- 120 special school bus services were provided for school children and teachers under the Sisu Sariya – School bus project
- New bus services were started on many routes which had been abandoned by private bus operators for many years.
- 30 bus routes commenced under the Nisi Sariya - night service project to reduce the shortage of buses after night fall.
- 60 bus services were provided under the Gemi Sariya – a social services subsidy programme that provided economical and regular transport services to the community in rural and developing areas where there were no transport facilities.
- Construction of 20 bus shelters was completed under the Bus Shelter Project at cost of Rs. 3.2 million providing shelters for passengers who travel by limited stop buses along Colombo - Ratnapura Road.

Water Supply and Sanitation

Provision of safe drinking water and access to sanitation are key elements in the Sri Lankan Government's efforts in achieving sustainable economic and social development. Access to safe water and adequate sanitation facilities is a universal need as well as a basic human right. It has now been well accepted that sustainable health, higher physical quality of life, productivity and dignity are not possible to reach without effective and adequate water supply and sanitation facilities. Several townships needed improved water supply for industrial as well as for domestic use. Now cities such as Galle, Moratuwa, Panadura, Matale, Rathnapura Anuradhapura and Kotte, have 15-24 hours water supply.

Since the supply of safe & reliable drinking water for people has become an important matter, continued efforts have been made mainly to develop the pipe borne water infrastructure in the country. Government also took actions to provide pipe borne water to meet the increased demand

Rs 10861 million has been invested on mega water supply schemes in townships of Matara, Galle, Ampara, Weligama, Kataragama, Ambalantota, Colombo, Motratuwa, Panadura, Horana and Kandana. As a result of extensive expansions in water production, transmission and distribution capacities of the pipe - borne water supply system, it has been able to provide 47,193 in new regions and 21,966 new connections in the Colombo area. An adequate level of water supply will also raise urban economic standards of living. Rs 3218 million has been invested in small and medium towns island wide.

Policy Initiatives in 2006

- The National Water Supply and Drainage Board prepared a corporate plan in 2006.

Table 6.12
Completed Projects - 2006

(1) Urban Water Supply Projects in 2006:

Name of the project	Total Investment (RsMn)	Benefits
Kalu Ganga Water Supply Project - Stage I	8600	▪ 20,000 new connections provided
Greater Kandy water supply Augmentation Project	4800	▪ More than 45,000 families benefited
Matara Water supply Scheme	1568	▪ provision of water to 28,000 people
Hambantota, Ambalangoda , Weligama, Kataragama implementation project & Badulla, Bandarawela integrated feasibility studies	1820	▪ Provision of water to 150,000 people
Town North of Colombo Water Supply Project	5000	▪ A population of 350,000 are benefited.

(2) Rural Water Supply Projects in 2006:

(1) Community Water Supply and Sanitation Project II - The aim of this project is to improve the quality of life and reduce poverty of the rural and estate communities by improving health through the provision of safe drinking water, adequate sanitation facilities and hygiene practices. The following projects were commissioned in 2006:

District	Provision of water supply facilities (No. of Grama Niladari Divisions)	Beneficiaries in 2006	Investment (Rs. Mn)	Provision of Sanitation facilities (No. of Latrines)	Beneficiaries	Investment (Rs. Mn)
Matale	47	48865	169.49	2337	11685	7.01
Kandy	23	16350	64.12	728	3640	2.18
Nuwara Eliya	22	21095	39.25	1134	5670	3.40
Kurunegala	52	50015	187.07	1522	7610	4.57
Total	144	136325	459.93	5721	28605	17.16

(2) Reactivated Community water supply and sanitation project II - The main objective of this project is to provide safe drinking water to rural areas which are not covered by donor funded projects. The following projects were commissioned in 2006:

District	Provision of water supply facilities (No. of Grama Niladari Divisions)	Beneficiaries in 2006	Investment (Rs. Mn)	Provision of Sanitation facilities (No. of Latrines)	Beneficiaries	Investment (Rs. Mn)
Badulla,	20	20,445	50.36	478	2,390	1.52
Matara	24	18,895	80.95	293	1,465	0.88
Rathnapura	21	32,180	82.08	380	1,900	1.14
Colombo	24	37,410	155.03	203	1,015	0.61
Gampaha	32	53,715	175.02	173	865	0.52
Anuradhapura	24	23,805	93.69	610	3,050	1.83
Hambantota	25	38,428	131.17	1437	7,185	4.31
Total	170	224,875	768.30	3574	17,870	10.81

Year	No. of water supply schemes operated by NWS&DB	Total No. Of Water Supply Connections	Total water Production (Mn. Cu.Mtr.)	Investment in water supply sanitation sector (Rs. Mn.)
2000	269	667805	343	4978
2004	287	841215	367	13584
2005	298	907662	383	13158
2006	291	989385	396	27488

Source: National Water Supply and Drainage Board
Community Water Supply and Sanitation Project

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Postal Service

Sri Lanka Posts is dedicated to meet the timely requirements of its customers with qualitative efficiency. Postal network in the country consists of 636 post offices, 3,407 Sub Post Offices, 473 agency post offices, 156 Rural agency post offices and 65 estate agency post offices. All post offices have telephone facilities and 2,796 sub post offices have telephone facilities. There are 125 Post Offices with Email Facilities. At present, 140 Communication Locales have been established at post offices.

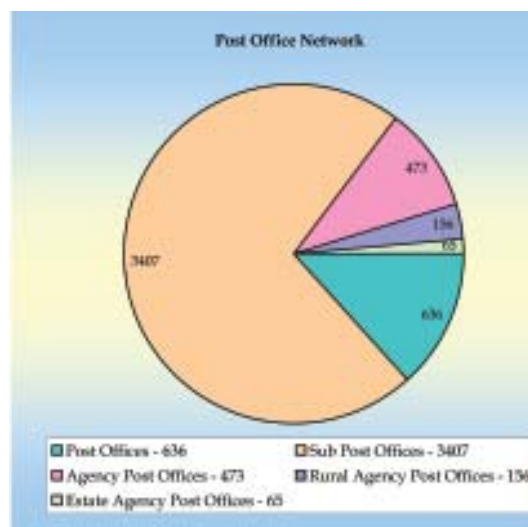
During 2006 the Department of Posts mainly focused its attention on programs to fulfill basic communicational requirements of customers using modern technology and commenced new services in collaboration with the local banking sector as well as various Agency Services in the private sector.

Puthukudyirippu and Moragalla sub post offices were upgraded to class II post offices in 2006 and two new post offices (Mattegoda and Galle secretariat) were opened.

(1) Expansion of the Post office network

- 9 new buildings were constructed.
- 46 new agency post offices were opened.

Chart 6.1



(2) Service improvements

- International Speed Post sent 15047 parcels and received 67832 parcels in 2006.
- Fax facilities have been introduced in 425 post offices.
- Business Mail service earned Rs 105 million in 2006.
- The department commenced the sale of Mobitl pre paid cards.
- Promotional activities of HSBC credit card sale was commenced in 2006.
- New telephone connections for 378 sub post offices were provided.

Table 6.13
Key Statistics in the Postal Sector

Year	No. of Main Post offices	No. of Sub Post offices	No. of Agency Post offices	No. of Rural Agency Post Offices	No. of Estate Agency Post Offices	Area served by a post office (Sq.Km)	Population served by a post office	Investment (Rs. Mn.)
2000	597	3,452	316	113	10	14.6	4,243	213
2004	630	3,419	441	156	65	13.9	4,100	131
2005	633	3,408	442	156	65	13.9	4,100	211
2006	636	3,407	463	156	65	13.8	4,167	606

Source: Department of Posts

Ports

The port sector plays a vital role in the economic activities of Sri Lanka..

The capacity of the Colombo Port is estimated at 3.3 million TEUs per annum. Container demand at Colombo will exceed the total capacity of the existing port by 2010.. Therefore, it is essential to build new terminals and to improve, operational efficiency of the Colombo Port to a level equivalent to or higher than the other ports in the region.

Table` 6.15
Basic Statistics- Ports Sector

Indicators	Year			
	2000	2004	2005	2006
Vessels arrived	4232	3883	4139	4469
Total cargo handled (MT 000)	27535	33959	37300	42661
Total container traffic (TEUs 000)	1733	2221	2455	3079
Revenue Rs.Mn.	14717	17861	20552	23004

Source: Sri Lanka Ports Authority

The Colombo Port achieved significant growth in 2006.:

- Number of ships arriving at the Colombo Port increased by 8 percent.
- Cargo handling at the Port rose by 14 per cent .
- Total number of containers increased by 624 TEUs (25 per cent) and transshipments by 36 per cent.A number of ports related development activities were carried out in 2006:
- Signing of the MOU's for the Colombo South Harbour Development Project between ADB and the Government.
- Detailed engineering design, Environmental Impact Assessment report, business plan and poverty and social impact study of Colombo South Harbour Development project was completed.
- Feasibility study of the Hambantota sea port development project was completed.
- The loan agreement was signed between the government of Japan and Sri Lanka in relation to the Galle Port.

Aviation

The government implemented various development program which include a new passenger terminal and bridges, cargo terminal building, Air navigational system, Southern part of apron "C", a new administration building, perimeter chain link fence with barbed razor wire coils, a service road and parking areas to the cargo village adjacent to the day pass office, visual docking guidance system etc. On completion of the cargo terminal building at Bandaranaike International Airport, annual Cargo handling capacity has increased from 105,000 MT to 150,000 Mt. Rs. 63 million was spent to construct this cargo terminal. In addition, the government spent Rs 360 million to construct a new duty free shopping complex at the BIA. As a result of phase II development, BIA can handle 4 million passengers and 300,000 MT of cargo per annum. The aircraft movements at the BIA increased by 2.4%. The number of passengers arriving has increased by 11% in 2006, the total cargo handling increased by 5.1% to 70,907 metric tones. Other salient feature of the air transport sector is the identification of a location for an alternative international airport at Weerawila where work will commence in 2007.

Industries Sector Development

Industrial sector has a potential in contributing to sustained economic growth and to meet other challenges such as reducing poverty and regional disparities. Rising energy costs, inadequate infrastructure, increased competition from low cost producing countries, rising cost of inputs, lack of skilled labour, technological development etc. are some of the pervasive impediments in the industrial sector.

The industries sector achieved 7.2 percent growth in 2006. Factory industries showed a 5.9 percent growth in 2006. Food, beverages and tobacco products increased by 6 percent in 2006 compared to a 4.8 percent in 2005. Textile, apparel and leather sub-sector showed an increase of 4.3 percent during the same period. Further, in terms of the value, textile and garment exports increased by 6.4 percent. Theshare of the industrial sector remained unchanged at 27 percent of total GDP.

Table 6.16
Value of Industrial Production (Constant Prices 1990)

Product Category	(Rs Mn)			Growth (%)
	2004	2005	2006	
Food beverage & Tobacco	52,919	55,430	58,756	6.0
Textile, wearing apparel and leather	93,062	97,576	101,772	4.3
Wood and wood	1,610	1,659	1,709	3.0
Paper and paper	3,882	4,000	4,136	3.4
Chemical, petroleum, rubber and plastic	45,098	50,720	54,930	8.3
Non-metallic mineral	18,631	19,777	21,933	10.9
Basic metal	2,455	2,600	2,759	6.1
Diamond & Fabricated metal, machinery and transport equipment	10,512	10,825	11,161	3.1
Other	5,207	5,366	5,548	3.4
Total	233,369	247,953	262,704	5.9

Source: Central Bank of Sri Lanka

Regional Industrial Development	<p>Industrial Estates</p> <ul style="list-style-type: none"> ▪ 16 Industrial Estates were established by the end of 2006. ▪ Another 3 Industrial Estates have been initiated. ▪ At present, there are 157 industries in commercial production in the estates while another 45 factories are under construction. ▪ A total of 12,823 employment opportunities created in the Industrial Estates. <p>Gamata Karmantha (300 Industries Program)</p> <ul style="list-style-type: none"> ▪ “Gamata Karmantha” was introduced in the 2006 Budget in line with the Mahinda Chintana. ▪ Principal aim is to create more employment in rural areas and to overcome the concentration of industries in Colombo and Gampaha Districts. ▪ 60 projects were approved with a total investment of Rs.9,550 million and 12,039 employment opportunities. ▪ Construction of 14 factories is underway and 4 factories commenced commercial production. ▪
Thrust Industries	<p>Apparels and Textiles</p> <ul style="list-style-type: none"> ▪ Productivity Improvement Programs were conducted for 30 selected garment factories in collaboration with Joint Apparel Association Forum (JAAF). ▪ Steps were taken to introduce a brand logo for Sri Lankan apparel with the aim of building up the international image of Sri Lankan products. ▪ The total requirement of 10.6 million meters of school uniform materials during 2007 was manufactured locally. ▪ 430 youth rangers followed certificate courses in Apparel Technology and Management, Pattern Cutting, Grading and Styling Development under the Mahinda Chintana “Yovun Diriya” Training Program. <p>Footwear and Leather Industry</p> <ul style="list-style-type: none"> ▪ The Footwear industry is one of the emerging industries in the country. ▪ In 2006, 10 local footwear designers were sent for training in India. ▪ A National Standard for Footwear was prepared in collaboration with the Sri Lanka Standard Institution. ▪ An advisory committee consisting industrialists in the sector was established to provide necessary advice for the progress of the footwear industry. <p>Processed Food</p> <ul style="list-style-type: none"> ▪ Processed food sector produced Rs. 14,340 mn worth of exports in 2006 supported by public/private partnership initiatives. ▪ The Annual Processed Food and Packaging International Exhibition was held in August, 2006 successfully with the participation of Japan, Korea, India, Pakistan and Thailand and 200 local companies. <p>Ceramic Industry</p> <ul style="list-style-type: none"> ▪ A survey and sample analysis has been completed in the Mathugama electorate to identify the demarking raw material deposits. ▪ Under the Tiles and Ceramic Products Standardization Program, tiles standardization was gazetted in Gazette No.1447/28 of January 1st, 2006.

Environment Friendly Industries	National Cleaner Production Centre (NCPC) <ul style="list-style-type: none"> ▪ The NCPC promotes the concept of sustainable industrial development through the application of cleaner production practices. ▪ A regional training program on “UNIDO Cleaner Production Tool Kit for Asia Pacific Region” was conducted in May 2006 with the aim of introducing the cleaner production (CP) tool kit to streamline the existing CP methodology to the individuals working in the area. ▪ An awareness seminar was also conducted for University academics in June 2006 to introduce the broad base CP in curriculum development of University syllabuses. ▪ Sectoral process developments took place in tea, metal finishing, ceramics and glass sectors. ▪ Quick Scan Environment Audits were carried out for Dankotuwa, Seethawaka and Kuruwita Industrial Estates.
Tsunami related restoration of micro, small and medium enterprises	<ul style="list-style-type: none"> ▪ More than 10,000 enterprises have been restored under the back to business project. ▪ A total of 57,862 loans and grants valued at Rs. 20,025 million. were provided through the Susahana and FCCICL support scheme to affected enterprises. ▪ Also the Ceylon Chamber of Commerce has been provided financial assistance for 828 micro enterprises valued at Rs. 170 million. to restore their livelihoods.

The mining and quarrying sector increased by 8 percent during 2006 in real terms supported by the growth in gem exports. This was 14.1 percent in 2005. Mining activities related to mineral sand and phosphate production showed a slight decline in 2006.

The electricity and water sector recorded a growth rate of 20.2 percent during 2006 compared to 24.5 percent in 2005.

During 2006, the construction sub-sector expanded by 8 percent against 8.9 percent growth in 2005. The increased contribution was born by the construction of infrastructure facilities, housing and condominium projects and reconstruction work in the North and East.

Science and Technology to the village economy

- **The Vidatha program** aims at transferring technology to rural areas through the established Resource Centers.
 - In 2006, 96 Vidatha Resource Centers were established in 21 Districts.
 - 394 technology transfer programs were conducted under the theme of “Gamata Thakshanaya”.
- **Gamma Irradiator Plant:** The Atomic Energy Authority has started the initial work for the establishment of a Gamma Irradiator Plant.
- **Nanotechnology Centre:** Initial action has been taken to set up a nanotechnology centre for the purpose of creating knowledge and skills in the production of industrial goods with quality and cost effectiveness. The centre will be established on the basis of public-private partnership.
- **Technology Incubators:** Monaragala, Weeraketiya and Mawanella were chosen to establish 3 Technology Incubators, where entrepreneurship is being developed.
- **Automated weather station:** under the accelerated Mahinda Chintana program, an automated weather station called “Weather Master” that senses, measures and disseminates accurate real time weather data was developed by the Industrial Technology Institute.
- **Formulation and adoption of national standards:** In 2006, the Sri Lanka Standards Institute formulated 8 new national standards and adopted 30 international standards as Sri Lanka Standards.
- **Sri Lanka Accreditation Board for Conformity Assessment (SLAB)** was established as the National Accreditation Authority for Sri Lanka and the Institution commenced its operations in January 2006.

Tourism

Tourism is one of the fastest growing areas in the service sector. It has been accorded high priority being an emerging growth sector in the economy and creating multiple spin-offs for rural poverty alleviation. Developing tourism infrastructure facilities, establishment of new resorts, tourism marketing and promotion, human resource development are the key areas being focused to expand tourism.

There were 559,603 tourist arrivals to Sri Lanka in 2006, exceeding the half-a-million mark for

the 4th consecutive year. However, due to escalation of terrorist incidents, arrivals moderated towards the end of the year. Tourists from the Eastern Europe, African and South Asian regions showed a significant increase while tourist arrivals from Western Europe slightly increased by 0.6 percent. Total earnings from tourism increased by 13 percent in 2006.

Table 6.17
Tourism Sector Performance

Indicator	2000	2004	2005	2006
Tourist Arrivals	400,414	566,202	549,308	559,603
Earnings (US\$ mn)	253	416	362	410
Average expenditure per day (US\$)	62	72	75	83
Hotel rooms (No.)	13,311	14,322	13,162	14,218
Room occupancy rate (%)	52.3	59.3	45.4	47.8

Source: Ceylon Electricity Board

New Initiatives to position Sri Lanka as a major destination

- **New Tourism Resorts** at Kalpitiya and Dedduwa have been identified
 - Land survey was completed for 4,100 acres at Kalpitiya to build the Dutch Bay Resort, an integrated entity encompassing tourism, agriculture and fisheries in a total land extent of 4,132 acres. The draft Master Plan to develop this area is being evaluated.
 - Dedduwa which is located to the East of Bentota, is identified to develop as a Lake Resort for tourism. During the year 2006, actions were initiated for the Vesting/ Acquisition of 1,200 acres, and community awareness programs were also conducted.
- **“Refreshingly Sri Lankan”**, a promotional campaign was organized in London together with the Ministry of Foreign Affairs to coincide with the Sri Lanka Cricket Team’s visit in June 2006. Nearly 1000 British locals visited the colourful stalls selling Sri Lankan products.
- **Sri Lanka won the 3rd prize in the Annual Tourist Award in France** in the category of “Best Destination Brochures”.
- **A Sri Lanka Travel Mart** was organized in Colombo in June, 2006 with the objective of providing an opportunity for the local travel trade to enter in to business contracts

with the foreign tour operators. Two hundred international buyers and 150 international and local exhibitors participated in this Travel Mart.

- **The World Spice Festival** was held in Colombo for the second successive year from 14th to 26th September 2006.
 - 13 International Chefs flew to Colombo to participate.
 - A public event branded as “Global Spice Village” held in Colombo was patronized by 2000 people including tourists and expatriates.
- **World Tourism Day** was celebrated at Yapahuwa on 27th September, 2006 with the objective of creating awareness on a lesser known tourist attraction, Yapahuwa, a cultural heritage and promoting it as a Novel Tourist Destination.
- **Combating Child Sex Tourism:** A project on combating child sex tourism was initiated by the Sri Lanka Tourist Board and implemented with technical assistance from UNICEF. An Action Plan was developed using a participatory approach taking the views of all the stakeholders and was launched in June 2006.
- **A Diploma Program in Travel and Tourism** was added to the curriculum for the first time in the history of the Hotel School, thereby fulfilling a lacuna in the Travel and Tourism Industry in Sri Lanka.
- **Tsunami Related Renovation:** 1,212 applicants consisting of large and small enterprises have reconstructed and refurbished hotels through the Susahana loan scheme implemented by the Government to ensure post Tsunami recovery of the affected hotels. This number represents 90% of the Tsunami affected big hotels and small type operators.

Human Resource Development

In a globalized economy, the knowledge and intellectual creativity of individuals are vital factors of success. In this context, building up an healthy and knowledgeable workforce with required skills and talents to face the emerging needs is highly important. Content and quality of both education and healthcare will be of prime significance, and those who receive competitive education with valuable cultural influences and healthy life will emerge as leaders of the coming age. While economic growth is needed to generate more opportunities for people to earn their ways to a better life, human capital must be built up so that people will have the skills and abilities to take advantage of those opportunities. At present, lack of human resources in specialized fields such as IT, construction, healthcare, English education etc has become an obstacle for rapid economic development. Development of human resources is necessary to overcome this obstacle.

Education

The overall aim of the national education policy is to increase equitable access to quality education and improve governance in service delivery in which the students are provided with opportunities to obtain high levels of educational achievement.

Table 6.18
Government Expenditure on Education

Sub Sector	Actual Expenditure (Rs. Million)			
	2000	2004	2005	2006
General Education	12,158	14,487	19,197	19,181
University Education	4,658	6,206	8,201	10,603
Technical & Vocational Education	1,283	1,845	2,288	2,484
Total	18,099	22,538	29,686	32,268

Source: Department of National Budget

Access to Education

- School Admission Committees were introduced to facilitate the admission of nearly 50,000 children who are not attending schools. As a result, 10,486 school-age children had been integrated into the education system by September 2006.

Government Mid-day Meal Program

Schools where students' malnutrition level was over 40 percent have been selected for provision of Mid-day Meals. From January 2006, this program has been expanded to cover a large number of needy students at a cost of Rs. 721 million. With the assistance of the Ministry of Healthcare, these students were provided with meals which were high in nutrition values. As a result, their nutritional status and school attendance have considerably increased.

Table 6.17
Mid-day meal Program

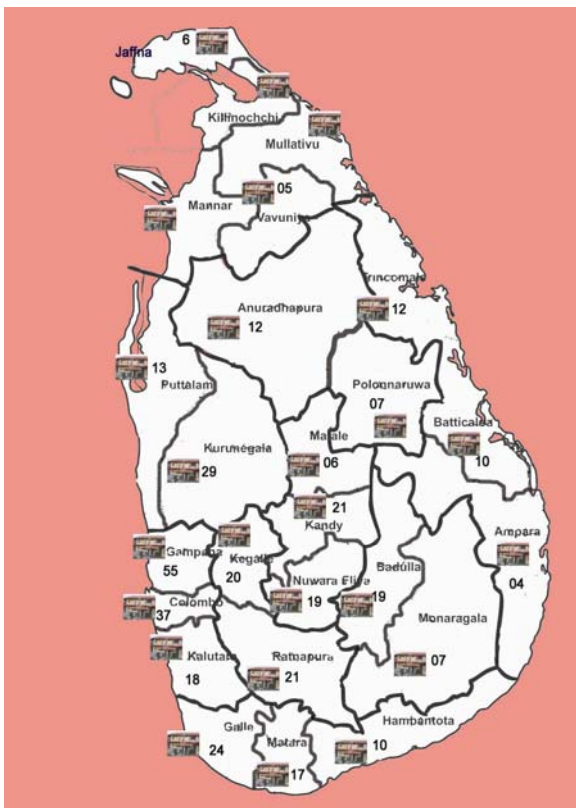
Year	2005	2006
Number of Schools covered	1,796	6,214
Number of students for whom mid day meal provided	48,320	301,578
Increase in nutritional status in terms of weight and height for age according to a sample survey done by the Ministry of Education	69%	81%
Increase in school attendance	65%	94%
Expenditure (Rs. million)	166	721

Source: Ministry of Education

Infrastructure Development of Schools in 2006

- 20 National Schools, 388 Navodya Schools, 252 located in plantation areas, and 268 selected Provincial Schools in the North and Eastern Provinces were developed.
- 100 primary schools in remote areas where electricity was not available were each provided with a solar powered computer kit that included 10 computers and a printer, facilitating access to IT education for about 2000 students.
- 23 computer learning centers, 28 onsite environmental laboratories and 28 A/L Science Laboratories were set up through the Secondary Education Modernization Project 11.
- Initial steps were taken to establish a fully fledged secondary level school in each Divisional Secretariat Division as “Isuru College” in order to provide higher level quality secondary education as well as to ease the high demand for popular urban schools.

Distribution of Navodya Schools



Source: Ministry of Education

Access to Information and Communication Technology

- 1500 schools in 2006 have been provided with Computer Learning Centres and 70 Computer Resource Centres have been established for the development of IT education for students who are in the transition period preparing for the GCE (A/L) after passing the GCE (O/L) examination.
- General Information Technology was introduced as a subject under the Technology Stream for Grade 10 students in the school system.
- Training has commenced for 4800 teachers in Information and Communication Technology in order to create better learning opportunities in primary education; Activity Based Oral English and Information Technology and other teaching and learning methods have been used.

Expansion of languages

Table 6.18
Pass Rates of the subject of English language at
G.C.E. (O/L) Examination

Subject	2000	2004	2005	2006
English Language	29.8	47.1	40.8	40.3
English Literature	65.1	65.1	67.8	68.5

Source: Ministry of Education

The following steps have been taken to expand English education as students performance is lower for English Language at national examination compared to other subject areas.

- “English for All” program has been started for school-goers as well as for school-leavers in order to encourage learning of English.
- English Scrabble sets have been distributed for 335 Navodya Schools at a cost of Rs. 6.5 million
- English Education Camps have been organized throughout the island in order to popularize English education under School Based English Activities program.
- A special three month English course has been started for improving the English knowledge of students who study in the English medium.

Teacher Education

- The Ministry of Education has prepared a systematic procedure for balancing teacher resources by taking into consideration the excesses and shortages of teachers and identifying the teacher requirements in each subject.
- 100 lecturers in Colleges of Education have been trained to teach IT and will be provided with Internet facilities for improving the computer education.
- Arrangements have been made to establish teachers colleges in provinces where teacher colleges are not available.

Table 6.19
Current Situation of the Teacher Training Program (2006)

Type	Trained	Untrained	Total
Graduate Teachers	50,044	24,082	74,126
Other	131,762	4,546	136,308
Total	181,806	28628	210,434
Percentage	87%	13%	100%

Source: Ministry of Education

- Initial arrangements have been made to upgrade the Peradeniya Teachers College to make it into a Centre of Excellence in English, for conducting degree programs.
- 25,000 graduates, who were appointed as teachers, were offered 03 months teacher education certificate course with the help of universities.
- The School Based Teacher Development Program has commenced in 8 pilot Education Zones.
- The pool of teacher trainers has been established at Meepe to assist principals under the Provincial Level Teacher Development Program.

An improved Examination System

- Initial work has been completed to setup a Test Item Bank in order to develop research evaluation capacity of the Department of Examination.

(b) Vocational and Technical Training

Vocational and Technical Training Awareness Program

- Ministry of Vocational and Technical Training launched the "Sisu Diriya" program in 2005 to popularize vocational and technical training among school leavers who seek livelihood education. Sisu Diriya enrolment increased by 2.3 percent in 2006.
- 1,866 awareness programs were conducted on vocational career guidance for 117,539 individuals and groups of school children, school leavers, youth, parents and teachers to inculcate the relevance of vocational and technical education.

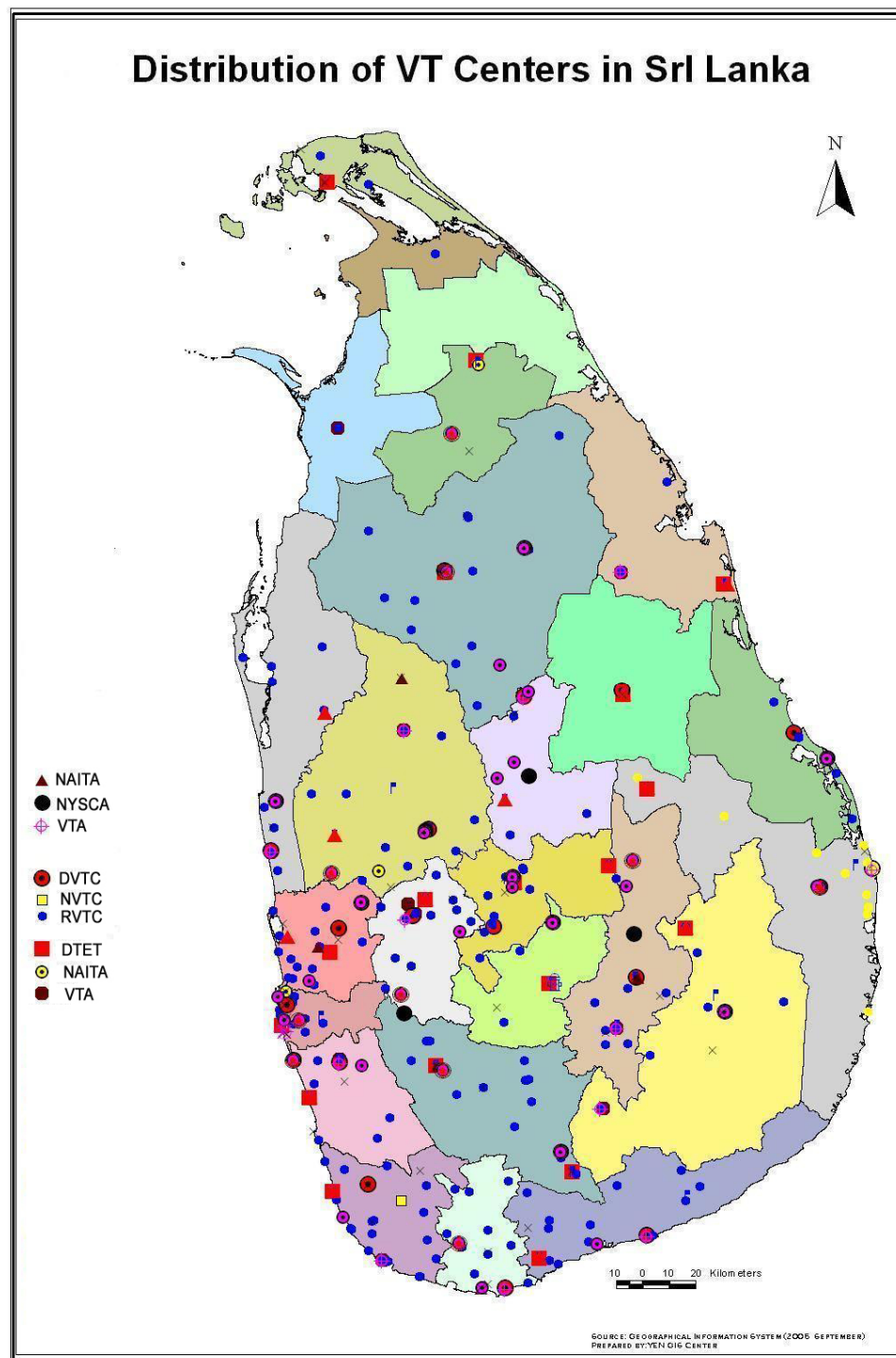
New Training Fields in Technical Education

- The Technical and Vocational Education Commission introduced 20 new training fields including Auto Painter, Heavy vehicle Repairer, Nurse Assistant, Motorcycle Mechanic, Storekeeper, etc. to meet the emerging skill needs.
- TEVC also introduced 45 National Vocational Qualification Competency Base Training fields to promote the quality and relevance of technical education.

Technical Colleges

- An Information Technology Unit was developed in the Kurunegala Technical College with KOICA financial assistance at a cost of Rs. 2 Million.
- Jaffna Technical College was upgraded to the level of College of Technology with KOICA financial assistance at a cost of Rs. 107 Million.
- Computer Laboratories were established in 11 Technical Colleges under the Post Tsunami Reconstruction and Rehabilitation

project funded by Germany at a cost of Rs.
330 million



Source: Ministry of Vocational & Technical Education

Major Projects

- Preliminary work commenced in Technical Education Development Project at a cost of US \$26.7 million assisted by the ADB. The main component of this project is to upgrade 6 Technical Colleges in each Province to the level of Colleges of Technology.

University of Vocational Technology

- Completed 95% of building construction work for the University of Vocational Technology at Rathmalana.

Higher Education Development

- A new Medical Faculty has been established under Rajarata University with the aim of expanding medical education to rural areas.
- The National Institute of Fisheries and Nautical Engineering has been affiliated with the University of Sri Jayawardenapura in order to offer degree courses on Fisheries and Marine Sciences.

Health Care and Nutrition

The health sector strategies have been directed mainly towards ensuring equity and quality of healthcare services. Government provided Rs. 60,782 million for the health sector in 2006, representing 27% increase over 2005. About 35% of total budgetary allocation for health in 2006 was for preventive, curative and rehabilitative care services at the Provincial healthcare institutions.

Disease Control Program

Sri Lanka has been successful in controlling of most of the communicable diseases such as malaria, encephalitis, measles, polio, leprosy, filaria etc. No major outbreaks of communicable diseases were reported in 2006. A close monitoring of surveillance information is in place. Action was taken to prevent occurrence of any disease outbreak.

Table 6.22
Health Expenditure 2000-2006

	2000	2004	2005	2006
Total Expenditure on Health (Rs mn)	21,900	37,303	45,435	63,469
Expenditure/ GDP Ratio	1.6	1.8	1.9	2.2
Expenditure as a percentage of Total Government Expenditure	6.5	5.7	5.7	5.7
Per Capita Expenditure (Rs)	1,191	1,919	2,311	3,228
Preventive Health Expenditure (Rs mn)	-	481	1,694	3,719
Total Recurrent Expenditure (Rs mn)	17,701	29,099	36,641	47,574
Provincial O/w Salaries (Ministry of health)	4,766	6827	6,859	8,147
O/w Drugs	4,600	6,795	7,100	8,400
Recurrent Exp (Provincial Councils)	-	10,000	14,048	20,626

Sources: Department of National Budget, National Health Accounts 2000-2002

- Building construction has commenced at Sabaragamuwa University to provide accommodation facilities for 240 additional students.
- Rehabilitation work has commenced at 5 Advanced Technical Institutes and 5 Universities situated in Tsunami affected areas.

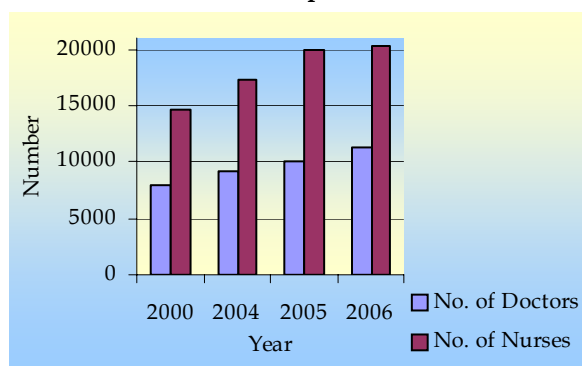
In 2006, special emphases was paid to combating rabies, dengue, TB, HIV/AIDS etc through adaptation of more practicable control measures. As an initiative to control many of the non-communicable diseases, an Act on "National Authority on Tobacco and Alcohol" was passed by parliament in August 2006. "Mathata Tita" - a government new initiative has intensified its national efforts to discourage

alcohol and cigarette consumption through enforcement of high taxes and vigorous enforcement of law. Outreach specialist clinics, mobile laboratory, health promotion and education programs are conducted at Divisional levels through the “Suwa Udana” program. Between 5,000 to 25,000 people had been benefited at each of these centres.

Skills Development in Health Personnel

As a solution to the lack of skilled human resources in nursing, Paramedical and specialists in the health sector, an accelerated recruitment drive has continued since 2004.

Chart 6.2
Human Resources Development Trend 2000-2006



were added to the system. Another batch of 1,003 interns doctors were taken in for clinical training. After a lapse of many years, a batch of 83 dental surgeons was added to the public health care system. In addition, 1367 Nurses, 567 Public Health Midwives (PHMs), 169 Public Health Inspectors (PHIs), 290 para-medical trainees and 1969 persons from non-technical categories have been recruited in 2006. In order to strengthen the primary health care services, 2500 moped bicycles for Public Health Midwives and 824 motorbikes for Public Health Inspectors have been provided. Special emphasis has been placed to strengthen human resources base in the North and East Provinces and the Ministry of Health has posted 116 Doctors, 225 Nurses and 145 Public Health Midwives to these areas to uplift the services. Since the existing facilities at the Nurses Training Schools are inadequate to eliminate the shortage for nurses at government hospitals, a new Nursing School was set up at Ampara.

Table 6.23
Basic Health Indicators 2000-2006

	2000	2004	2005	2006
Life expectancy at birth (years)	72	74.3	-	-
Maternal Mortality/ 100,000 live births	47	38	-	-
Infant Mortality/ 100, 000 live births	12.2	11.2	-	-
Under 5 mortality/1,000 live births	18.8	14	-	-
Number of Beds in all hospitals	57,027	59,144	61,937	61,070
Doctors / 100,000 Population	41.3	47.3	51.6	57.4
Nurses / 100,000 population	76.2	86.9	101.3	103.2
Deaths from Dengue	37	88	27	29

Sources: Ministry of Healthcare & Nutrition
Human Development Report 2006, UNDP

The High Tech Blood Bank in South East Asia

With the objective of establishing a pioneering Blood Bank Network System in the country, a central blood bank centre was constructed with state of art technologies at Narahenpita, at a cost of Rs. 1,829 million. The project ensures safety, adequacy and easy accessibility of blood products to the public through new National Blood Transfusion Centre. This was a major achievement in developing the basic blood supply system in Sri Lanka as a whole.

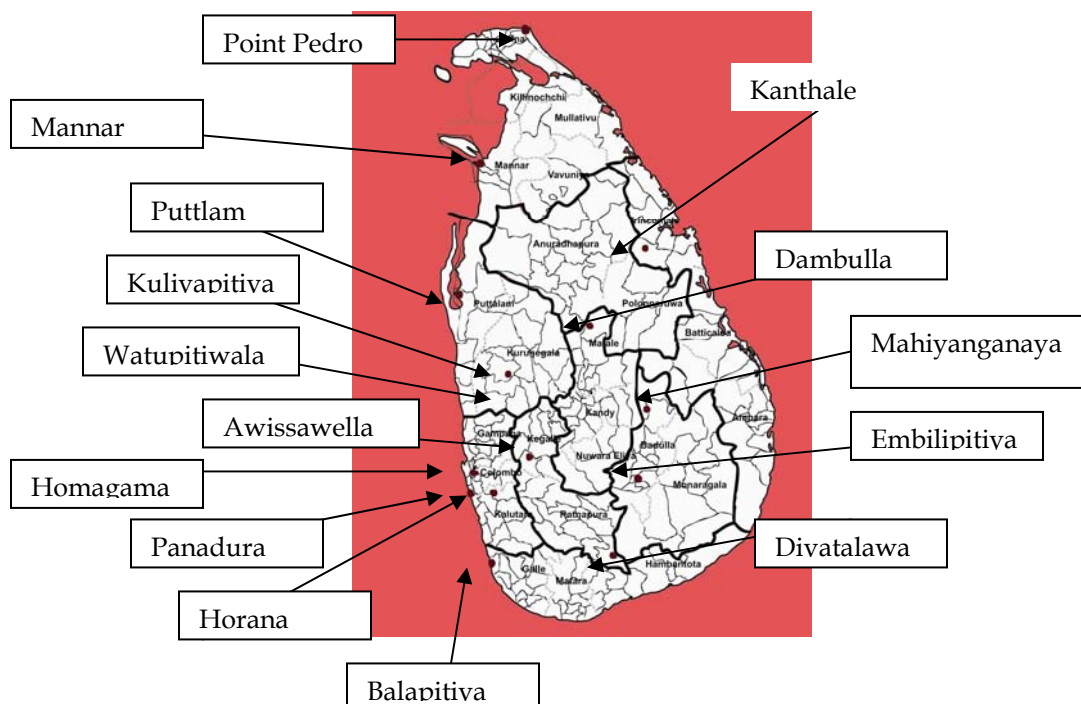
Special Medical Units

For the first time in the history it has been possible to put up a “Linear accelerator” for cancer treatment in Maharagama at a cost of Rs. 62 Million. Construction of an ultra modern Neuro Trauma Treatment unit at the National Hospital Colombo and the Nephrology Unit at Maligawatte was in progress. New Bio-Medical Engineering Units have been

established in the General Hospitals at Ampara, Badulla, and Teaching Hospitals at Ragama, Kalubowila and Kurunegala. Also, the District General Hospitals at Halawata, Nawalapitiya, Nuwaraeliya, Matale, Moneragala, Trincomalee and Ampara have been equipped with necessary Operating Theater facilities.

Upgrading Remote Hospitals for Better Service

As proposed in the 2006 Budget Speech, 17 base hospitals located in remote areas in the country are being developed to cater to increasing demand for the specialized care services. Access to services of Medical Specialists and other facilities such as Laboratory tests is the immediate benefit accrued to the people in the areas where these hospitals are located. Consultants of these hospitals have given 10 double cabs to conduct out reach clinics in more remote locations. These hospitals are shown in the following map.



Medical Equipments

Medical equipment valued Rs 381 million have been purchased and distributed among 22 needy hospitals in all parts of the island. This has enhanced the quality of healthcare services provided by the Teaching Hospitals in Jaffna, Batticaloa, Kandy, Kurunegala and Base Hospitals in Badulla, Ratnapura, Kalutara, Kegalle, Matara and Anuradhapura.

Nutrition

A “National Nutrition Month” was declared in May 2006 to improve nutritional practices among expectant mothers. Technical assistance and supervision of school “Mid day Meal” program was done in collaboration with the Ministry of Education. The Ministry of Healthcare was able to produce 8,692 MT of Thriposha in 2006 and the products were distributed among 715,211 beneficiaries monthly.

Table 6.24
Details of the Thriposha Program- 2000-2006

Item	2000	2004	2005	2006
Thriposha distributed (MT)	4,100	4,384	7,938	8,692
Beneficiaries	500,000	580,000	580,000	715,211
Expenditure (Rs. Million)	259	285	398	571

Source: Ministry of Health & Nutrition

Policy Initiatives

Implementation of a Medicinal Drug policy was continued through SPMC and SPC programs. SPC has launched a program to give drugs at a reduced price to elderly, children and pregnant mothers at their Osu Sala outlets. Action has also been taken to develop policies and legislations to strengthen and improve the health services in the following aspects.

- Tobacco and Alcohol Act. – This provides a comprehensive national legislation for tobacco and alcohol control. Objective of the legislation is to promote healthy life style across the life span

and to prevent and control of major Non Communicable Diseases

- Prevention of Breeding of Mosquito Act. (Dengue Control): This Act provides a legal basis to obtain public participation to control breeding of mosquitoes.
- Mental Health Policy: A national policy on mental healthcare was a long felt need. Statistics suggest that about 2% of our population is suffering from serious mental illnesses. The objective of the policy is to develop mental health services of the country and make them locally accessible.
- National Laboratory Policy: Government identifies health laboratory service as an essential component in the healthcare services. The legislation is to ensure that a good quality laboratory service be provided to the people of Sri Lanka by the state as well as private sector through achieving and maintaining laboratory standards accepted nationally and internationally.

Developments in the Provincial Health Services

Sabaragamuwa Province.- About Rs 267 million and Rs 273 million have been spent to develop health services of Kegalle and Ratnapura districts respectively. Services of the Mawanella Base Hospital were strengthened by providing a new OPD, a blood bank, a dental unit, OPD, administrative unit and medical equipment for the Operating Theater. Water supply and sanitation system in the Karawanella Base Hospital was rehabilitated. Embilipitiya hospital has been provided with a fully equipped Theater complex, a Blood Bank, Intensive Care Unit, a new mental health unit and a STD unit and Quarter,s while an Operating Theater and an Electricity Unit have been added to the Balangoda Hospital. Mobile Dental Clinics were implemented all over the province, especially in the rural areas. Further an official residence for the medical officer to the Amitirigala rural

hospital and Public Health Development Unit for Ratnapaura area were constructed in 2006. Base hospitals in Balangoda and Kahawatta, District hospital in Eheliyagoda and Rural hospital in Eratna have also been improved.

North Western Province- An OPD and a ward complex and a special treatment unit for children to the Kuliyaipitiya Base hospital (Rs 120 million), two storied OPD section to Gonagoda and Wellawa rural hospitals, new ward complexes to Rideeyagama District hospital and Nagollagama rural hospital have been provided. Also Hospitals at Nikawewa, Mahagirilla, Gokaralla, Ehetu wewa, Katupotha, Kobeigane, Puttalam, Dankotuwa, Udappuwa, Kalpitiya and Duappuwa have been improved by providing necessary buildings and equipment. A regional drug store was constructed at Madampe. 03 MOH offices were established at Wariyapola, Udubaddawa and Karuwalagaswewa. Medical equipment valued at Rs 21 million has been distributed among the needy hospitals.

Central Province -Matale District Hospital has been provided with a new operating theater complex, baby unit and an OPD at a cost of Rs 249 million. Dambulla Base Hospital has also been provided with a new drainage system, theater complex, maternity ward and residence for doctors at a cost of Rs 186 million. An OPD building valued at Rs 32 million has been constructed at the Nawalapitiya Base Hospital. In addition to deployment of 84 doctors, 07 dental doctors and 40 nurses were also deployed within the province to strengthen the healthcare service provision.

Southern Province -In the Southern Province, 12 hospitals including Base hospitals in Balapitiya, Hambantota, District hospitals in Elpitiya, Tangalle, Tissamaharamaya, Angunakolapelessa, Walasmulla, Rural hospitals in Deiyandara, Beligalla and Weeraketiya have been improved to provide better services to patients.

Uva Province - Apart from the establishment of new hospitals and rehabilitation of existing hospitals to develop healthcare facilities in the estate sector, development works necessary to upgrade Badulla Hospital is now being undertaken. In addition, two

special projects to prevent HIV/Aids were implemented.

Western Province - Watupitiwala Base Hospital has been improved by providing 3 Operating Theaters, an ICU, 2 X-ray units, and 2 medical wards. The total cost was Rs. 200 million. Construction of an Operating Theater and medical ward complex valued at Rs. 100 million for Ketumatee Hospital, Panadura is on-going. The Base Hospitals of Avissawella was also provided with a new ICU, laboratory, Physiotherapy Unit, X-ray Unit and a Health Education Unit. In addition, Base Hospitals of Gampaha and Negambo have been improved by providing necessary facilities.

Revival of the Indigenous Medical Sector

The Ayurveda sector, which was earlier confined only to treatment has now been expanded into the areas of primary healthcare and research. The upgrading of the Borella Ayurveda Hospital to the level of a Teaching Hospital and the introduction of a new Service Minute for the doctors from 1996 have resulted in a remarkable progress in the indigenous medicinal sector. Under the Osu Gammana project, 2491 farmers from 51 DS divisions are involved in cultivation of medicinal plants. These farmers earn about Rs.30 million by selling their products to the Department of Ayurveda.

Sports

Construction of international Sports Complex at Homagama has commenced with the purpose of providing sports infrastructure for holding international level games and tournaments. This complex includes internationally recognized facilities with two 400 Meters athletic tracks for training and competitions, Olympic standard 50 meters swimming pool, gymnasium, club house, tennis court, volleyball ground, football ground, and cycling track. International cricket ground is also being constructed in a 50 acre land as a part of this Sports Complex. At present, construction of the Administration building (7000 sqr feet) and the cycling track is being completed. The new pavilion was constructed at the indoor

stadium of Sugathadasa Sports Complex. Sports grounds at the divisional secretariat divisions and district level were developed in 2006. Sports medical units were established in the Kurunegala, Kandy, Galle and Kalutara districts to deliver better services to the sportsmen & women in these districts. The National Institute of Sports Science was setup recently with the aim of developing sports skills and performing necessary background for sports development.

The country performed well in South Asian Games 2006 (SAG), winning 37 gold, 63 silver, and 77 bronze medals and was placed third in rank of medal standing. The annual national sports festival was held at Sugathadasa stadium with the participation of 5,000 sportsmen and women. The Rupavahini Volleyball Tournament was held at Maharagama Indoor Stadium, with the participation of 1204 players.

Employment and Labour

High priority has been given to promote a skillful and globally competitive work force over the last few years as part of the government policy. The government invested Rs. 14,000 million to enhance productivity and skills development programs in 2006. Accordingly, around 60,000 trainees completed technical and vocational education programs at

different skills levels i.e. Certificate, Diploma, and Higher National Diploma. These programs were conducted at 220 Vocational Training Authority Centers, 38 Technical Colleges, 59 Centers under the National Apprenticeship and Industrial Training

Authority and 2 Ceylon German Technical Training Institutes etc.

Under the Youth Corp Program, 12,143 youth who have been deprived of higher education facilities were given training in 40 Youth Corp training centers to develop their full potential and promote the entrepreneur culture among them. Under the Tharuna Aruna Program 1036 graduates were given on the job training and professional training to increase their employability.

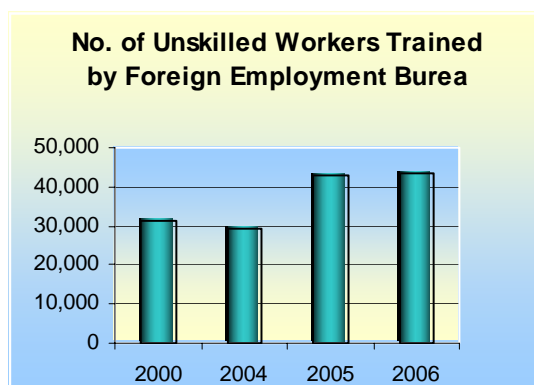
Skills development in the unskilled migrant worker category has been given high priority in 2006. Accordingly, 43281 unskilled workers were trained by the Foreign Employment Bureau. Steps have been taken to establish a Training College for training of nurses for foreign employment.

Table 6.23
Government Expenditure on Skills Development (Rs. Mn)

Agency	2000	2004	2005	2006
Ministry of Vocational and Technical Training	1283	1845	2288	2484
Ministry of Skills Development (Youth Corp Program)	-	1292	492	481
Ministry of Skills Development (Tharuna Aruna Program)	30	79	106	121
Ministry of Education (Advanced Technical Education Institutions)	168	184	195	303
Universities (Professional courses)	4658	6206	8201	10603
Total	6109	9606	11282	13992

Source: Department of National Budget

Chart 6.3



Total labour productivity in the country which was estimated on the basis of annual value addition per employee, has improved from Rs.138,300 per person in 2005 to Rs. 142,700 per person in 2006. This shows an increase in labour productivity by 3.2 percent over 2005. Some details in this regard are given in the following table.

Table 6.24
Labour Productivity, Rs.'000 Per Person

Sector	2004	2005	2006
Agriculture	70.8	77.7	73.8
Industry	161.3	152.3	154.6
Services	169.1	172.1	188.5
Total	134.0	138.3	142.7

Source: Dept. of Census & Statistics

Creating more employment opportunities

The number of total employed population in 2006 has increased by 0.3 million of which about 41, 000 were in the Public Sector. The increase in employment was spread across all three economic sectors, agriculture, industry and services. Similarly, unemployment among 15 – 19 declined to 23.1 per cent in 2006 from 33.2 per cent in 2005. Unemployment by level of education also declined in 2006. This decline was associated with the growth experienced in all three sectors of the economy during 2006. The implementation of several programs for job creation, dissemination of labour market information and career guidance programs also contributed to reduce the rate of unemployment to 6.5 from 7.4 in 2005.

The number of migrant workers also increased during the past few years and 2.8 percent of the Labour Force migrated for employment in 2006. However, unskilled foreign employment placement has decreased in 2006, by 13 percent. There was a noticeable increase of migrant workers to East Asian countries as a result of the negotiations the government has had with the governments of Malaysia and South Korea. The total private remittance of US\$ 1736 million in 2005 has also increased to US\$ 2326 million in 2006. In 2006 the National Foreign Employment Advisory Council was established to facilitate the returnee migrant workers to engage in productive economic activity on their return to Sri Lanka and to lower the adverse social effects of married female migration. About Rs. 60 million was pent to improve the welfare of the children of the migrant workers.

Table 6.25
Departures for Foreign Employment

Year	2000	2004	2005	2006
Middle East Countries	194,344	205,044	216,678	186,781
Others countries in the Region	8,431	8,368	10,178	11,975

Source: Sri Lanka Foreign Employment Bureau

Strengthening labour relations

Promotion of labour relations to enhance flexibility of the labour market and decent work environment was undertaken in the sphere of labour relations as major objectives. In 2006, a national program on decent work was prepared with tripartite representation to cover functions relating to the fields of rights at work, social dialogue, workplace cooperation and social security was carried out. There was a significant decrease in the number of strikes in the public and private sector, and 2006 recorded the lowest in the past six years. A major reason for this improvement could be the increase in the number of collective agreements adopted for wage bargaining. Collective agreements signed between employers and trade unions maintained better social dialogue at the work place to improve industrial harmony.

Table 6.28

Year	2000	2001	2002	2003	2004	2005	2006
No. of strikes launched	87	92	104	98	90	57	52
No. of collective agreements	40	49	32	24	58	41	42

Source : Industrial Relation Division, Ministry of Labour Relations

In addition existing labour laws were suitably amended to strengthen the labour relations.

- Amendments were made to the Industrial Disputes Act (IDA) No.43 of 1950 and Termination of Employment of Workmen Act (TEWA) No.45 of 1971. Accordingly, the period of time allowed to appeal to the Labour Tribunal or to the Commissioner of Labour has increased from 3 months to 6 months giving more time to workers to appeal after termination of employment.
- Amendment to the Employment of Women, Young Persons and Children Act No. 47 of 1956 to restrain persons below the age of 18 years from being employed in hazardous occupations.

In order to systemize the foreign employment industry Memoranda of Understanding were signed with Jordan, UAE and Lebanon in order to minimize the undesirable foreign employment situations such as physical harassments, non payment of salaries, disallowing of returning to Sri Lanka after the completion of the specified period of contract, etc.

Poverty Reduction and Regional Development

The national poverty level is 23 percent in terms of poverty headcount ratio. This means around 4.6 million people are living below the poverty line. Poverty is by and large a rural phenomenon and mainly explained as the inability of the rural economy to provide adequate livelihood opportunities to the local communities in a

sustainable manner. The government implemented social security and livelihood development programs to address poverty related issues.

Samurdhi Program

The Samurdhi program is the major poverty reduction program of the country. Even though 23 percent of the population lives under the poverty line, 40 percent of the population receive direct cash transfers from this program. Samurdhi still misses a large portion of the poorest of the population. At present there is no entry and exit mechanism enabling the poor people to enter in to the program and to exit where the income has gradually increased through livelihood support programs.

Table 6.29
Samurdhi Program

Years	The number of Samurdhi beneficiary families	Expenditure in (Rs. Mn)
2002	1,887,237	9,920.1
2003	1,876,760	8,756.4
2004	1,864,058	8,497.6
2005	1,860,265	8,960.5
2006	1,925,327	10,549.5

Source: Department of Samurdhi Commissioner General

During 2006, the number of beneficiaries increased by 65,000 families and the expenditure increased by Rs.1,589. This increase was mainly due to a 50 percent increases on cash transfers in selected 119 poorest D.S divisions.

Development of Lagging Regions

The growing urban rural gap hinders the sustainable economic growth in the country. Due to a number of interrelated constraints the poorest of the population is being prevented from access to opportunities in the more dynamic sectors in the economy. These constraints include inadequate connectivity to growth centers, lack of electricity, transport facilities, access road network, poor quality of schools and inadequate access to safe drinking water and sanitation facilities.

The government has given high priority to arrest this unfavorable situation. The policies and strategies of social protection, human settlements and urban improvement have been developed in such a way that poor communities would have more opportunities to engage in productive economic activities. Self employment opportunities, self-help housing initiatives, improvement in under-served settlements, improving linkages to rural and peri-urban markets and environmental management are the major elements associated with these sub-sectoral strategies.

Gama Neguma

The Gama Neguma program covered four major operational areas:

- promotion of income generating activities,
- ensuring provision of basic needs to the poor communities,
- improvement of rural and regional infrastructure, and
- community empowerment.

Around 15 projects covering agriculture, industry, information technology, livelihood development, infrastructure facilities and water supply and sanitation were implemented under Gama Neguma in 2006. In the first phase, 119 DS Divisions were selected on the basis of severity of poverty incidence.

Rural Infrastructure

Development of rural infrastructure is one of the priority areas under the Gama Neguma Program. Rural road rehabilitation activities aiming at

increasing access of villagers to towns and market centers have been implemented island wide under Maga Neguma Program. During 2006, 1,733 km of rural roads have been rehabilitated at a cost of Rs 1,800 million. Under Gam Pubuduwa program, 12,840 rural infrastructure sub-projects in the sectors of rural roads, water supply and irrigation have been completed at a cost of Rs 673 million. Rural water supply schemes covering 314 Grama Niladari (GN) Divisions benefiting 360,000 persons and 9,295 sanitation projects covering 521 GN Divisions were completed under the Community Water Supply and Sanitation Project. The total cost incurred was Rs. 1,875 million. Gemidiriya Project, which was aimed at improving infrastructure facilities at village level, was in operation in 535 villages covering 7 districts. The total number of sub-projects undertaken during the year was 39 and 2,300 families have benefited from this. 222 tanks and anicuts schemes were rehabilitated under the Dahasak Vew program.

Rajarata Navodaya in the North Central Province and Pubudamu Wellasa in Uva Province with the objective of providing area specific infrastructure needs, covered rural roads, electricity schemes, water supply schemes in those areas.

Housing

Several initiatives have been undertaken to improve housing facilities of the people. Jana Sevana is the national housing development program implemented islandwide. Construction of 6,800 and 450 houses respectively have been completed under the housing loan scheme and Grant Assistance schemes of the NHDA in the districts of Badulla, Hambantota, Ampara, Monaragala, Galle, Matara and Kurunegala. 1,485 housing units were constructed under the Sevana Piyasa and Shrama Piyasa housing programs. Free roofing materials were provided for approximately 20,000 housing units.

Livelihood Development

Several livelihood development programs with the aim of opening up new income

generating activities as well as increasing productivity and thereby the income from existing activities were carried out. Under the Kiri Gammana Program, establishment of 110 new dairy villages and improvement of facilities in 120 existing dairy villages have been undertaken. This has helped in raising incomes of 12,900 dairy farmers in rural areas. Under the Karmantha Gammana Programme, 273 industrial villages were established. Technology transfer programmes have been conducted for rural industrialists in these villages and the number of beneficiaries is around 11,000. Three new industrial estates were established in Kuruwita, Ulapane and Laksha Uyana in Pollonnanaruwa with all necessary infrastructure. Osu Gammana Program was able to provide assistance to 2,500 farmers in 51 DS Divisions to cultivate herbal plants and establish herbal gardens (Osu Uyan) 10 acres in extent in Haldummulla, 50 acres in Nikaweratiya and 100 acres in Girandurukotte.

There were several other livelihood support activities such as micro credit programs, grant assistance and skill development programs. Under the Jana Pubuduwa Program micro credit facilities were provided to 820 beneficiaries covering 209 villages to commence self employment activities. Gemi Diriya project provided grant assistance to 2,316 poor families to commence livelihood activities and skills development training for 1,150 youths was also done. Under the Rajarata Navodaya, equipment was provided to 430 self employees and financial assistance to 250 dairy farmers.

Plantation Community

National Plan of Action (NPA) to ensure social development of the plantation community, covering a ten year period from 2006 to 2015 has been formulated. The overall goal of the NPA is to reduce the poverty level and improve the standard of living of the plantation community as a priority target group. Within the ten year time frame the following objectives are to be achieved.

- Reduce the poverty level of this community by half
- Improve the living standards of this community to be on par with those of other communities.

- Secure their political, social and economic rights.

The plan covers areas of health, education, housing, estate roads, water supply and sanitation, electricity, vocational training, community development and gender equity. The Ministry of Estate Infrastructure has been provided with Rs 2,000 million to implement the programs mentioned in the NPA.

Housing, Water Supply and Sanitation and Supply of Electricity

One of the basic requirements of the people living in estates is housing. The present housing situation is unsatisfactory, as the available line rooms are in dilapidated conditions and over crowded. 160,000 housing units are to be constructed with the provision of drinking water, sanitation and electricity. Rs.650mn has been allocated to construct 10,530 housing units in 2006. However, during the year 4,510 units were constructed at a cost of Rs.574 million. Nearly 2500 housing units were provided with electricity under the 38 power supply projects implemented in the estates. The total expenditure incurred for this electrification program was Rs.52mn. Steps were taken to supply pipe-borne water to houses, from natural springs. 83 water supply projects were completed and around 2,500 families benefited from this program. The total expenditure incurred was Rs.19mn.

Estate Roads

To ensure access to town centers to meet the day-today needs of the estate community, the existing road network has to be rehabilitated. Around 8,000 km of estate roads and 200 km of link roads require urgent repairs to ensure convenient mobility within estates and to and from outside. During the year, 630 km of roads were rehabilitated at the cost of Rs.1,033 million.

Education and Health in the Estate Sector

The quality of schooling, literacy rate and educational attainment of the estate population lag behind those of the rest of the population. Weak pre-school education,

inadequate facilities and shortage of teachers in schools contribute to the low attainment level of the students. Rs 233 million was incurred to construct school buildings and class rooms and to provide equipment and sanitation facilities to overcome some of the deficiencies.

Health indicators of the estate sector too, are well below the national average. The infant and maternal mortality rates and malnutrition among pre-school children are more than double in comparison with the all-island rate. At present, basic health services are provided by the estate management. The government has undertaken management of 23 estate hospitals. During the year a provision of Rs.50 million has been made to construct hospital wards and for the renovations of hospitals. In the preventive field, administrative areas of MOH, Public Health Inspectors and Midwives in the estates were re-demarcated according to the national norms to provide better access.

Vocational Training

With the intention of empowering the estate youth with knowledge and skills and to motivate them to engage in self-employment and other vocations, 33 vocational training programs have been conducted in selected plantation districts. Around 1,500 youth were trained under this program.

Development of terrorist Affected Areas

Relief program

In the first half of the 2006 around 130,000 displaced families were provided dry rations. This number was increased to 175, 0000 families by end of the year due to escalation of terrorist incidents. During 2006, the government maintained 235 welfare centers with 19,000 IDP families. The number of families that received dry rations and the expenditure incurred during the last five years, are given below.

Table 6.30
Assistance to displaced persons

Year	Number Families Received Dry Ration	Expenditure Incurred in (Rs. Mn)
2002	245,000	2535
2003	241,000	2551
2004	234,000	2400
2005	123,000	2152
2006	173,500	2396

Source: Essential Services Division Ministry of Nation Building

North - East Community Restoration and Development Project - Phase II (NECORD II)

- In 2006, Rs.1, 319 million was allocated for the implementation of 206 sub-projects in education, health, irrigation, water supply and sanitation, social welfare, shelter, fisheries, road sectors
- The Kilinochchi District Hospital rehabilitation work had been completed at a cost of Rs.281 million.
- 4 MOH offices and quarters were constructed in the Districts of Trincomalee, Vavuniya, and Ampara.
- 20 ambulances, 15 tractors and 06 other purpose vehicles were provided to hospitals and institutions.
- 1,486 class rooms were constructed in the Northern and Eastern provinces.
- 11 teacher quarters and 50 principals' offices were constructed in all eight districts.
- 43,139 students and 1408 teachers benefited under the furniture supply program.

North East Irrigated Agriculture Project (NEIAP) - 2nd Phase

- Main focus is to rehabilitate 5 major irrigation schemes in the North and East:
 - Karavahu in Ampara,
 - Rugam in Batticaloa,
 - Allai Tank in Trincomalee,
 - Giants tank in Mannar and
 - Iranaimadu tank in Kilinochchi Districts
- Cost: US \$ 80mn over 5 years
- 2006 activities: Rs 1,050 mn allocated for strengthening of 1000 Community Based Organizations (CBO), rehabilitation of 5 major tanks and 237 minor irrigation schemes, construction of 720 drinking wells and 237 multipurpose buildings.
- Four (4) Regional Engineers' Offices were also constructed in Ampara, Baticaloa, Kilinochchi and Mannar Districts.

North East Housing Reconstruction Program

- Main focus is to assist reconstruction of 35,000 houses during the period 2005-2008.
- 4,500 houses were reconstructed and 5,500 units are in progress.

Pro-Poor Economic Advancement and Community Empowerment Project

- This is designed to rehabilitate 9 major irrigation schemes, namely Borapola tank in Ampara, Pulugannawa tank in Batticaloa, Kurankupanchan Kulam & Morawewa tanks in Trincomalee, Mamaduwa tank and Anampankulam tanks in Vavuniya, Thadchanamaruthanmadu in Mannar, Akkarayan kulam in Kilinochchi and Tenniyan Kulam in Mullaitivu Districts.
- In 2006 Rs 812 million was allocated for these activities.

HSBC UK Loan Assistance Program

- Rs.421 million has been allocated for the construction of sub-structures for 25 steel bridges in the North and East and the adjacent Districts.
- 14 bridges have been completed and the construction of 11 bridges are behind schedule due to prevailing security situation.

Food and Nutritional Assistance

- During 2006 the World Food Program provided a sum of Rs.1,465 million for the provision of food.
- Under the Mother and Child Nutrition program 270,000 pregnant mothers, lactating mothers and children benefited in 13 Districts.
- Under the Food for Education Program 400,000 school children were provided with mid day meals.
- Under the Food for Internally Displaced Persons program 100,000 IDPs families received food assistance in 7 Districts.
- 39,000 MT of mixed food distributed among the beneficiaries.

North East Coastal Community Development Project

- In 2006, Rs.536 million was allocated for sustainable livelihood improvements in Trincomalee, Batticaloa and Ampara Districts
- Resources management in 3 special management areas (Trincomalee Bay, Batticaloa Lagoon and Southern Ampara Bio Diversity Zone).
- Coastal resources planning and fisheries development.
- Preliminary work commenced on rehabilitation of the Valachchanai fisheries harbour development under the fisheries development programs.

North and East Recovery Program

- Rs.100million was allocated for the payment of a resettlement allowances of Rs.25,000 each to resettle 4,000 IDP families living in welfare camps or with friends and relatives.
- During 2006, 3,857 families were provided livelihood assistance in 7 Districts:

Table 6.31

Districts	Number of Resettled Families
Jaffna	486
Kilinochchi	1,200
Mullaitivu	310
Mannar	919
Vavuniya	263
Trincomalee	250
Batticaloa	438
Total	3,857

Source: Ministry of Nation Building

Technical Co-operation for Agriculture and Rural Development

- Rs.78.5 million was allocated for strengthening of community based organizations, improvement of rural infrastructure and enhancement of agriculture technology in 6 model villages in Morawewa, Thampalagamam and Kuchchaveli DS Divisions in the Trincomalee District.

Program	Achievements
Establishment of village level Elders Committees	<ul style="list-style-type: none"> 1,380 committees have been established. Of this 814 committees were given financial assistance worth Rs. 5000 per month.
Issuing Identity Cards	<ul style="list-style-type: none"> 58,352 ID cards were issued.
Establishment of Day centres and provision of grants for income generating activities	<ul style="list-style-type: none"> 11 Day centres were financially assisted 65 Day centres were newly opened
Training programs and awareness program.	<ul style="list-style-type: none"> 78 awareness programs were conducted for village level elders committees 07 pre-retirement training programs were conducted 03 training programs were conducted for Central Government and Provincial Social Services Officers. 04 exercise training programs were conducted
Conducting medical clinics issuing eye lenses and assistive devices	<ul style="list-style-type: none"> 614 eye lenses were issued 24 medical clinics were conducted 5,919 spectacles were issued 10 hearing aids were issued

Jathika Saviya Program

Rs. 305 million was allocated for infrastructure facilities to ensure the security of affected people and for them to remain in their place of origin in Coverage: Anuradhpura, Puttalam, Polonnaruwa, Trincomalee, Ampara and Monoragal Districts were covered.

Assistance to Differently Able People

There are approximately 280,000 differently-abled people in the country. The Department of Social Services and the National Secretariat for Persons with Disabilities are the main agencies entrusted with the protection and promotion of rights of disabled persons.

Programs implemented in 2006

Programs	Activities
Housing Assistance	<ul style="list-style-type: none"> A person with disabilities receives a maximum of Rs. 50,000/- for construction of a house, renovations or purchase of materials for constructions. 517 disabled persons were provided housing assistance worth Rs.12.6mn.
Accessibility	<ul style="list-style-type: none"> This program incorporates barrier-free features as a standard requirement in all new construction and renovation designs & plans. Financial assistance provided to construct toilets with accessibility facilities in homes of disabled and public places.
Medical Assistance	<ul style="list-style-type: none"> Medical assistance granted to patients suffering from heart, kidney and other chronic diseases. Rs. 2.4 million. was spent on medical assistance benefiting 178 patients in 08 Provincial Council areas.
Self Employment Assistance	<ul style="list-style-type: none"> This program aims to raise living standards of persons with disabilities. A person with disabilities gets a maximum of Rs. 100,000. Rs. 0.7 million. was spent on this program benefiting 77 disable persons.
Assistive Devices	<ul style="list-style-type: none"> Assistive devices such as spectacles, wheel chairs, tricycles, crutches and elbows etc. were provided to 7,137 persons. Rs. 1.1 million. was spent for the program.
Vocational Training	<ul style="list-style-type: none"> Vocational training is provided for persons with disabilities. Funds allocated to construct "Rakawarana Niwasa"

Human Settlements Development

The policy objective of the Government is for every family to have their own house in a decent living environment. To achieve this, the Government has launched an islandwide housing development program that includes: identification and provision of suitable land, construction of condominium apartments, relocation of slum and shanty dwellers, concessionary housing loan schemes for low-income housing, and provision of roofing sheets for poor families. Private developers are provided with various incentives to cater to the housing needs of the higher income groups. In addition, the housing financing market is provided with necessary support in order to ensure that sustainable home lending programs for middle level income earners are effectively implemented.

Affordable Housing for Low-Income Families

The National Housing Development Authority (NHDA) uses internally generated as well as Treasury funding to address the housing needs of poor and low-income families. The main programs and achievements of the NHDA are summarized below:

Table 6.32
Housing Assistance to Low Income Housing

Program	Estimated Housing Units	Investment (Rs.mn.)	Completed Housing Units - 2006
Housing Loan	7,322	400	6,800
Housing Grant	1,198	100	450
Sevana Piyasa	625	23.2	513
Shrama Piyasa	1,000	7.8	972
Roofing Materials.	20,000	8.72	20,396

Source: National Housing Development Authority

Housing Finance Schemes for Middle-Income Families

The State Mortgage and Investment Bank (SMIB) and the Housing Development Finance Corporation Bank (HDFC) provide loan facilities for construction of new houses, improvement and augmentation of the existing houses, and purchasing of land for construction of houses by lower-middle income families. The performance of these respective housing loan schemes in 2006 is summarized below:

Table 6.33
Assistance to Middle Income Housing

Loan Scheme	No. of Loans	Amount Disbursed (Rs. Million)
Estate Sector Loans	2,920	105.3
EPF Loans	5,858	878.0
Group Loans	1,277	562.3
Mortgage Loans	2,645	676.4
Total	12,700	2,222.0

Source: State Mortgage and Investment Bank

Table 6.34
Assistance to Middle-Income Housing

Loan Scheme	No. of Loans	Amount Disbursed (Rs. Million)
EPF Loan Scheme	3,650	580.0
General Loan	3,082	850.0
Guru Sevana	3,097	291.0
Loans Based on Personal Guarantee	1,072	138.0
Private Sector Low Income People	873	225.0
Government Servant	856	452.0
Local Government Employees	420	41.0
Home Loan Program	207	25.0
Loans for Agrarian Services Dept.	196	19.0
Loans for Grama Niladhari	50	4.8
LECO EPF Program	51	23.0
LECO General Program	31	15.0
Thilina Loan Scheme	32	8.9
Loan Against Cash Deposit	29	11.0
Doctor's Loan Scheme	5	1.5
Others	38	16.5
Total	13,689	2,701.7

Source: Housing Development Finance Corporation Bank

Re-location and Re-Housing Facilities for People in Under-Served Settlements

- Under "Pelin Mandira Housing Programme" of the Ministry of Urban Development and Water Supply, the Real Estate Exchange (Pvt) Ltd. (REEL) has been entrusted with the development of facilities and services and relocation of slum and shanty dwellers. The program's primary

aim is to integrate dwellers in these underserved urban settlements into the mainstream of the society through re-housing schemes that meet the latter's aspirations for housing that includes all necessary infrastructure and service facilities and provide a livable environment. The projects implemented in 2006 included:

Table 6.35
Re-locations

Name of the Project	Extent of Land (Perches)	No. of Units	Investment (Rs.mn.)	Allocation for Year 2006 (Rs.mn.)
Re-housing				
1. 48 Watta - Baseline Rd., Colombo 8	160	120	129.50	129.50
2. Wadulla watta - Kolonnawa	100	80	79.02	49.41
3. Cyril C. Perera Mw., Colombo 15	142	230	313.10	180.44
4. Weligoda Land - Mattakkuliya	550	480	510.82	127.66
Sub Total	952	910	1,032.44	487.01
Up-market sale				
5. St. Sebesthian Street, Colombo 12	41	54	-	0.50
6. Sri Vajiragnana Mw., Dematagoda	58	54	-	0.50
7. Pelangasthuduwa, Borella	381	350	-	3.00
8. Bosevana, Borella	72	100	-	2.00
Sub Total	552	558	-	6.00
Grand Total	1,504	1,468	1,032.44	493.01

Source: : Urban Development Authority

Urban Development

Project	Progress
Township Development	• Physical plans for 20 townships were prepared.
Greater Hambantota Development	• Project Planning Completed.
Greater Dambulla Development Program	• Physical plans have been prepared and implementation of some activities has commenced.
Beira Lake Development	• First stage has been completed at a cost of Rs. 325 million.
	• 1,000 families who are presently living in substandard houses around the lake are to be relocated at Dematagoda.
Maintenance of Canals	• The SLLRDC undertook maintenance work of the Colombo canal system at a cost of Rs. 58 million.
Colombo Canal System Water Quality Improvement Project	• A housing project at Modarawila was started at a cost of Rs. 230 million.
Urban Settlement Improvement	• About 141 underserved settlements have been upgraded benefiting around 25,585 families.
	• 60 houses at Borella to relocate slum and shanty dwellers were completed by REDECO.
	• Commenced construction of 49 houses and 02 community centers at Wadullawatta in Kolonnawa.
	• Commenced construction of 230 houses at Cyril C. Perera Mawatha Mattakkuliya.
Lunawa Environment Improvement and Community Development Project	• Commenced works relating to improvement of 6 bridges, 75 culverts, 30 km of canal bank roads and 4.2 km. long peripheral road and linear park around the Lunawa Lagoon.
	• Resettled 567 affected families.
	• Upgraded infrastructure in 15 under served settlements.
Panchikawatta Triangle Development	• First stage of the relocation programme has commenced
Independence Square Development	• Commenced work of re-development of 65 ha. in Independence Square.
Sri Jayawardenapura Kotte Administrative Complex (Sethsiripaya Stage II)	• Initial work commenced.
Horana Growth Center Development	• Town center re-development was started. This includes development of the main bus terminal at the town center together with commercial activities.
Sacred Area Development	• Developed 13 temples and a church at a cost of Rs. 74 million.
	• Constructed a Pilgrims Rest at Sanchi, India.
	• Commenced the work on International Buddhist Conference Hall at Vidiyalankara Pirivena, Kelaniya.
	• Commenced construction of International Buddhist Library at Anuradhapura.
	• Commenced landscaping of Sri Maha Bodhi environs.

Post Tsunami Reconstruction

The progress of housing in the South and West has been remarkable, recording an 89 percent completion rate. The slow progress of construction in the North and some parts of East is mainly due to the terrorist incidents in those areas. North indicates 22 percent of housing completion whereas East shows 43 percent. It is important to note that nearly 50 percent of damaged houses are located in the East. Permanent housing is constructed by the owners themselves (*Home Owner Driven Program*) through government grants or by

donors and others (*Relocation Housing Program*). In most instances, the government provides the land and the infrastructure facilities. At the end of two years 80 percent of the completed housing (46,531) comes from the Owner Driven program and 20 percent (14,488) comes from the Relocation Housing program.

15,342 houses are in various stages of construction under the Relocation program. It is expected that most of these houses will be completed in 2007.

Challenges, problems and issues include: equity issues, effective communication strategies for entitlements and grievance redressal mechanism, provision of appropriate land and infrastructure, beneficiary lists for new resettlement areas, development partners' lack of experience in construction, handling of environmental issues, issues related to land titles and coordination between stakeholders

Between the different sub-sectors of livelihood, fisheries activities record 70 percent restoration, agriculture about 80 percent and micro, small and medium enterprises indicate 90 percent restoration. Recovery varies by geographical region too, particularly in the North and East where Tsunami recovery is severely impacted by the escalating violence. While in the South livelihoods recovery is reaching the development stage (although substantial further long-term economic development is still required), livelihood solutions necessary in terrorist affected areas are still short term (cash for work and cash grants). Furthermore, under the prevailing conditions, donors and the private sector are reluctant to make a long term investment in these areas. Identification of genuine beneficiaries continues to pose problems and proper needs assessments and data management in this field need to be improved to prevent duplication and ensure assistance to all eligible individuals.

About 25 percent of the health buildings completed in 2006 and other buildings are at different stages of construction. It is expected that all the buildings will be completed during the next year. On the other hand, the *education sector* still has gaps in funding. 183 schools suffered damage caused directly by Tsunami, whereas an additional 444 schools suffered damage due to occupation by displaced families. 200 schools (mostly IDP schools) need funding for rehabilitation. At the end of 2006 only 10percent of the directly damaged schools and 9percent of the indirectly affected schools have been reconstructed. It is expected that most of the buildings will be completed in 2007 with a few of them spilling over to 2008. Key achievement of the *social protection* includes the construction of 4 out of 15 social care centers. The Fit Person Ordinance Act which was passed

in 2006 gives the Tsunami orphans caregivers the legal status as foster parents and provides special allowances. The Disaster Relief Monitoring Unit (DRMU) of the Human Rights Commission (HRC) has set up Helpdesks to address the grievances of the affected population.

The *Road Development Authority* was successful in mobilizing sufficient resources for reconstructing the roads in the coastal areas. Nearly 133 Km of the affected roads and 5 major bridges on A2 from Kalutara to Matara have been completed. All the other road constructions are in progress and is expected to be completed in end 2008. The Eastern Province bridges such as Komari bridge and causeway (A004), Periyakallar Causeway (A004), Koddakallur Causeway (A004), Kallady bridge (A004) and Oddaimavadi bridge (A015) are in progress. Most of the buildings will be completed by end-2008. The main problem is the escalating costs of reconstruction. The *Railways* was able to complete all the immediate reconstruction work related to buildings, track, signals, locomotives and rolling stock. 75 percent of railway building construction is completed. A credit line from India is being negotiated to rehabilitate the Colombo-Matara railway line. The *Ceylon Electricity Board* has provided power supply to nearly 18,000 new households and is making arrangements to provide new connections to over 20,000 projected households in the coming year. The damage to Galle Port has been completely restored. Maritime donors have assisted the port to replace channel marking buoys of Trincomalee, Galle and Colombo and also repair/refurbish the Kirinda lighthouse. The *Postal Department* has normalized its services in almost all the areas affected. The challenge lies in linking the new Tsunami settlements.

Disaster Mitigation and Risk Management

The Government has taken several steps to ensure a safer country with low risks of natural disasters through the implementation of effective disaster mitigation programs, making the people aware of possible natural disasters

and timely dissemination of relevant information to the public.

The Sri Lanka Disaster Management (DM) Act, No. 13 of 2005 was enacted in May 2005 and the National Council for Disaster Management (NCDM) was established as the leading body for disaster risk management in Sri Lanka as per the DM Act. A National Disaster Road Map, a ten-year master plan for risk management was compiled and a National Policy for Disaster Risk Management in Sri Lanka established.

At National Level

- The National Policy for Disaster Risk Management has been developed.
- National Safety Day Activities were implemented on 26th December 2006.
- Networks/agreements were established with a number of key partners such as the Youth Service Council, Samurddhi Movement and Dialog GSM to get assistance in an emergency situation.
- Initial steps have been taken to establish three Tsunami Early Warning towers established with the assistance of UN ESCAP. The first tower has been established in Hikkaduwa and initial work has commenced with respect to establishment of others in Kalmunai and Jaffna.
- Eight (8) Awareness Workshops for Government officials, Department Heads ,INGOs and NGOs in the District of Colombo, Gampaha, Puttalam, Kalutara, Galle, Matara, Hambantota and Trincomalee were implemented.

- The Disaster Management Center established 9 District Disaster Management Units in Colombo, Gampaha, Kalutara, Galle, Matara, Hambantota, Puttalam, Trincomalee and Ampara Districts with staff released from tri service personnel and the Special Task Force. The objective of these units was to coordinate the disaster management activities.

Special Projects

- National Emergency Response measures were implemented during time of floods in October 2006 in the districts of Puttalam, Gampaha, Colombo and Kalutara.
- When an oil tanker sank in Galle, the District Disaster Management Unit was involved in implementing activities to minimize damage to the sea, coastline and natural habitats.
- Two fiberglass boats with 15hp outboard motor were provided to Ratnapura District Secretariat to strengthen the preparedness and response capacity with respect to floods.
- Rainwater harvesting facility was established for the beneficiary communities in Yodakandiya, Tissamaharama and Hanguranketa.
- Establishment of natural barriers along the coast has started. In the Moratuwa coastal line 60% of the work has been completed and in coastal lines of Gampaha and Matara Districts, preparation of land is in progress.

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Chapter 7

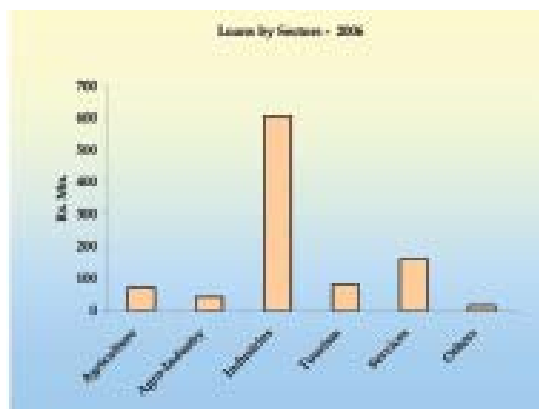
Development Finance

The Ministry of Finance and Planning through the Department of Development Finance facilitated the development of the micro, small and medium enterprises in several ways in 2006.

SME Development

The **Lankaputhra Development Bank** was established in August 2006 with a view to providing loans to the small and medium sectors who are not able to provide collaterals. The Bank has so far released approximately Rs. 300 million among 120 projects creating nearly 4000 new jobs for unemployed youth in the country. These loans are backed by a government guarantee, which resulted in a large clientele.

Chart 7.1



The SME Bank, was established as a Licensed Specialized Bank mainly to assist the small and medium scale entrepreneurs through the provision of credit facilities. The operations of the bank commenced in June 2005. Since then the bank has granted 904 loans up to December 2006 amounting to 356 million. The sectors covered are the grinding mills, chemicals & plastics, textiles, construction, furniture, machinery & equipment, leather, wood, paper and printing, other food crops, metal products, agriculture, real estate, mining and quarrying,

fishing education, health, food and beverage, dairy products, and transport equipment.

About 300 paddy millers have been assisted to obtain loans from the commercial banks to purchase paddy from farmers.

In view of the large number of small farmers engaged in prawn farming, a moratorium was arranged through the financial institutions enabling them to revitalize their industry. Necessary funds have also been provided to the National Aquaculture Development Authority for the Dutch Canal Rehabilitation Programme and the disease control measures for prawn farmers.

Further, arrangements had been made to exempt the prawn feed and equipment from VAT and duties. As a result, the export income of the industry has been increased from US \$ 3 million in 2005 to US \$ 6 million in 2006.

Continuous dialogue with the trade chambers to remove regulatory barriers such as tariff, single borrower limits in the product market have resulted in resolving nearly 200 such issues enabling entrepreneurs to make their businesses viable.

The National Development Trust Fund

The National Development Trust Fund (NDTF) was formed to provide assistance enabling promotion of sustainable income generating opportunities such as productive self employment, micro enterprises and rural enterprise development. Towards the end of 2004, NDTF (Trust) had terminated its lending operations as those functions had been transferred to the NDTF Company. As at December 2006, NDTF Company had an asset base of Rs. 1,696 million.

The NDTF Company operates a re-finance loan scheme through Partner organizations, consisting, the Rural Development Banks (RDBs), Co-operative Rural Banks (CRBs), Thrift and Credit Co-operative Societies (TCCS) and NGOs while separate direct lending schemes are also being operated under ADB projects for Tsunami Assistance through NGOs.

The scope for expanding microcredit programs for targeted poor is quite substantial and NDTF Company has covered a significant portion of the microcredit market in Sri Lanka. With a view to promoting microfinance for alleviating poverty, NDTF Company has released Rs. 1,583 million benefiting 54,248 households for micro enterprises such as agriculture, animal husbandry, small business, poultry farms, small industries and services throughout the country.

Consolidation of Development Banking

The 2007 budget proposed the consolidation of the SME bank and the National Development Trust Fund with the Lankaputhra Development Bank with a view to creating a premier development bank to facilitate development of emerging local entrepreneurs. The proposed bank will mainly cater to the demands in the areas of infrastructure, small and medium enterprises microfinance and development banking. The consolidation process is expected to be completed by June 2007.

Microfinance

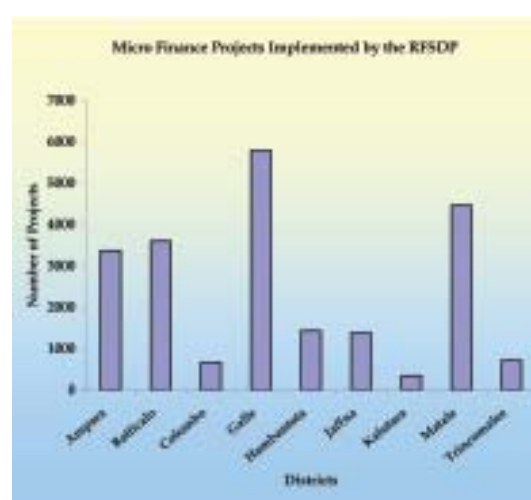
The microfinance sector has been identified as an instrument for livelihood promotion in accelerating growth. The implementation of the Rural Finance Sector Development Programme funded by the Asian Development Bank (ADB) plays a vital role in this effort. This project is designed to establish sustainable rural finance systems through policy adjustments and improve the operations of the Rural Finance Sector Institutions (RFIs) by providing training in rural finance, efficient service delivery, sector supervision, and outreach expansion.

Under this programme the institutional strengthening plans have been developed for the Samurdhi Authority, National Development Trust Fund and Co-operative

Rural Banks (CRBs) to enhance their accounting and auditing standards, product development, management information system and rural banking. Training in the same subjects was offered to about 9000 staff members of these agencies to enhance their capabilities in handling micro credit disbursements. As a result, National Development Trust Fund has released Rs. 534 million among 21,827 micro enterprises, under the programme so far. Around 25 Cooperative Rural Banks have become fully independent in terms of business delinking as envisaged. A sum of Rs. 800 million has been released to the Rural Economy Resuscitation Fund to be utilized for community based infrastructure projects. As of December 2006, 70 such projects have been completed in the rural areas.

A census on micro enterprises was conducted to assess the magnitude and performance of the micro finance institutions. The draft Act on Micro Finance Institutions has been prepared to provide the regulatory and supervisory functions and also to enhance the participation of all microfinance-non-governmental organizations (MF-NGOs) and other private sector initiatives in rural finance. The Act has now been finalized and will be presented in Parliament. The development of a microfinance policy has also been initiated. In view of these achievements, a sum of US \$ 20 million has been facilitated by the ADB to the Treasury for structural adjustment component.

Chart 7.2



Source: Progress Report - 2006, NDTF

The project funded by the ETIMOS bank of Italy to mobilize money to micro enterprises in the Tsunami affected areas has released Rs. 100

million, 35 million, and Rs. 40 million to the Uva Regional Development Bank, Sanasa, and the NGOs respectively. With the support of this fund 1,150 projects have been started in the districts of Ampara, Galle, Hambantota, Matara and Kalutara.

A micro-the insurance project has been conceived with the technical assistance of ADB to improve the risk mitigation and reduce vulnerabilities of the poor and low-income households by facilitating access to affordable life and general insurance products. As of now, this project provides the direction in which the government, the insurance industry, MFI-NGO and grass root based organizations should proceed in order to gain a better understanding of micro-insurance as an effective means of poverty reduction. The market research was conducted to identify the demand for micro insurance products. The findings of the research revealed that the vulnerable groups preferred life insurance (health, death, and accident) over property insurance.

Reopening of Closed Factories

Reopening of Closed Factories programme was initiated through a budget proposals to provide financial assistance to revive closed factories through the Lankaputhra Development Bank. The programme provides financial assistance to settle their tax liabilities, provident fund, gratuity payments and also immediate requirements of working capital for reopening the factories. The programme envisages reopening about 30- 40 garment factories in the first instance, providing about 10,000 job opportunities. The restructuring process of closed factories has commenced.

Textile Debt Recovery Fund (TDRF)

TDRF was created to help the textile manufacturers to overcome their inability to settle loans taken for textile manufacturing. The collaterals of their manufacturers were in the custody of commercial banks and financial institutions under the TDRF loan scheme, which was detrimental to the growth of the investment in the sector. In view of this, approval of the Cabinet was obtained to release collaterals and write off the loans taken by manufacturers enabling them to recommence their businesses. As of December 2006, 113

textile-manufacturing entrepreneurs have recommenced their businesses due to this relief.

Paddy Purchasing

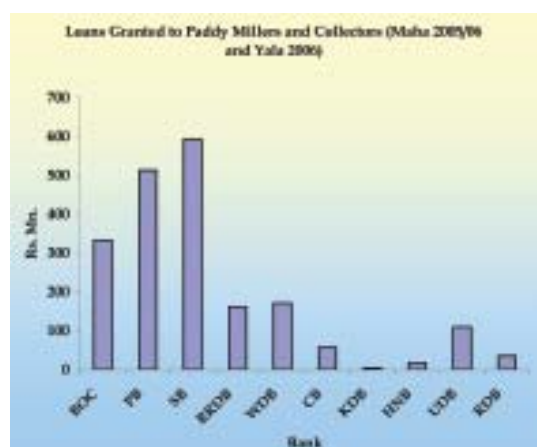
With the aim of providing a reasonable price, the Government continued to purchase of paddy in the Yala and Maha seasons. Rs. 3 billion was released to the District Secretaries in the districts of Ampara, Polonnaruwa, Anuradhapura, Hambantota, Kurunegala, Badulla, and Monaragala with the assistance of the Department of Treasury Operations. Commercial Banks were also encouraged to mobilize Rs. 2 billion for the same purpose. This effort helped purchase about 10 percent of the total paddy production in 2006 while ensuring a remunerative price for the farmer. Table 1 indicates the amount released by banks in the Maha season (2005 /06) for this purpose.

Table 7.1
Loans Granted to Paddy Millers and Collectors (Maha 2005/06 - Rs. Mn.)

Bank	Maha	Yala	Total
Bank of Ceylon (BOC)	268.00	65.33	333.33
People's Bank (PB)	251.55	262.00	513.55
Hatton National Bank (HNB)	305.50	288.00	593.50
Commercial Bank (CB)	115.25	47.15	162.40
Sampath Bank (SB)	76.80	94.60	171.40
Ruhuna Development Bank (RDB)	31.10	26.62	57.72
Kadurata Development Bank (KDB)	5.00	-	5.00
Wayamba Development Bank (WDB)	9.50	8.20	17.70
Rajarata Development Bank (RRDB)	80.00	30.00	110.00
Uva Development Bank (UDB)	20.50	14.90	35.40
TOTAL	1163.20	836.80	2000.00

Source: Department of Development Finance

Chart 7.3



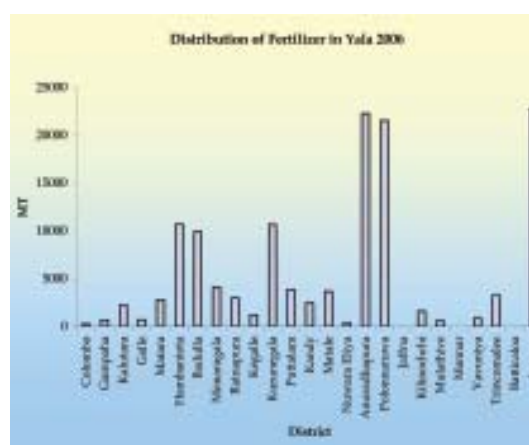
The Revolving Fund has been set up under the Sri Lanka Agricultural Marketing Authority (SLAPMA) in order to sustain the paddy-purchasing program to prevent budgetary constraints. In Yala 2006, Rs.725 million has been allocated to SLAPMA under this programme. Arrangements have been made to allocate another 2000 million to the SLAPMA for the paddy purchasing programme in Maha 2006/07. As such, around Rs.2725 million is being revolved for this purpose in the fund.

Fertilizer Subsidy Scheme

Empowering farmers to be independent with the support of the institutional sector by providing necessary inputs for the enhancement of the yield while also diversifying their economic activities for sustainable income, has been recognized as an essential pre-requisite for the wellbeing of the farming community. In this effort, provision of Urea, TSP and MOP fertilizer at Rs. 350 per 50 kg bag for paddy, vegetable and other food crops has been initiated. In Maha 2005/2006, subsidized fertilizer was distributed to the needy through proper targeting using the Agrarian Service Centers, Co-operatives, Mahaweli Authority as well as their normal distribution channels. The Government's commitment to this subsidy programme is around Rs. 10. billion per annum.

The Urea subsidy has also been extended to tea, rubber and coconut small holders owning less than 5 acres at a price of Rs 1200 per 50 kg bag. The scheme caters to around 90 percent of smallholder plantations.

Chart 7.4



Efforts are also being made to rationalize the existing program by encouraging usage of organic fertilizer for these crops which would be economical and minimizing negative effects of inorganic fertilizers. The Government has recognized organic fertilizer as an area that would be eligible for concessionary funding as an initial step towards promoting low cost organic fertilizer.

Banking

The Sri Lanka Savings Bank Limited (SLSBL) was established as a Licensed Specialized Bank, by Act No of 46 of 2006 on 12th of October 2006 with the intention of providing relief to depositors of the failed Pramuka Bank through transferring its assets and liabilities to the new bank. Necessary amendments to the Banking Act were passed in Parliament on 20th October 2006, for this purpose. The Board of Directors has been appointed in conformity with Memorandum and Articles of Association. The Central Bank of Sri Lanka has designed a scheme for the purpose of meeting claims and demands of creditors and depositors on liabilities of Pramuka Bank. Other logistical arrangements to commence operations of the new bank are underway.

National Insurance Trust Fund

With a view to providing benefits and safeguards to officers in the public and the provincial public service against risks related to health and personal accidents, National Insurance Trust Fund was setup August 2006. In order to provide this benefit to a larger segment in the country, it has been decided to extend the coverage of this insurance scheme towards more vulnerable groups such as Samurdhi beneficiaries, farmers, fishermen, persons engaged in self employment and pensioners.

The National Insurance Trust Fund has received 79,989 applications from its inception including a backlog of 28,850 held up in the National Insurance Cooperation of Sri Lanka in 2006. Of 79,989 applications, 54,331 have been processed and 28,000 claims have been cleared for a sum of Rs.117 million until 31st December 2006.

The Financial Markets Development Program

ADB funded Financial Markets Program is one of the main projects being executed to strengthen financial markets, including the restructuring and phased recapitalization of the People's Bank.

As per the People's Bank restructuring plan, necessary arrangements have been made to release Rs.1 billion from the Treasury for the 2nd capital injection to the People's Bank in December 2006 to achieve the financial performance as set out in the proposed plan. The 1st tranche of the capital injection of US \$ 20 million which made in December 2005 had contributed to achieve the financial performance of the People's Bank in 2006 in an efficient manner compared with the targeted plan. Therefore, it is envisaged that the second capital injection will also contribute to achieve the financial targets as set out in the previous year. The targeted and actual net profit of the People's Bank in 2006 was Rs. 2,262 million and Rs. 2,731 million respectively. The targeted and actual non-performing ratio of People's Bank was 13 percent and 7.1 percent respectively, which is a substantial improvement in the quality of loans and the

direction of the future program. This has also contributed to improve the Capital Adequacy Ratio of the bank.

Necessary arrangements were made with the Central Bank of Sri Lanka (CBSL) to prepare the draft Credit Information Bureau Act to setup a Movable Property Registry.

The Securities and Exchange Commission (SEC) prepared amendments to the draft Securitization Bill to be presented in Parliament. Coordination with the SEC to formulate the Sri Lanka Governance Code by establishing a joint Consultative Committee together with SEC and the Institute of Chartered Accountants was also expedited.

Implementing Product and Services for Domestic Debt Market

Awareness programs are designed to enhance the knowledge and skills of the officials of the Ministry of Finance and Planning, Central Bank of Sri Lanka, Securities and Exchange Commission, and other relevant institutions, and the public.

About 2,060 participants benefited through this programs.

Chapter 8

Financial Statements - 2006

Accompanying Statement of Financial Performance & Statement of Cash Flows for the year and the Statement of Financial Position as at the end of the year 2006 with relevant explanatory “Notes” and a Statement of Contingent Liabilities have been prepared and presented by the Department of State Accounts of the General Treasury.

These Statements have been prepared in reporting formats introduced in 2006 to present Financial Statements for the year 2005, in full compliance with Generally Accepted Accounting Principles and practices and required guidance has been obtained from Sri Lanka Accounting Standards and International Public Sector Accounting Standards. This is indeed the first step in the transitional stage of preparing and presenting the Government Financial Statements on the Basis of Accrual Accounting as against the present practice of Cash Based Accounting. In designing these formats for presenting these reports, different types of formats adopted by different countries for making advanced Public Sector financial reporting had been considered and ideas were taken from them to have an advanced presentation in consistent with the classification and presentation of the Annual Budget of the Government to enable to provide the reader with a clear view on the Financial Performance of the Government in compared with main targets of the Annual Budget as approved by Parliament.

Currently, the process of collecting data outside the Accounting System, pertaining to asset management, commitments and liabilities are in place and the relevant information will therefore be disclosed in the future Financial Statements during the transitional stage.

These financial statements encompass the financial operations of sixty one Government Ministries, one hundred and six Government Departments and twenty five District Secretariats/ Kachcheries performed in the process of making use of the financial resources allocated to them during the year 2006 in terms of the Annual Budget for implementing the intended work programs and projects for achieving the set goals and objectives. Basic information pertaining to the financial resources allocated by the Government in 2006 to eight Provincial Councils and Public Enterprises comprised of main two categories, i.e. Commercial Public Corporations, thirty three in number and the other Public Corporations and Statutory Boards getting involved in activities in regulatory, manpower development, infrastructure development etc., has also been furnished.

In compiling these reporting statements, the relevant data is collected in a specially designed system taken place in the form of a network involving above mentioned Public Institutions, by making use of electronic data transmission methodologies. Through this network all the financial data generated in the system gets transmitted to the central data base of the Department of State Accounts, being the Central Agency of the Government for financial information processing. In full conformity with the vision of the Department to be the Centre for Excellence in Government Financial Information, all the necessary internal controls, checks and balances and required level of supervision is exercised to maintain the integrity, accuracy and completeness of the data collected, stored and processed in order to assure the quality of information generated and furnished, as it is the main Government Department which is responsible for presenting the Annual Financial Statements of the Government in Parliament to discharge the responsibility for the public accountability on Financial resources utilized by the Government.

Statement of Financial Performance
for the year ended 31st December, 2006

<u>Budget Estimates</u>				<u>Actual</u>	
2006				2006	2005
Rs.		Note	Rs	Rs	
<u>REVENUE</u>					
432,462,000,000	Tax Revenue		424,898,736,896	345,863,828,903	
75,772,000,000	Income Tax	1	77,706,840,153	52,535,605,900	
268,372,000,000	Taxes on Domestic Goods & Services	2	266,694,499,699	231,291,855,259	
88,318,000,000	Taxes on External Trade	3	80,497,397,044	62,036,367,744	
54,716,038,000	Non Tax Revenue & Others	4	52,483,442,197	55,414,169,877	
487,178,038,000	TOTAL REVENUE (a)		477,382,179,094	401,277,998,780	
<u>Less : EXPENDITURE</u>					
125,552,909,366	Wages, Salaries and Other Employment Benefits	5	122,705,090,261	99,564,034,092	
60,995,215,733	Other Goods & Services	6	56,304,649,074	41,351,577,642	
247,511,335,586	Subsidies, Grants and Transfers	7	241,072,280,652	141,998,192,853	
157,532,386,424	Interest Payments	8	150,777,518,682	120,161,512,364	
9,588,703,035	Other Recurrent Expenditure	9	8,378,477,797	7,227,016,243	
601,180,550,143	Total Recurrent Expenditure (b)		579,238,016,466	415,863,528,417	
114,002,512,143	REVENUE DEFICIT (a) - (b)		101,855,837,372	14,585,529,637	
276,935,015,233	Public Investments	10	197,849,604,176	163,674,660,167	
390,937,527,377	BUDGET DEFICIT		299,705,441,548	178,260,189,804	
<u>FINANCING THE BUDGET DEFICIT</u>					
125,000,000,000	Foreign Borrowings	11	122,750,299,766	73,369,677,034	
(52,484,895,000)	Foreign Debt Repayments		(48,850,521,704)	(18,171,926,665)	
72,515,105,000	NET FOREIGN BORROWINGS		73,899,778,062	55,197,750,369	
23,625,000,000	Foreign Grants	12	19,910,922,427	14,450,816,827	
96,140,105,000	TOTAL FOREIGN FINANCING		93,810,700,489	69,648,567,196	
398,307,204,000	Domestic Non-bank Borrowings	13	371,357,098,414	328,196,805,149	
(247,166,275,050)	Domestic Debt Repayments	14	(246,842,854,169)	(215,673,235,291)	
151,140,928,950	NET DOMESTIC BORROWINGS		124,514,244,245	112,523,569,858	
12,125,257,000	Recoveries from On-lending	15	13,881,296,703	10,363,597,348	
820,000,000	Divestiture Proceeds & others		573,582,871	1,100,234,495	
49,948,394,922	Net Change in Deposit Accounts and Liabilities		49,948,394,922	(20,566,634,713)	
16,977,222,318	(Increase)/ Decrease in Cash & Cash Equivalents		16,977,222,318	5,036,866,064	
-	Donations Received locally		-	153,989,556	
327,151,908,190	TOTAL FINANCING		299,705,441,548	178,260,189,804	

The accompanying Statement of Accounting Policies & "Notes" form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 31st December, 2006

	<u>Actual</u>	
	<u>2006</u>	<u>2005</u>
	<u>Rs.</u>	<u>Rs.</u>
<u>Cash Flows from Operating Activities</u>		
Total Tax Receipts	424,898,736,896	345,863,828,903
Interest	10,320,723,701	16,459,588,364
Dividends	3,282,443,579	3,053,340,040
Fees, Fines, Penalties and Licenses	8,751,805,388	8,210,207,469
Profit	4,878,431,865	9,124,184,289
Other Receipts	25,250,037,664	18,566,849,715
Total Cash provided from Operations (a)	477,382,179,094	401,277,998,780
<u>Less - Cash was disbursed to:</u>		
Personal Emoluments & Operating Payments	(179,009,739,335)	(146,476,806,957)
Subsidies & Transfer Payments	(241,072,280,652)	(141,998,192,853)
Finance Costs	(150,777,518,682)	(120,161,512,364)
Other Payments	(8,378,477,797)	(7,227,016,243)
Total Cash disbursed to Operations including Tsunami related Disbursements (b)	(579,238,016,466)	(415,863,528,417)
NET CASH FLOWS FROM OPERATING ACTIVITIES (c) = (a) - (b)	(101,855,837,372)	(14,585,529,637)
<u>Cash Flows from Investing Activities</u>		
Divestiture Proceeds & Sale of Physical Assets	573,582,871	1,100,234,495
Recoveries from On Lending	13,881,296,703	10,363,597,348
Total Cash provided from Investing Activities (d)	14,454,879,574	11,463,831,843
<u>Less - Cash was disbursed to:</u>		
Purchase or Construction of Physical Assets & Other Investment Expenditures	(197,849,604,176)	(158,774,720,077)
Net Increase in Equity Investments in Commercial Public Enterprises	-	(4,899,940,090)
Total Cash disbursed to Investing Activities (e)	(197,849,604,176)	(163,674,660,167)
NET CASH FLOWS FROM INVESTING ACTIVITIES (f) = (d) - (e)	(183,394,724,602)	(152,210,828,324)
NET CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES (g) = (c) + (f)	(285,250,561,974)	(166,796,357,961)
<u>Cash Flows from Financing Activities</u>		
Local Borrowings	371,357,098,414	328,196,805,149
Foreign Borrowings	122,750,299,766	73,369,677,034
Grants Received	19,910,922,427	14,450,816,827
Donations Received Locally	-	153,989,556
Total Cash provided from Financing Activities (h)	514,018,320,607	416,171,288,566
<u>Less - Cash was disbursed to:</u>		
Repayment of Local Borrowings	(246,842,854,169)	(215,673,235,291)
Repayment of Foreign Borrowings	(48,850,521,704)	(18,171,926,665)
Change in Deposit Accounts and Other Liabilities	49,948,394,922	(20,566,634,713)
Total Cash disbursed to Financing Activities (i)	(245,744,980,951)	(254,411,796,669)
NET CASH FLOWS FROM FINANCING ACTIVITIES (j) = (h) - (i)	268,273,339,656	161,759,491,897
<i>Net Movement in Cash (k) = (g) - (j)</i>	(16,977,222,319)	(5,036,866,064)
Opening Cash Balance as at 01st January	(2,765,359,317)	2,271,506,747
Closing Cash Balance as at 31st December	(19,742,581,636)	(2,765,359,317)

Statement of Financial Position
As at 31st December, 2006

		<u>Actual</u>	
	Note	<u>2006</u> Rs.	<u>2005</u> Rs.
<u>Financial Assets</u>			
Loans to Public Officers	16	18,728,719,239	18,964,716,666
Advances to Govt. Departments	17	9,868,885,922	9,010,239,618
Foreign Aid Counterpart Funds	18	2,725,761,479	2,725,761,479
Membership Fees Paid	19	1,885,484,942	1,885,484,941
On Lending	20	174,444,434,667	192,595,689,062
Capital Contribution in State Owned Enterprises	21	96,842,051,860	67,604,832,106
Total Financial Assets		304,495,338,110	292,786,723,872
<u>Liabilities</u>			
Bank Overdrafts		19,742,581,635	2,765,359,317
Advance from the Central Bank	22	49,015,400,000	39,746,300,000
Foreign Loan Revolving Funds	23	9,117,734,410	13,903,918,713
Miscellaneous Funds	24	1,831,360,882	1,166,045,668
Government Borrowings	25	2,430,870,913,435	2,101,663,030,025
Deposits and Other Liabilities	26	67,607,138,550	14,362,868,573
Operating Accounts with Government Departments	27	3,610,026,041	2,170,478,218
Sundry Accounts	28	(3,805,585,246)	2,589,381,510
Total Liabilities		2,577,989,569,708	2,178,367,382,024
Contingency Fund		140,000,000	140,000,000
Total Liabilities & Contingency Fund Balance		2,578,129,569,708	2,178,507,382,024
Total Liabilities and Contingency Fund Balance over Financial Assets		2,273,634,231,598	1,885,720,658,152
Consolidated Fund- Accumulated Deficit	29	113,034,062,956	43,242,407,556
Total Investments in Physical Assets and Accumulated Net Revenue Deficit	30	2,160,600,168,642	1,842,478,250,596
		2,273,634,231,598	1,885,720,658,152
Contingencies & Commitments	31	30,968,370,000	92,893,050,000

The accompanying "Statement of Accounting Policies" and "Notes" to Financial Statements form an integral part of these Financial Statements. The Department of State Accounts is responsible for the preparation and presentation of these Financial Statements.

Sgd. D. Widanagamachchi
Director General of State Accounts

10th April, 2007
Colombo-01.

Sgd. P.B.Jayasundera
Secretary, Ministry of Finance & Planning
and Secretary to the Treasury

Analysis of Total Expenses of the Statement of Financial Performance
for the year ended 31st December, 2006

By Functional Classification	Actual (Rs. Million)							
	2006				2005			
	Recurrent	Capital	Total	%	Recurrent	Capital	Total	%
General Public Service	85,615	51,354	136,969	17.63	31,775	51,632	83,407	14.39
Finance Costs	151,140	-	151,140	19.45	120,371	-	120,371	20.77
Law & Order	30,039	4,145	34,184	4.40	22,469	2,152	24,621	4.25
Defence	67,108	9,100	76,208	9.81	53,961	7,494	61,455	10.60
Economic Affairs	102,431	84,811	187,242	24.10	75,201	64,051	139,252	24.03
Environment	977	1,724	2,701	0.35	794	1,874	2,668	0.46
Housing and Community Amenities	306	22,274	22,580	2.91	145	17,633	17,778	3.07
Health	30,816	7,231	38,047	4.90	22,903	6,903	29,806	5.14
Education	25,478	11,216	36,694	4.72	20,117	9,785	29,902	5.16
Recreation, Culture and Religion	3,079	1,539	4,618	0.59	1,826	936	2,762	0.48
Pension Expenses	58,319	-	58,319	7.50	46,523	-	46,523	8.03
Other Social Protection Expenses	23,930	4,456	28,386	3.65	19,778	1,214	20,992	3.62
Total Expenses	579,238	197,850	777,088	100	415,863	163,674	579,537	100

Note : These figures are presented in Economic format prepared in compliance with Government Finance Statistics Manual of the International Monetary Fund (IMF).

Statement of Accounting Policies

Reporting Entity

These Financial Statements are of the Government of the Democratic Socialist Republic of Sri Lanka and encompass the Reporting Entity of the Central Government comprised of Government Ministries & Departments. Public Corporations, State Owned Enterprises, Statutory Boards and Provincial Councils are not covered in these statements. However cash outflows to those entities taken place during the reporting year and the total interest the Government is having in the Commercial Public Corporations and State Owned Enterprises in the form of capital contribution and loans granted are recognized in these Financial Statements.

Basis of Preparation

These Financial Statements are prepared under historic cost convention in conformity with Generally Accepted Accounting Principles. Required guidance has been obtained from Sri Lanka Accounting Standards and International Public Sector Accounting Standards. The measurement base applied is historical cost. The cash based accounting has been used unless otherwise stated.

Reporting Period

The reporting period of these Financial Statements is the year ended 31st December 2006.

Basis of Combination

Ministries & Departments are combined using the classification codes for revenue collected and expenditures incurred. Accordingly total financial assets, liabilities, revenues and expenses are added together line by line.

Revenue

Central Government provides many services and benefits that do not generate revenue. Therefore revenue is raised through Parliament by way of imposing taxes, and fees & charges.

Revenue is earned by the Government in exchange for the provision of its products and services to the society.

All such revenue collected through the relevant Ministries & Departments is recognized at the time of collection.

Investment Income is recognized in the period it is earned and collected.';

Premiums and Discounts

Premiums and discounts on the issue of a debt instrument are treated as (an adjustment to the) cost of borrowings.

Gains

Related gains arising from sale of assets are recognized in the period in which transaction occurs.

Unrealized foreign exchange gains on monetary assets and liabilities are recognized in the Statements of Financial Position as at the end of the Reporting Period.

Expenses

All expenses are recognized in the period in which it is incurred.

Foreign Currency Transactions

Transactions in Foreign currencies are translated into Sri Lanka Rupee using the exchange rate on the date of transaction. Exchange differences arising on settlement of these transactions are recognized in the Statement of Financial Performance.

Assets

Equity investments in State Owned Enterprises are recorded at cost and shown separately, but investments in Statutory Boards are not separately disclosed in the accounts as they operate like other Government Departments relying for their recurrent and capital expenditures from the government.

Liabilities

In the Statement of Financial Position, all local borrowings are recorded at cost. Where foreign borrowings are subject to variation of exchange rates such foreign monetary liabilities are translated at the exchange rate as at the end of the Reporting Period.

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, retiring leave and other similar benefits are recognized when they accrue to employees. Retired Government employee entitlements for their pension payments are also recognized in the same manner.

Contingent Liabilities

Contingent liabilities are recorded in the Statement of Contingent Liabilities at the point at which the contingency is evident.

Comparatives

To ensure consistency with the current period and classification method adopted to make a fair presentation of financial information, comparative figures have been restated where appropriate.

Compilation of Government Finance Statistics

The Budget Outturn presented in Economic Classification under Government Finance Statistics (GFS) vary from the information presented in these Financial Statements due to the different classification methods adopted for economic analyses. Figures for the compilation of Budget outturn are related statistics which compiled in accordance with Government Finance Statistical Manual based on this Balance Sheet figures.

Notes to Financial Statements

			Actual	
<u>Budget Estimate</u>	<u>Revenue Code</u>	<u>Revenue Title</u>	<u>2006 Rs</u>	<u>2005 Rs</u>
<u>NOTE - 1 INCOME TAX</u>				
11,680,000,000	1004.10.01	Dividend Tax	3,315,824,389	1,992,687,219
9,614,000,000	1004.10.02	Economic Service Charges	8,852,985,755	1,683,137,003
11,000,000,000	1004.10.09	Corporate Tax	35,220,018,294	17,719,262,590
32,294,000,000	1004.10.00	Total Corporate Tax (a)	47,388,828,438	21,395,086,812
	1004.20.00	Non -Corporate	2,367,132	-
18,795,000,000	1004.20.01	PAYE Tax	7,464,595,075	5,660,854,016
20,183,000,000	1004.20.02	Withholding Tax on Interest	15,130,572,001	9,175,249,160
3,100,000,000	1004.20.03	Specified Fees & Other Withholdings	5,534,264,390	3,153,292,778
1,400,000,000	1004.20.09	Others	2,186,213,117	13,151,123,134
43,478,000,000	1004.20.00	Total Non -Corporate Tax (b)	30,318,011,715	31,140,519,088
75,772,000,000		Total Income Tax (a+b)	77,706,840,153	52,535,605,900
<u>NOTE - 2 TAXES ON DOMESTIC GOODS & SERVICES</u>				
162,298,000,000	1002.10.00	Value Added Tax	164,277,228,616	141,887,300,089
-	1002.20.00	Goods and Services Tax	158,331,861	461,638,918
-	1002.30.00	National Security Levy	92,560,902	34,623,758
21,658,000,000	1002.40.00	Excise (Ordinance) Duty	20,660,503,742	16,083,071,090
30,816,000,000	1002.50.01	Duty on Cigarettes (Special)	30,067,019,967	26,657,912,882
-	1002.50.02	Special Duty on Liquor	26,871,365	2,099,626
18,234,000,000	1002.50.03	Duty on Petroleum Products (Special)	16,585,513,464	22,564,309,770
20,847,000,000	1002.50.04	Duty on Motor Vehicles (Special)	20,730,716,730	13,032,996,623
2,525,000,000	1002.50.09	Other	3,112,686,286	3,127,372,502
36,000,000	1002.60.00	Tobacco Tax	33,524,816	34,484,373
1,200,000,000	1002.70.00	Stamp Duty	1,495,293,475	8,961,348
6,841,000,000	1002.80.00	Debit Tax	6,254,885,378	5,700,862,973
150,000,000	1002.90.00	Turnover Tax	232,565,202	143,096,426
550,000,000	1003.10.00	Motor Vehicle Tax	286,747,504	276,151,381
63,000,000	1003.20.00	Transfer Tax	67,147,063	38,154,536
460,000,000	1003.30.00	Betting & Gaming Levy	282,294,230	196,371,909
1,900,000,000	1003.40.00	Social Responsibility Tax	1,408,053,014	255,306,098
475,000,000	1003.50.00	Share Transaction Levy	420,180,879	451,233,786
25,000,000	1003.60.00	Construction Industry Levy	24,218,235	362,516
294,000,000	1003.90.00	Licence Fees & Others	478,156,972	335,544,655
268,372,000,000		Total Taxes on Domestic Goods & Services	266,694,499,699	231,291,855,259
<u>NOTE - 3 TAXES ON EXTERNAL TRADE</u>				
60,642,000,000	1001.10.00	Import Duties	53,006,278,847	45,660,009,470
20,000,000	1001.20.00	Export Duties	24,148,491	20,903,741
300,000,000	1001.30.00	Import & Export Licence Fees	329,384,287	723,078,050
20,600,000,000	1001.40.00	Port & Airport Development Levy	21,125,702,436	11,188,335,865
6,756,000,000	1001.50.00	Cess Duty	5,872,425,071	4,444,040,618
	1001.60.00	Motor Vehicle Concessionary Levy	2,609,976	-
	1001.70.00	Regional Infrastructure Development Levy	136,847,935	-
	1001.90.00	Other	-	-
88,318,000,000		Total Revenue from Taxes on External Trade	80,497,397,044	62,036,367,744
<u>NOTE - 4 NON-TAX REVENUE AND OTHERS</u>				
2,254,000,000	2001.10.00	Revenue from Railways	2,491,261,937	1,958,082,176
3,270,000,000	2001.20.00	Revenue from Postal Service	2,766,339,642	2,644,676,034
50,000,000	2001.30.00	Revenue from Trading Advance Account Activities	44,591,601	66,938,873
5,574,000,000		Revenue From Other Sources (a)	5,302,193,180	4,669,697,083
1,238,000,000	2002.10.00	Rent	1,293,888,316	1,154,814,428
10,030,038,000	2002.20.00	Interest	10,320,723,701	16,459,588,364
5,283,000,000	2002.30.00	Profit	3,669,000,000	2,875,500,000
3,270,000,000	2002.40.00	Dividend	3,282,443,579	3,053,340,040
58,000,000	2003.10.00	Other Departmental Sales	48,787,582	116,121,992
9,136,000,000	2003.20.00	Administrative Fees & Charges	8,751,805,388	8,210,207,469
2,491,000,000	2003.30.00	Fines & Forfeits	999,673,511	1,715,157,443
5,000,000,000	2003.90.00	Other Receipts	11,136,038,334	6,001,218,332
5,382,000,000	2004.10.00	Social Security Contribution-Central Govt.	3,999,630,669	2,971,256,979
2,918,000,000	2004.20.00	Social Security Contribution-Provincial Council	2,469,826,072	1,938,583,458
-	2005.10.00	Central Bank Profits	-	5,000,000,000
4,336,000,000	2005.20.00	Other Profits	1,209,431,865	1,248,684,289
49,142,038,000		Revenue From Other Sources (b)	47,181,249,018	50,744,472,794
54,716,038,000		Total Non - Tax Revenue & Others (a) + (b)	52,483,442,197	55,414,169,877

487,178,038,000

Grand Total (Note 1 - 4) Total Revenue

477,382,179,094

401,277,998,780

NOTE - 5 WAGES, SALARIES & OTHER EMPLOYEMENT BENEFITS			Actual	
(OBJECT CODE WISE CLASSIFICATION)			2006	2005
Budget	Object	Object Title	Rs	Rs
Estimate	Code	Personal Emoluments		
82,351,202,071	1001	Salaries & Wages	81,293,940,159	59,528,420,083
5,493,433,919	1002	Overtime & Holiday Pay	5,099,456,342	3,840,258,894
36,513,813,082	1003	Other Allowances	35,430,440,620	35,557,115,273
597,792,629	1004	Pension Fund Contribution	465,811,990	387,814,268
263,328,844	1005	Public Service Provident Fund Contribution	255,143,145	250,425,574
333,338,822	1006	Property Loan Interest Subsidies	160,298,005	-
125,552,909,366		Total	122,705,090,261	99,564,034,092
NOTE - 6 OTHER GOODS AND SERVICES(OBJECT CODE WISE CLASSIFICATION)				
Travelling Expenditure				
5,515,782,782	1101	Domestic Travelling Expenditure	5,423,143,919	3,551,782,354
1,151,692,312	1102	Foreign Travelling Expenditure	1,035,625,146	649,362,440
6,667,475,094		Total (a)	6,458,769,065	4,201,144,794
Supplies				
856,076,936	1201	Stationery and Office Requisites	781,635,712	622,705,340
8,011,467,603	1202	Fuel and Lubricants	7,762,732,362	5,231,199,548
1,922,985,189	1203	Uniforms	1,626,661,310	1,306,721,980
9,148,511,227	1204	Diets	8,974,480,719	6,739,767,005
12,104,899,032	1205	Medical Supplies	11,794,289,984	7,462,031,224
1,197,224,628	1206	Mechanical & Electrical Goods	1,064,711,766	708,295,882
4,856,517,897	1207	Other Supplies	2,957,434,595	2,267,010,157
38,097,682,512		Total (b)	34,961,946,447	24,337,731,136
Maintenance Expenditure				
1,065,975,896	1301	Vehicle Maintenance Expenditure	947,086,132	785,221,171
425,452,442	1302	Plant, Machinery & Equipment Maintenance Expenditure	356,139,726	327,746,794
573,248,969	1303	Buildings Maintenance Expenditure	483,355,134	395,168,270
1,060,719,510	1304	Other Maintenance Expenditure	991,799,084	635,811,849
1,189,500	1305	Structures	263,365	260,939
3,126,586,318		Total (c)	2,778,643,440	2,144,209,023
Contractual Services				
722,174,588	1401	Transport	688,499,481	513,855,477
1,501,265,895	1402	Telecommunication	1,383,437,830	1,273,512,187
117,544,484	1403	Postal Charges	89,319,151	71,360,204
4,676,310,061	1404	Electricity & Water	4,365,593,471	3,941,503,758
1,860,090,698	1405	Rent	1,647,729,242	1,547,232,037
218,849,869	1406	Rates & Taxes to Local Authorities	172,085,280	157,680,671
2,330,867,638	1407	Other Contractual Services	2,181,760,993	1,821,464,279
1,676,368,577	1408	Hire Charges	1,576,864,673	1,341,884,076
13,103,471,809		Total (d)	12,105,290,122	10,668,492,689
60,995,215,733		Total (a+b+c+d)	56,304,649,074	41,351,577,642
NOTE - 7 TRANSFERS, GRANTS & SUBSIDIES (OBJECT CODE WISE CLASSIFICATION)				
Transfers				
24,394,236,330	1501	Transfers to Households Through Welfare Programmes	23,501,715,927	18,886,646,331
58,615,107,263	1502	Pension,Retirements and Gratiuities	58,005,687,004	46,522,602,643
20,643,808,075	1503	Transfers to Public Institutions	20,039,360,623	16,016,612,679
5,838,503,000	1504	Transfers to Public Enterprises	5,752,300,198	1,921,747,145
22,360,000	1505	Transfers to Financial Institutions	22,285,682	31,438,548
157,848,000	1506	Subscriptions, Contributions & Membership Fees- Domestic	126,951,092	488,846,065
466,139,417	1507	Subscriptions, Contributions & Membership Fees- Foreign	422,701,303	323,062,321
110,138,002,085		Total (a)	107,871,001,829	84,190,955,732
Grants				
177,285,000	1601	Grants to Public Institutions	176,298,852	126,755,977
65,564,930,000	1602	Grants to Provincial Councils	63,029,284,526	47,428,142,243
1,917,217,746	1603	Grants to Non Public Institutions & Private Individuals	1,824,422,203	1,452,406,643
67,659,432,746		Total (b)	65,030,005,581	49,007,304,863
Subsidies				
8,284,842,442	1702	Internal Subsidies	8,009,195,979	293,904,978
61,428,592,444	1703	Price Subsidies	60,161,611,395	8,471,912,055
465,869	1704	Development Subsidies	465,869	34,115,225
69,713,900,755		Total (c)	68,171,273,243	8,799,932,258
247,511,335,586		Total (a+b+c)	241,072,280,652	141,998,192,853

NOTE - 8 INTEREST PAYMENTS (OBJECT CODE WISE CLASSIFICATION)

<u>Budget</u> <u>Estimate</u>	<u>Object</u> <u>Code</u>	<u>Object Title</u>	<u>Actual</u>	
			<u>2006</u> <u>Rs</u>	<u>2005</u> <u>Rs</u>
138,081,205,424	1801	Interest on Domestic Debt	133,787,693,266	113,164,085,642
19,451,181,000	1802	Interest on Foreign Debt	16,989,825,416	6,994,695,439 *
-	1803	Property Loan Interest Subsidies	-	2,731,283
157,532,386,424		Total	150,777,518,682	120,161,512,364

NOTE - 9 OTHER RECURRENT EXPENSES (OBJECT CODE WISE CLASSIFICATION)

		Other Recurrent Expenses		
271,912,000	1901	Awards & Indemnities	265,072,937	155,982,872
478,567,921	1902	Losses & Write Offs	400,465,103	654,078,495
96,285,797	1903	Holiday Warrants	82,845,593	70,298,563
21,231,537	1904	Implementation of the Official Language Policy	15,067,238	6,215,843
7,705,184,273	1905	Others	6,697,141,408	5,535,872,251
866,768,411	1906	Refunds	800,740,048	732,756,531
148,753,097	1907	Training Services - Local	117,145,470	71,811,688
9,588,703,035		Total	8,378,477,797	7,227,016,243
601,180,550,143		Grand Total (Notes 5 to 9)- Total Recurrent Expenditure	579,238,016,466	410,302,333,194

NOTE - 10 PUBLIC INVESTMENT - TOTAL CAPITAL EXPENDITURE (OBJECT CODE WISE CLASSIFICATION)

		Expenditure on Rehabilitation & Improvements of Capital Assets		
5,176,224,323	2001	Buildings	4,246,028,210	3,216,947,449
1,819,677,190	2002	Plant, Machinery and Equipment	1,551,293,096	1,445,903,645
1,598,093,558	2003	Vehicles	1,368,302,401	1,034,738,941
4,727,648,794	2004	Other Capital Assets	3,972,073,727	3,127,318,628
22,725,563,097	2005	Structures	12,206,758,889	6,614,758,205
36,047,206,962		Total (a)	23,344,456,323	15,439,666,868
		Expenditure on Acquisition of Capital Assets		
10,478,468,665	2101	Vehicles	5,614,499,425	2,282,475,153
5,524,718,799	2102	Furniture & Office Equipment	3,722,874,174	3,055,214,772
10,160,763,510	2103	Machinery	6,568,739,024	5,805,820,198
13,208,246,636	2104	Buildings	8,982,855,185	5,425,350,294
10,437,954,210	2105	Lands and Land Improvement	7,860,295,016	5,479,321,622
6,786,803,228	2106	Others	5,528,506,018	4,088,292,420
19,215,321,926	2107	Structures	17,648,639,015	13,755,810,773
75,812,276,973		Total (b)	55,926,407,858	39,892,285,232
		Expenditure on Capital Transfers		
11,469,078,321	2201	Transfers to Public Institutions	8,842,366,934	14,408,775,968
28,214,657,775	2202	Transfers to Public Enterprises	19,486,945,460	4,682,210,000
4,710,491,000	2203	Development Assistance	3,524,227,584	2,936,453,569
528,200,000	2204	Transfers Abroad	410,942,468	198,095,698
44,922,427,096		Total (c)	32,264,482,445	22,225,535,235
		Capital Grants		
2,494,100,000	2301	Capital Grants to Non - Public Institutions and Private Individuals	1,618,027,840	512,506,160
9,653,400,000	2302	Grants to Provincial Councils	4,690,450,000	4,644,156,155
12,147,500,000		Total (d)	6,308,477,840	5,156,662,315
		Acquisition of Financial Assets		
14,333,750,000	2402	Loans Outlay	7,560,026,212	9,805,267,489
18,395,966,818	2403	On-Lending	16,078,710,582	7,732,719,659
2,310,000,000	2404	Acquisition of Other Capital Assets	1,785,000,000	916,231,000
35,039,716,818		Total (e)	25,423,736,794	18,454,218,148
		Other Capital Expenditure		
48,814,818,339	2501	Other Capital Expenditure	39,484,728,934	23,154,836,917
3,824,384,912	2502	Consultations	2,347,291,277	1,560,935,996
2,717,212,021	2503	Training Services	1,397,656,405	1,334,296,043
55,356,415,272		Total (f)	43,229,676,616	26,050,068,956
		Restructuring & Reform Expenditure		
2,353,727,423	2601	Restructuring & Reform Expenditure	1,995,555,610	1,404,363,030
2,353,727,423		Total (g)	1,995,555,610	1,404,363,030
		Expenditure on Donor Funded Projects		
2,702,100,000	2701	Operational Cost of Donor Funded Projects	2,462,197,305	-
22,300,000	2702	Operational Cost of Donor Funded Projects	18,110,137	118,627,004
20,200,000	2705	Human Resources Development	454,185	-
30,000,000	2706	Operational Cost of Donor Funded Projects	20,000,000	-
70,100,000	2709	Operational Cost of Donor Funded Projects	48,144,567	-
1,392,210,772	2711	Personal Emolument of Project Staff	792,127,588	717,486,523
11,018,833,917	2712	Other Goods & Services	6,015,776,907	5,727,627,231
15,255,744,689		Total (h)	9,356,810,689	6,563,740,758

<u>276,935,015,233</u>	GRAND TOTAL PUBLIC INVESTMENTS - TOTAL CAPITAL EXPENDITURE (a+b+c+d+e+f+g+h)	<u>197,849,604,176</u>	<u>135,186,540,542</u>
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* Reflect Debt Moratorium for Tsunami.

Note 11 - Foreign Borrowings (Projects wise)

S.No	(Source & Relevant Project Financed)	2006 Rs.	2005 Rs.
1	Kuwait Fund Loan No; 226/449 Mahaweli System C Development	70,792,829	-
2	Saudi Fund For Development Loan 3 / 196 - Mahaweli Ganga Development Project	9,881,534	20,662,320
3	Japan / Sri Lanka Loan No: SLP 44- Samanawewa Hydro Electric Power Project	-	75,613,422
4	ADB Loan No. 1312 (SRI) SF - 3rd Road Improvement Project	-	13,040,769
5	IFAD Loan No: 384 LK - North Central Province - Rural Dev. Project	-	4,427,234
6	ADB Loan No.1462 (SF)- N.C.P. Rural Development Project	-	43,634,648
7	Japan / Sri Lanka Loan No: SL - P40 - Kakule Ganga Hydroelectric Power Project	-	460,049,487
8	Japan / Sri Lanka Loan No: SL - P48 - Walawe Left Bank Irrigation Upgrading &	1,123,878,067	1,002,475,634
9	IDA Loan No.2880 CE -Private Sector Infrastructure Development Project	112,369,101	480,722,762
10	Japan / Sri Lanka Loan No. SL P49 - Colombo North Water Supply Project	437,214,065	612,358,963
11	Japan / Sri Lanka Loan No. SL P50 - Flood Control & Environment Improvement	-	962,876,093
12	IDA Loan No. 3014 - CE - 2nd General Education Project (Part for Tsunami) (*)	578,876,450	688,139,363
13	IDA Loan No. 3058 - CE - Mahaweli Restructuring & Rehabilitation Project	-	63,430,133
14	IDA Loan No: 2881 - CE - Teacher Education & Teacher Development Project (Part	69,837,159	342,026,450
15	ADB Loan No.1535 (SF) - Science & Technology Personnel Dev. Project	-	116,963,378
16	ADB Loan No.1545 (SF) - Upper Watershed Management Project	56,385,234	163,305,221
17	ADB Loan No.1552 (SF) - Second Perennial Crops Development Project	31,267,280	47,393,061
18	ADB Loan No.1567 (SF) - Southern Provincial Road Improvement Project	-	195,522,871
19	Kuwait Fund Loan No;466 - Bridges Reconstruction & Rehabilitation Project	184,108,155	131,174,725
20	ADB Loan No;1575SRI (SF) - 3rd Water Supply and Sanitation Sector project	600,450,481	1,406,565,905
21	ADB Loan No; 1649 SRI (SF) - Road Network Improvement Project	1,420,516,106	1,673,979,912
22	German Loan No;9865080 - Koggala Water Supply Project	84,302,978	100,251,351
23	ADB Loan;1639 SRI (SF) - Tea Development Project	9,410,948	664,515,182
24	ADB Loan No: 1632 SRI (SF) - Urban Development And Low Income Housing	-	416,837,169
25	Japan / Sri Lanka Loan No: SLP 69 - Improve the National Blood Transfusion	480,956,426	208,219,520
26	Japan / Sri Lanka Loan No: SLP 60 - Telecom Network Expression - Colombo	-	2,390,417
27	Japan / Sri Lanka Loan No: SLP 55 - Kaluganga Water Supply Project	1,865,089,491	1,706,017,250
28	Indian Line of Credit - 1997	-	13,087,375
29	Japan / Sri Lanka Loan No: SLP 59 - Medium Voltage Distribution Network	-	238,680,425
30	Japan / Sri Lanka Loan No: SLP 64 - Poverty Alleviation Micro Finance Project	562,594,203	158,956,437
31	Japan / Sri Lanka Loan No: SLP 67 - Urgent Upgrading of Colombo Port Project	38,484,115	224,707,977
32	Japan / Sri Lanka Loan No: SLP 56 - Mahaweli System "C" Upgrading Project	717,310,873	360,383,494
33	IDA Loan No: 3301 CE North - East Irrigated Agriculture Project (Part for	-	235,964,484
34	IDA Loan No: 3384 CE - Legal & Judicial Reform Project	362,258,889	359,016,951
35	Korean Loan No: SRI 07 - Rathnapura - Bandarawela Road Rehabilitation	-	98,923,594
36	ADB Loan No: 1707 SRI (SF) - Skills Development Project	275,739,591	391,031,999
37	ADB Loan No: 1756 SRI (SF) - Secondary Education Modernization project	972,415,289	1,342,362,470
38	German Loan No: 9765835 - Water Supply Nawalapitiya	72,399,483	95,740,041
39	French Loan - Ministry of Health - Cardio Thoracic Equipment for Kandy Hospital	-	2,989,000
40	French Mixed Credit - National Water Supply & Development Board	-	53,108,283
41	German Loan No: 9765843 - Water Supply Ampara	40,776,888	54,636,985
42	Japan / Sri Lanka Loan No: SLP 68 - Small And Micro Industries Leader And	-	52,167,602
43	Japan / Sri Lanka Loan No: SLP 46 - Port of Colombo North Pier Development	-	195,570,077
44	Japan / Sri Lanka Loan No: SLP 63 - Road Network Improvement Project	733,040,651	535,354,315
45	Japan / Sri Lanka Loan No: SLP 70 - Southern Highway Construction Project	2,686,929,198	929,992
46	Japan / Sri Lanka Loan No: SLP 62 - Bandaranayaka International Airport	4,682,617,990	3,518,457,567
47	IDA Loan No: 3525 CE - Sri Lanka Central Bank Strengthening Project	-	519,704,119
48	IDA Loan No: 3469 CE - Distance Learning Project	-	4,571,714
49	Korean Loan No: SRI 10 - Greater Galle Water Supply Project	-	697,023,368
50	NDF Loan No.356 - Secondary Education Modernization Project	172,362,302	132,143,385
51	ADB Loan;1744 SRI (SF) - Forest Resources Management Sector Project	443,599,526	453,830,407
52	ADB Loan;1716 SRI (SF) - Coastal Resource Management Project	229,591,962	1,296,505,224
53	ADB Loan;1767 SRI (SF) - Protected Area Management And Wildlife Conservation	170,526,190	284,155,607
54	IFAD Loan No: 493 LK - Regional Economic Advance Project	188,506,081	128,237,148
55	Kuwait Fund Loan No;598 - Rural Electrification Project-5	40,346,810	321,480,510
56	German Loan No: 9966698 - Colombo Grid Substation Project	926,688,122	994,697,143
57	Japan / Sri Lanka Loan No: SLP 71 - Greater Kandy Water Supply Project	1,652,012,827	622,466,646
58	The Export Import Bank of Korea - Greater Galle Water Supply Project	-	166,036,450
59	IDA Loan No: 3496 CE - Land Titling And Related Services Project	40,350,314	80,321,275
60	ADB Loan;1895 SRI (SF) - Small And Medium Enterprise Sector Development	17,146,918	39,194,609
61	Indian Line of Credit - 2001	-	4,802,500
62	Sweden Loan - Molecular Biology Institution of University of Colombo	8,631,161	46,869,132
63	IDA Loan No: 3673 CE - Renewable Energy For Rural Economic Development	2,005,839,983	2,272,875,160
64	NDF Loan No.325 - The Skills Development Project	356,345,174	199,990,644
65	Kuwait Fund Loan No;563 - Rehabilitation of Irrigation And Schemes Project	107,801,412	148,108,498
66	ADB Loan;1896 SRI (SF) - Small And Medium Enterprise Sector Development	425,284,297	1,176,636,871

<u>S.No</u>	<u>(Source & Relevant Project Financed)</u>	<u>2006</u> <u>Rs.</u>	<u>2005</u> <u>Rs.</u>
67	ADB Loan;1757 SRI (SF) - Water Resource Management Project	1,230,133	32,425,537
68	ADB Loan;1846 SRI (SF) - North East Community Restoration And Development	417,277,858	789,442,125
69	Japan / Sri Lanka Loan No: SLP - 66 - Reduction of Non Revenue Water Project	54,678,739	84,555,551
70	Japan / Sri Lanka Loan No: SLP - 79 - Small Scale Infrastructure Rehabilitation	2,375,858,140	1,356,449,435
	Japan / Sri Lanka Loan No: SLP - 73 - Lunawa Environment Improvement And	800,768,415	85,098,619
71	Community Development Project		
72	Japan / Sri Lanka Loan No: SLP - 75 - Plantation Reform Project (II)	31,388,737	26,918,477
	Japan / Sri Lanka Loan No: SLP - 77 - Pro-poor Economic Advancement And	69,586,725	9,035,693
73	Community Enhancement Project		
74	IDA Loan No: 3772 CE - Economic Reform Technical Assistance Project (Part for	167,147,301	538,515,201
	IDA Loan No: 3781 CE - Improving Relevance And Quality of Undergraduate	686,879,373	1,233,430,275
75	Education Project (Part for Tsunami) (*)		
76	Korean Loan No: SRI 08 - Housing Project For Public Servants	109,600,853	124,234,846
77	NDF Loan No.324 - Southern Transport Development Project	109,278,000	85,788,548
78	Australian Loan - Intergrated Water Supply Scheme Ampara (II)	603,285,040	-
79	ADB Loan;1841 SRI (SF) - Colombo Port Efficiency And Expansion Project	56,127,867	188,272,822
80	ADB Loan;1849 SRI (SF) - Southern Province Rural Economic Advance Project	414,049,128	397,985,410
81	ADB Loan;1711 SRI (SF) - Southern Transport Development Project	2,436,936,829	1,201,852,092
82	ADB Loan;1914 SRI (SF) - Plantation Development Project	684,203,098	5,960,887
83	ADB Loan;1986 SRI (SF) - Road Sector Development Project	1,976,116,151	1,516,651,549
84	ADB Loan;1910 SRI (SF) - Aquatic Resource Development And Quality	24,377,968	20,676,859
85	ADB Loan;1911 SRI (SF) - Aquatic Resource Development And Quality	242,922,416	115,215,900
86	ADB Loan;1993 SRI (SF) - Towns And Rural Community Water / Sanitation	533,950,237	208,790,584
87	ADB Loan;1999 SRI (SF) - Distance Education Modernization Project	383,934,579	397,440,015
88	German Loan No. 200165589 NDB - small & Micro Enterprises	1,278,171	-
89	HSBC Loan - Rehabilitation Bridges in North & East Project	271,357,542	890,013,855
90	OPEC Loan No;782 P - The Skills Development Project	99,314,046	35,125,629
91	Eropean Investment Bank - Crdit Line to DFCC	-	1,817,730,500
92	Austrian Loan - Sirimavo Bandaranayake Children Hospital	-	404,034,934
93	Austrian Loan - Railway Bridges to Extent Railtracks	375,687,958	514,841,332
94	Indian Line of Credit - 2003	122,576,595	232,231,473
95	ADB Loan;2043 SRI (SF) - Conflict Affected Area Rehabilitation Project	1,016,947,652	1,105,846,327
96	ADB Loan;1913 SRI (SF) - Plantation Development Project	64,771,102	17,667,846
97	ADB Loan 2040 SRI (sf) Rural Finance Sector development	2,047,218,000	-
98	ADB Loan;1930 SRI (SF) - Power Sector Development Project	953,506,277	1,284,882,566
99	ADB Loan;2041 SRI (SF) - Rural Finance Sector Development Program	170,135,571	287,551,213
100	ADB Loan;2042 SRI (SF) - Rural Finance Sector Development Program	65,703,438	55,421,297
101	ADB Loan 2130 SRI (sf) Fiscal Management Reform	1,613,161,500	-
102	China loan - Rural Electrification Project (vii)	873,868,811	721,649,181
103	China loan - Kelanithissa Diesel Storage Tank Project	57,107,780	308,922,895
104	Denmark Loan - Colombo Sewerage Rehabilitation Project	672,951,205	177,587,702
105	Japan / Sri Lanka Loan No: SLP - 74 - Upper Kotmale Hydro Electric Power	1,293,137,382	570,472,563
106	Japan / Sri Lanka Loan No: SLP - 76 - Provincial Road Improvement Project	574,431,738	227,590,295
107	Japan / Sri Lanka Loan No: SLP - 78 - Power Sector Restructuring Project	649,932	15,053,873
108	Japan / Sri Lanka Loan No: SLP - 80 - Small Scale Infrastructure Rehabilitation	1,633,522,781	2,107,200,019
109	Japan /Sri Lanka Loan No;SLP - 81 Small & micro Industries Leader	2,565,876,163	-
110	Japan /Sri Lanka Loan No;SLP - 82 Enviromentally Friendly	351,192,641	-
111	OPEC Loan No;879 P - North East Community Restoration & Development	82,585,857	57,553,024
112	Saudi Loan No;4/390 - Development Health Facilities - Colombo Hospital	122,833,702	9,658,202
113	Austrian Loan No;2333.045 - Water Supply Weligama, Ambalantota, Kataragama	63,803,207	379,435,780
114	OPEC Loan No;868 P - Southern Province Rural Economic Advancement Project	77,093,323	16,610,294
115	OPEC Loan No;942 P - Road Sector Development Project	377,482,027	180,385,666
116	Japan / Sri Lanka Loan No. SLP 83 - Vauniya Kilinichchi Transmossion Line	339,644	47,752,505
117	Japan / Sri Lanka Loan No. SLP-84 - Sri Lanka Tsunami Affected Area Recovery	2,835,246,907	3,949,819,401
118	Japan / Sri Lanka Loan No. SLP - 72 - Colombo City Electricity Distribution	167,311,505	81,001,500
119	Korean Loan No. SRI 11 - Balangoda-Bbandaraswela Road Rehabilitation Project	614,534,421	535,278,158
120	Korean Loan No. SRI 12 - Greater Galle Water Supply Project Phase (II)	825,961,490	305,493,567
121	UK Loan - Equipment to Teaching Base Hospitals	-	785,692,255
122	CITI Bank Loan - Sustainable Water Assistance Management Project	979,722,780	459,699,905
123	ADB Loan No: 2027 - North East Coastal Community Development Project	77,519,380	93,921,125
124	ADB Loan No: 2132 - Fiscal Management Modernization of Revenue	4,705,344	1,349,786
125	ADB Loan No: 2131 - Strenthnering of the Fiscal management Institutions Project	125,097,983	115,748,611
126	ADB Loan No: 2167 - Tsunami Affected Area Rebuilding project (*)	62,372,082	121,180,266
127	ADB Loan No: 2084 - North East Community Restoration Project	163,052,216	89,675,425
128	ADB Loan No: 2168 - North East Community Restore and Development Project	271,910,714	151,105,438
129	ADB Loan No: 2096 - Secondary Education Modernization Project	14,631,483	164,026,072
130	ADB Loan - NDB V - Private sector Promotion	1,048,155,345	612,002,500
131	ADB Loan No: 2138 - Financial Markets Programe for Private sector	-	1,988,908,000
132	ADB Loan No: 2044 - Conflict Affected Areas Rehabilitation Project	7,256,422	16,540,526

<u>S.No</u>	<u>(Source & Relevant Project Financed)</u>	<u>2006</u> <u>Rs.</u>	<u>2005</u> <u>Rs.</u>
133	IDA Loan No: 3935 CE - Second North East Irrigated Agriculture Project	431,243,212	306,856,955
134	IDA Loan No: 4014 CE - North East Housing Reconstruction Project	1,690,785,744	1,690,084,159
135	IDA Loan No: 3986 CE - E - Sri-Lanka Development project (Part for Tsunami)	306,251,577	1,032,380,499
136	IDA Loan No: 4039 CE - Tsunami Emergency Recovery Project (*)	2,559,260,047	1,425,921,285
137	IDA Loan No:- 4050 CE - Road Sector Assistant Project	-	96,029,851
138	SIDA - 2004072/SL - Education Reforms in Plantation Schools	170,730,794	39,845,100
139	US\$ 100 Million - City Bank US\$ 100 Million From City Bank	-	10,211,720,000
140	Indian Line of Credit	-	43,401,047
141	ADB Loan No.2139 - Technical Assistance for Financial Markets Programme	344,261	43,723,487
142	2004043 5/416 Baticolowa - Trincomalee Road Project	169,569,412	-
143	2006080 USD 75 Million Bank Of Ceylon	7,798,290,000	-
144	2006081 USD 25 Million Bank Of Ceylon	2,599,657,500	-
145	Us \$ 100Mn from city bank	10,755,580,000	-
146	Us \$ 130Mn loan	13,178,880,000	-
147	Us \$ 35Mn loan	3,777,942,000	-
148	Us \$ 15Mn loan	1,623,969,000	-
149	2006042 SLP - 87 Pro - poor Eastern infrastructure Development	4,445,343	-
150	Korean Loan No SRI 12	448,288,455	-
151	2005050 - 5980199 Sapugaskanda Diesel Power plant	1,702,098,090	-
152	20050430 DFCC IV Private sector Development	2,480,140,551	-
153	2006002 ADB 2197 Technical Education Development	62,358,840	-
154	2006073 Post Tsunami Line Of Credit - contract A	2,640,830,000	-
155	2006073 Post Tsunami Line Of Credit - contract B	792,249,000	-
156	2004006 ADB2080 TA Loan - Road Project	70,092,030	-
157	2006079 Nuwara eliya District Group Water Supply	516,483,302	-
158	2005079 Solar Energy for the Dev.of Health & Education	2,239,097,774	-
159	2005052 Grater Trincomalee water supply	30,964,797	-
160	2006020 IDA 4138 Road sector Assistance	1,410,391,290	-
161	2006021 Praparation of the proposed puttalama housing	5,130,020	-
162	2004022 Dry zone livelihood support & partner ship programme	191,521,334	-
163	2004076 Fourth Rural electrification	9,469,746	-
164	2006072 Towns South of kandy water supply	1,276,418,415	-
165	2006086 The supply and construction of pre -	194,119,696	-
166	2004040 Indian Line of Credit	1,543,191,285	-
167	2006071 Pakistan line of credit	2,079,960,000	-
		122,750,299,767	73,369,677,034
<u>Less</u> - Foreign Borrowings for Tsunami Related Projects (*)		-	(8,966,929,064)
		122,750,299,767	64,402,747,970

Note 12 - Foreign Grants Received

	2006	2005
	<u>Rs.</u>	<u>Rs.</u>
<u>Grants Received in the Form of Cash for Projects</u>		
Association of South East Asian Nations (ASEAN)	5,407,532	1,172,500
Canada	13,589,414	34,076,926
European Economic Commission	105,306,902	182,414,000
France	17,500,000	21,880,990
International Labour Organization	538,726	3,738,706
Japan	607,041,649	1,169,584,591
The Netherlands	553,799,869	725,684,259
Norad	88,848,884	-
Norway	157,830,984	500,029,014
Sweeden	58,609,946	2,894,850
United Nations High Commission for Refugees (UNHCR)	31,965,271	15,045,274
United Kingdom	676,285	2,978,717
United Nations Development Programme(UNDP)	230,366,580	160,495,940
UNESCO	989,495	-
United Nations Fund for Population	58,560,834	29,085,088
United Nations Children's Education Fund	57,311,403	37,127,198
United State of America	35,257,850	107,656,251
World Health Organization	26,621,634	21,044,503
World Bank	122,755,287	93,904,575
United Nations Environment Programm (UNEP)	36,769,447	14,615,169
Italy	15,750,371	11,816,729
German	3,302,475	15,000,000
Other	755,056,065	1,530,988
	2,983,856,902	3,151,776,268
<u>Less: Refunds or adjustments</u>	(602,487,414)	(6,764,079)
Sub Total (a)	2,381,369,488	3,145,012,189
<u>Grants Received in the form of Cash for Non Projects</u>		
The Government of Japan	32,733,486	-
United Kingdom/ IDA	580,419,049	-
Sub Total (b)	613,152,535	-
<u>Grants Received through Special Foreign Currency Accounts</u>		
International Development Association (IDA)	6,065,020,568	4,527,775,641
USAID	7,327,408	-
Government of Norway	38,994,745	-
Asian Development Bank (ADB)	1,349,898,086	1,163,751,445
Switzerland Development Corporation	557,693,039	722,899,828
United Nations Development Programme(UNDP)	102,913,182	-
KFW	1,209,197,406	-
Government of Italy	25,929,540	73,276,630
Sub Total (c)	9,356,973,973	6,487,703,544
<u>Grants Received and Reported in the Form of Materials & Equipments</u>		
Australian Aid	86,962,489	95,541,046
World Food Programme	1,025,984,996	3,492,036,447
The Government of Netherlands	141,610,184	2,757,829
The Government of Korea	3,064,483	-
The Government of China	1,622,695	-
The Government of France	136,829	-
The Government of Japan	247,217,263	127,125,688
JICA	483,010,280	-
JICS	698,788,410	-
IDA/ WB	64,602,665	-
GTZ	146,629,118	-
United Nations Development Programme(UNDP)	9,294,184	-
USAID	73,315,200	-
United Nations Children's Education Fund	114,512,513	36,795,924
Unicef/ UNFPA/ Red Cross	1,324,560,000	-
Unicef/ Norwegian Refugee Council & Others	2,888,750,000	-
KFW	251,166,911	-
The Government of India	-	691,674
World Trade Microsoft Sri Lanka (IBM)	-	14,502,000
Japan International Cooperative System	-	368,358,431
International Transport Federation	-	101,475,000
World Vision	-	280,654,074
M/s Renault Asia Pacific, Malaysia	-	13,777,662
Government of Italy	-	284,251,000
American Weather Service	-	134,319
Sub Total (d)	7,561,228,219	4,818,101,094
Grand Total - (a)+(b)+(c)+ (d)	19,912,724,215	14,450,816,827
<u>Less: Grants Received for Tsunami Related Expenses</u>	-	(5,532,702,868)
Refunds relating to Prior years	(1,801,788)	-
	19,910,922,427	8,918,113,959

Note 13 - Domestic Non-Bank Borrowings

Net Borrowings through Treasury Bills
Treasury Bonds
Rupee Loans
Foreign Currency Banking Unit
Sri Lanka Development Bonds
CITI Bank
Sri Lanka Nations Building Bonds (9128)

Less : Domestic Borrowings for Tsunami Related Expenses

<u>Actual</u>	
2006	2005
<u>Rs.</u>	<u>Rs.</u>
20,336,688,409	-
268,895,366,833	225,024,227,182
23,065,850	43,679,274,780
21,359,641,500	58,970,147,000
60,149,154,500	
332,716,858	523,156,186
260,464,463	
371,357,098,414	328,196,805,148
	(19,395,693,360)
371,357,098,414	308,801,111,788

Note 14 - Domestic Debt Repayments

Net Amount of Repayments of Treasury Bills
Treasury Bonds
Rupee Loans
Sri Lanka Development Bonds
Local Loans in Foreign Currency
CITI Bank Loans
Others

<u>Actual</u>	
2006	2005
<u>Rs.</u>	<u>Rs.</u>
-	9,837,359,650
171,467,291,040	117,093,271,370
23,872,482,000	67,874,970,500
25,902,428,726	-
24,887,283,845	17,235,938,500
372,868,557	
340,500,000	3,631,695,269
246,842,854,169	215,673,235,289

Note : - Net amount payment of Treasury Bills reflects the difference between borrowings through Treasury Bills and their settlements on maturity, taken place during the year as follows.

Total Borrowings
Less: Total Repayments
Net Amount of Repayment/ Borrowings

<u>Rs.</u>	<u>Rs.</u>
600,082,354,640	465,308,955,482
(579,745,666,231)	(475,146,315,312)
20,336,688,409	(9,837,359,830)

Note 15- Recoveries From On-Lending**Foreign Funded Lending**

National Development Bank
Sri Lanka Ports Authority
Sri Lanka Telecom
Development Finance Corporation of Ceylon
Hatton National Bank
Lanka Electric Company Ltd.
National Water Supply & Drainage Board
Sampath Bank
Commercial Bank
Seylan Bank
Ceylon Electricity Board
Development Banks
Ceylon Petroleum Corporation
National Development Trust Fund
Lanka Oriex Leasing Company
Local Loan Development Fund
Revolving Funds of Central Bank with Reginal Dev.Banks
Other Institutions
Sub Total (a)

Treasury Funded Lending

AHF Loan Scheme
Provincial Council Loans
Other Loans
Sub Total (b)

Grand Total (a+b)

<u>Actual</u>	
2006	2005
<u>Rs.</u>	<u>Rs.</u>
1,477,981,911	1,535,850,866
2,887,099,581	3,036,331,836
713,455,496	768,779,220
1,142,202,812	1,191,688,749
49,202,207	49,202,920
89,402,804	101,383,202
438,400,525	165,500,000
150,020,350	85,076,912
211,307,489	197,221,071
17,319,308	17,319,308
-	-
4,158,493	1,762,696
647,368,644	647,368,644
16,032,023	16,032,023
3,783,257	3,783,256
1,078,671	202,408
3,261,868,693	1,779,552,700
2,341,006,891	513,107,626
13,451,689,155	10,110,163,437
268,123,402	208,940,635
36,780,000	14,200,000
124,704,145	30,293,276
429,607,547	253,433,911
13,881,296,703	10,363,597,348

Note - 16 Loans To Public Officers

Advances to Public Officers Transferred to Provincial Councils (7004)
Advances to Public Officers of the Central Government (8493)

<u>Actual</u>	
2006	2005
<u>Rs.</u>	<u>Rs.</u>
200,709,920	200,709,920
18,528,009,319	18,764,006,746
18,728,719,239	18,964,716,666

Note - 17 Advances to Government Departments

Treasury Authorised Advance Accounts (7000)

9,868,885,922	9,010,239,618
9,868,885,922	9,010,239,618

Note - 18 Foreign Aid Counterpart Funds

Foreign Aid Counterpart Fund - Grants (8317)
Foreign Aid Counterpart Fund - Loan (8318)
Foreign Aid Counterpart Fund (8319)
General Services Mutual Fund for Import of Wheat (8321) & (8322)

1,398,743,332	1,398,743,332
299,824,617	299,824,617
167,520,817	167,520,817
859,672,713	859,672,713
2,725,761,479	2,725,761,479

Note - 19 Membership Fees Paid

International Monetary Institutions Membership Fees Paid (8234) and (8339)

1,885,484,942	1,885,484,941
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Note 20 - On lending

S.No.	Name of the Institution	Balance as at 31.12.2005	New Loan During 2006	Amount Settled During 2006	Balance as at 31.12.2006
		Rs.	Rs.	Rs.	Rs.
1	Sri Lanka Ports Authority Less/ Add : Parity Variance Balance	50,158,011,539 (7,102,087,926) 43,055,923,613	55,255,448	2,887,099,581	40,224,079,479 1,184,916,515 41,408,995,994
2	Ceylon Electricity Board Add : Adjustment to 2005 balances New Disbursement 2006 Less: Converted to equity * Add : Parity Variance Balance	59,932,894,990 297,371 59,933,192,361	 2,063,225,877 1,524,748,275 3,587,974,153	 30,998,209,120 0	 32,522,957,395 32,522,957,395
3	Development Finance Corporation of Ceylon Less/ Add : Parity Variance Balance	10,545,438,404 (13,811,316) 10,531,627,088	4,732,502,471	1,142,202,812	14,121,926,749 103,636,876 14,225,563,624
4	Private Sector Infrastructure Development. Co. Ltd. Less/ Add : Parity Variance Balance	2,445,454,155 (52,606,492) 2,392,847,664	-	918,900,000	1,473,947,664 81,193,135 1,555,140,799
	Indian Line of Credits				
5	Aliance Finance Co. Ltd.	16,747,883	-	4,186,972	12,560,911
6	Bank of Ceylon	229,587,331	-	56,352,492	173,234,839
7	Ceylease Financial Service Ltd.	16,800,333	-	8,019,472	8,780,861
8	Ceylinco Leasing Company Ltd.	12,429,217	-	3,824,376	8,604,841
9	Commercial Bank of Ceylon Ltd.	4,846,213	-	775,396	4,070,817
10	Commercial Leasing Corporation Ltd.	37,773,736	-	14,266,796	23,506,940
11	DFCC Bank Ltd.	8,413,069	-	4,748,848	3,664,221
12	Hatton National Bank Ltd.	62,433,614	-	17,500,536	44,933,078
13	Lanka Orix Leasing Co. Ltd.	1,864,223	-	745,692	1,118,531
14	National Development Bank Ltd.	10,740,562	-	3,580,184	7,160,378
15	People's Bank	1,226,531,449	-	351,490,268	875,041,181
16	Seylan Bank	3,527,304	-	1,410,920	2,116,384
	Sub Total	1,631,694,934	0	466,901,952	1,164,792,982
17	IMPORTING 300 TRACTORS UNDER THE INDIAN LINE OF CREDIT		146,298,906	146,298,906	-
18	National Development Bank Less : Parity Variance Balance	12,992,601,448 (359,286,743) 12,633,314,705	2,189,349,505.86	1,477,981,911	13,344,682,299 (521,492,101) 12,823,190,198
19	Sri Lanka Telecom	3,385,829,273	-	713,455,496	2,672,373,777
20	Lanka Electricity Company	725,239,907	-	89,402,804	635,837,103
21	Sampath Bank Ltd.	962,220,033	944,411,542.63	150,020,350	1,756,611,226
22	Hatton National Bank Ceylon Ltd.	777,300,700	259,683,414.48	49,202,207	987,781,907
23	Commercial Bank	1,869,455,644	266,514,536.41	211,307,489	1,924,662,691
24	Seylan Bank	165,688,141	336,097,559.32	17,319,308	484,466,392
25	Ceylon Petroleum Corporation	7,177,167,714	-	647,368,644	6,529,799,070
26	National Development Trust Fund	553,900,881	306,354,749.80	16,032,023	844,223,607
27	Sarvodaya	1,291,334,570	111,932,785.00	26,752,815	1,376,514,540
28	Local Loan Development Fund	1,120,234,476	1,224,309,682.71	1,078,671	2,343,465,487
29	Lanka Orix Leasing Co. Ltd.	255,873,689	138,637,971.11	3,783,257	390,728,403
30	National Water Supplies & Drainage Board	12,877,150,128	2,201,753,385.49	438,400,525	14,640,502,988
31	Bank of Ceylon	797,355	120,703,939.41	797,355	120,703,939
32	Colombo Dockyard Add : Parity Variance Balance	158,984,280 0 158,984,280	18,342,540.00	24,336,720	152,990,100 31,537,296 184,527,396
33	Nation Trust Bank (MILL)	46,123,690	-	9,224,738	36,898,952
34	People's Bank	378,700	-	378,700	0
35	Urban Development Athority	276,749,960	-	0	276,749,960
36	S.L. Land Reclamation and Dev.Board	555,239,361	90,597,062.64	0	645,836,424
37	Commercial Leasing Company Ltd.	2,325,562	-	387,594	1,937,968
38	Ceylinco Leasing Company Ltd.	146,496,772	-	0	146,496,772
39	Housing Development Finance Corporation	201,581,870	-	36,651,249	164,930,621
40	State Mortgage & Investment Bank.	188,790,641	-	35,006,379	153,784,262
41	Central Bank of Sri Lanka	578,940,875	-	196,592,688	382,348,188
42	Federation of Thrift & Credit Corporation	32,009,675	-	32,009,675	0
43	Prajashakthi District Organization-Badulla	7,275,000	-	970,000	6,305,000
44	Sanasa Development Bank	12,056,479	-	-	12,056,479
45	Sanasa Development Bank	33,068,160	5,476,760.00	-	38,544,920
46	Uva Development Bank	5,199,995	-	3,188,493	2,011,502

S.No.	Name of the Institution	Balance as at 31.12.2005	New Loan During 2006	Amount Settled During 2006	Balance as at 31.12.2006
		Rs.	Rs.	Rs.	Rs.
*47	Revolving Funds with Central Bank of Sri Lanka	16,842,996,605	1,263,742,399.07	3,261,868,693.40	14,844,870,311
	Add: Parity Variance				521,492,101
	Balance	16,842,996,605	1,263,742,399.07	3,261,868,693	15,366,362,412
48	Asia Hotel Corporation	0	-	-	0
49	Wayamaba Development Bank	0	28,748,117.00	-	28,748,117
50	HDFC / NHDA	0	488,195,040.00		488,195,040
51	Airport & Aviation Services (Sri Lanka) Ltd	0	3,582,732,573.45	446,768,120.60	3,135,964,453
	Add : Parity Variance				128,211,200
	Balance	0	3,582,732,573.45	446,768,120.60	3,264,175,652.70
	On Lending Based on Foreign Aids	180,429,010,497.77	22,099,614,541.96	13,451,689,154.93	159,608,221,788.61
52	Provincial Councils	165,900,000	-	36,780,000	129,120,000
53	Local Loan Development Fund	405,243,025	-	21,592,500	383,650,525
54	Sri Lanka Rubber Manufacture & Development Corpora	773,340,000	-	0	773,340,000
55	Sri Lanka Handicraft Development Board	13,620,000	-	1,362,000	12,258,000
** 56	SME Bank	1,500,000,000	-	1,500,000,000	0
57	SME Bank	0	50,000,000.00	0	50,000,000
58	Hotel Developers Lanka Ltd.	5,267,050,307	457,385,711.54	0	5,724,436,019
59	Other Local Loans	79,600,000	-	3,500,000	76,100,000
60	AHF Loan Scheme 2004/2005	3,863,675,587	-	268,123,402.16	3,595,552,185
61	People's Bank - Small Sector Ent. Dev. Loan Scheme	98,249,645	-	98,249,645	0
62	Real Estate Exchange Pvt Ltd		250,000,000.00		250,000,000
63	Mity. of Prtrolium & Pet.Resos. Dev.		926,500,000.00		926,500,000
64	Sri Lanka Agriculture Products Marketing Authority		1,999,025,150.00		1,999,025,150
65	Prperty Loan Guarantee Fund		916,231,000.00		916,231,000
	On Lending Based on Domestic Funds	12,166,678,564	4,599,141,862	429,607,547	14,836,212,879
	Total Parity Variance	7,527,495,106			1,529,495,022
	Total (Before Parity Variance)	200,123,184,168	26,698,756,403	13,881,296,702	172,914,939,645
	Total (After Parity Variance)	192,595,689,062		13,881,296,702	174,444,434,667

* Note : According to the Cabinet Decission on 04/03/2006 Rs. 30,998,209,119.96 has been transferred to equity.

** Adjustments

Note - 21 Capital Contribution or Shareholdings in the Commercial Public Corporations/ State Owned Companies / Other Companies/ Plantation Companies/ Bus Companies/ Development Banks

	<u>Balance as at 01.01.2006</u>	<u>Additions in 2006</u>	<u>Adjustments +/- Reductions in 2006</u>	<u>Balance as at 31.12.2006</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
Note - 21.1 (a) Capital Contribution in Commercial Public Corporations	42,360,991,181	30,998,209,120	-	73,359,200,301	
Note - 21.1 (b) Central Bank of Sri Lanka	15,000,000	-	-	15,000,000	
Note - 21.2 Shareholdings in Government Owned or Other Companies	19,277,074,990	1,503,607,080	(2,973,587,700) *	17,807,094,370	-
Note - 21-3 Shareholdings in Plantation Companies	986,927,300	55,550	-	986,982,850	
Note - 21.4 Shareholdings in Bus Companies	4,257,077,950	705,882,440	1,018,069,840	3,944,890,550	
Note - 21.5 Shareholdings in Companies in US Dollor denomination	195,760,685	10,923,104	-	206,683,789	
Note - 21.6 Shareholdings in Development Banks	512,000,000	-	10,200,000	522,200,000	-
Total	67,604,832,106	33,218,677,294	(1,945,317,860)	96,842,051,860	

Note - 21.1 (a) Commercial Public Corporations

<u>S.No</u>	<u>Balance as at 01.01.2006</u>	<u>Additions in 2006</u>	<u>Reduction in 2006</u>	<u>Balance as at 31.12.2006</u>
<u>1</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
1 Bank of Ceylon	2,600,000,000	-	-	2,600,000,000
2 Central Engineering Consultancy Bureau	500,000	-	-	500,000
3 Ceylon Ceramics Corpoartion	2,640,000	-	-	2,640,000
4 Ceylon Electricity Board	20,200,467,000	30,998,209,120	-	51,198,676,120
5 Ceylon Fisheries Corporation	376,710,000	-	-	376,710,000
6 Ceylon Petroleum Corporation	117,820,000	-	-	117,820,000
7 Development Lotteries Board	2,200,000	-	-	2,200,000
8 Housing Development Finance Corporation Bank	391,308,000	-	-	391,308,000
9 National Films Corporation of Sri Lanka	10,000,000	-	-	10,000,000
10 National Institute of Business Management	57,175,766	-	-	57,175,766
11 National Livestock Development Board	576,587,649	-	-	576,587,649
12 National Lotteries Board	21,263,100	-	-	21,263,100
13 National Savings Bank	1,700,000,000	-	-	1,700,000,000
14 National Water Supply & Drainage Board	185,480,000	-	-	185,480,000
15 People's Bank	3,198,133,000	-	-	3,198,133,000
16 Sri Lanka Ayurvedic Drugs Corporation	5,000,000	-	-	5,000,000
17 Sri Lanka Broadcasting Corporation	307,386,085	-	-	307,386,085
18 Sri Lanka Cashew Corporation	427,287,074	-	-	427,287,074
19 Sri Lanka Cement Corporation	966,971,844	-	-	966,971,844
20 Sri Lanka Export Credit Insurance Corporation	30,000,000	-	-	30,000,000
21 Sri Lanka Handicraft Board	69,629,000	-	-	69,629,000
22 Sri Lanka Land Reclamation & Development Corporation	1,000,000	-	-	1,000,000
23 Sri Lanka Ports Authority	7,535,916,027	-	-	7,535,916,027
24 Sri Lanka Rupavahini Corporation	537,743,000	-	-	537,743,000
25 State Development & Construction Corporation	16,671,650	-	-	16,671,650
26 State Engineering Corporation of Sri Lanka	70,000,000	-	-	70,000,000
27 State Mortgage & Investment Bank	889,813,000	-	-	889,813,000
28 State Pharmaceuticals Corporation of Sri Lanka	59,055,258	-	-	59,055,258
29 State Pharmaceuticals Manufacturing Corporation	690,079,000	-	-	690,079,000
30 State Printing Corporation	15,000,000	-	-	15,000,000
31 State Timber Corporation	41,503,668	-	-	41,503,668
32 Urban Development Authority	1,257,651,060	-	-	1,257,651,060
Total (25.1)	42,360,991,181	30,998,209,120	-	73,359,200,301

Note - 21.1 (b) Central Bank of Sri Lanka

1 Centrtrl Bank of Sri Lanka	15,000,000	15,000,000
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Note : Total Equity (Net Worth of Commercial Public Corporation and Central bank of Sri Lanka) Note25.1.1 *

408,507,372,084 - Not Ready by 31.03.2007

* (Only to satisfy the disclosure requirement)

21.2 Shareholdings in Government Owned or other Companies (A/C. 9116)

Se. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment as at 31.12.2005	Value of the Investment as at 31.12.2006	Percentage of Share holdings by the Treasury
		As at 01.01.2006	Addition	Deductions	As at 31.12.2006				
1	Airport & Aviation Services (Sri Lanka) Ltd.	200,000			200,000	100.00	20,000,000.00	20,000,000.00	98.00%
2	BCC Lanka Limited	10,000,000			10,000,000	10.00	100,000,000.00	100,000,000.00	100.00%
3	Bogala Graphite Lanka Ltd	254,500			254,500	10.00	2,545,000.00	2,545,000.00	0.91%
4	Borwood Limited	200,000			200,000	10.00	2,000,000.00	2,000,000.00	
5	Building Materials Coporation	1,000,000			1,000,000	10.00	10,000,000.00	10,000,000.00	100.00%
6	Ceylon Agro Ltd	5,951,701			5,951,701	10.00	59,517,010.00	59,517,010.00	
7	Ceylon fertilizer Co. Ltd	14,445,608			14,445,608	10.00	144,456,080.00	144,456,080.00	100.00%
8	Ceylon Hotel Corporation	1,200,000			1,200,000	10.00	12,000,000.00	12,000,000.00	100.00%
9	Ceylon Oxygen Ltd	-	8,453		8,453	10.00	-	84,530.00	-
10	Ceylon Shipping Corporation Ltd	5,000,000			5,000,000	10.00	50,000,000.00	50,000,000.00	100.00%
11	Ceylon Shipping Lines Ltd	156,493			156,493	10.00	1,564,930.00	1,564,930.00	39.00%
12	Ceynor Foundation Ltd	4,000,000			4,000,000	10.00	40,000,000.00	40,000,000.00	100.00%
13	Colombo Commercial Company (Engineering) Ltd	2,960,000			2,960,000	10.00	29,600,000.00	29,600,000.00	-
14	Colombo Commercial Fertilizer Ltd	1,000,000			1,000,000	10.00	10,000,000.00	10,000,000.00	100.00%
15	Colombo Sack Makers Ltd	2,499,996			2,499,996	10.00	24,999,960.00	24,999,960.00	-
16	Commercial Bank of Ceylon Limited	5,546			5,546	10.00	55,460.00	55,460.00	0.00418%
17	Comsec Management Services	2,499,996			2,499,996	10.00	24,999,960.00	24,999,960.00	
18	Cultural Publication Company Ltd	600			600	100.00	60,000.00	60,000.00	
19	Distance Learning Center Ltd	2,600,000			2,600,000	10.00	26,000,000.00	26,000,000.00	99.90%
20	Elephant Lite Corporation Ltd (Laxapana Batteries Ltd)	829,200		829,200	-	10.00	8,292,000.00	-	-
21	Elephant Lite Corporation Ltd (Preference) - (Laxapana Batteries Ltd)	1,000			1,000	10.00	10,000.00	10,000.00	5.00%
22	Galadari Hotels Lanka Ltd	301,200			301,200	10.00	3,012,000.00	3,012,000.00	-
23	Glaxo Welcome Ceylon Ltd	450			450	10.00	4,500.00	4,500.00	0.00%
24	Hotel Developers (Lanka) Ltd	29,388,463			29,388,463	10.00	293,884,630.00	293,884,630.00	64.98%
25	Hotel Services Ltd	-	2,263		2,263	10.00	-	22,630.00	0.0128%
26	Hunas Falls Limited	1			1	10.00	10.00	10.00	-
27	Independent Television Network Ltd	9,500,000			9,500,000	10.00	95,000,000.00	95,000,000.00	100.00%
28	International Dairy Products Ltd	1,200,000			1,200,000	10.00	12,000,000.00	12,000,000.00	-
29	Kahatagaha Grafite Lanka Limited	130,000			130,000	10.00	1,300,000.00	1,300,000.00	90.00%
30	Kalubowitaya Tea Factory Ltd	4,637,500			4,637,500	10.00	46,375,000.00	46,375,000.00	99.90%
31	Kantale Suger Industries Ltd	268,993			268,993	100.00	26,899,300.00	26,899,300.00	100.00%
32	Lafarge Mahaweli Cement (Pvt) Ltd	480,000			480,000	10.00	4,800,000.00	4,800,000.00	10.00%
33	Lanka Canneries Limited	40,002			40,002	100.00	4,000,200.00	4,000,200.00	9.17%
34	Lanka Cement Limited	22,246,000			22,246,000	10.00	222,460,000.00	222,460,000.00	13.00%
35	Lanka Electricity Company (Pvt) Ltd	49,880,000			49,880,000	10.00	498,800,000.00	498,800,000.00	43.56%
36	Lanka Fabrics Limited	210,000			210,000	10.00	2,100,000.00	2,100,000.00	93.30%
37	Lanka Hydraulic Institute Ltd	50,000			50,000	10.00	500,000.00	500,000.00	4.53%
38	Lanka Industrial Estates Ltd	7,800,000			7,800,000	10.00	78,000,000.00	78,000,000.00	48.84%
39	Lanka Layland Ltd	2,149,900			2,149,900	10.00	21,499,000.00	21,499,000.00	41.77%
40	Lanka Machine Leasers (Pvt) Ltd	588,884			588,884	100.00	58,888,400.00	58,888,400.00	
41	Lanka Mineral Sands Ltd	80,000,000			80,000,000	10.00	800,000,000.00	800,000,000.00	100.00%
42	Lanka Phosphate Limited	7,251,000			7,251,000	10.00	72,510,000.00	72,510,000.00	100.00%
43	Lanka STC General Trading Co. Ltd	10,000,000			10,000,000	10.00	100,000,000.00	100,000,000.00	100.00%
44	Lanka Synthetic Fiber Company	956,256			956,256	10.00	9,562,560.00	9,562,560.00	-
45	Lanka Textile Mills Emporium Ltd	700,000			700,000	10.00	7,000,000.00	7,000,000.00	-
46	Lanka Tractors Limited	5,250,000			5,250,000	10.00	52,500,000.00	52,500,000.00	30.00%
47	Mantai Salt Ltd	300,000			300,000	100.00	30,000,000.00	30,000,000.00	100.00%
48	Mattegoda Textile Mills Ltd	900,000			900,000	10.00	9,000,000.00	9,000,000.00	-
49	MILCO (Pvt) Ltd - Kiriya Milk Industries	30,649,999			30,649,999	10.00	306,499,990.00	306,499,990.00	99.99%
50	National Development Bank	177,300			177,300	10.00	1,773,000.00	1,773,000.00	0.32%
51	National Paper Company Ltd	32,300,000			32,300,000	10.00	323,000,000.00	323,000,000.00	100.00%
52	National Insurance Corporation Ltd	6,848			6,848	10.00	68,480.00	68,480.00	-
53	Orient Lanka Ltd	1,048			1,048	10.00	10,480.00	10,480.00	0.035%
54	Paranthan Chemicals Company Ltd	4,000,000			4,000,000	10.00	40,000,000.00	40,000,000.00	100.00%
55	Rajarata Food Grain Ltd	-	350,000		350,000	10.00	-	3,500,000.00	-
56	Puttalam Cement Company Ltd	97,071			97,071	10.00	970,710.00	970,710.00	-
57	Ruhunu Cement Co. Ltd	10,175,000			10,175,000	10.00	101,750,000.00	101,750,000.00	-
58	Shell Gas Lanka Limited	17,616,853			17,616,853	10.00	176,168,530.00	176,168,530.00	48.90%
59	Skills Development Fund Ltd	10,200,012			10,200,012	10.00	102,000,120.00	102,000,120.00	98.00%
60	SME Bank	-	149,999,992		149,999,992	10.00	-	1,499,999,920.00	-
61	Sri Lanka Export Credit Insurance	1,000,000			1,000,000	10.00	10,000,000.00	10,000,000.00	100.00%
62	Sri Lanka Rubber Manufacturing & Export Consortium Ltd.	7,798,000			7,798,000	10.00	77,980,000.00	77,980,000.00	100.00%
63	Sri Lanka Telecom Limited	893,405,709			893,405,709	10.00	8,934,057,090.00	8,934,057,090.00	49.50%
64	Sri Lanka Telecom (Services)	1			1	10.00	10.00	10.00	-
65	Sri Lankan Airlines Ltd	26,275,436			26,275,436	100.00	2,627,543,600.00	2,627,543,600.00	51.05%
66	Statcon Rubber Company Ltd	74,830			74,830	10.00	748,300.00	748,300.00	9.00%
67	Tea Smallholder Factories Ltd	49,000,000			49,000,000	10.00	490,000,000.00	490,000,000.00	100.00%
68	The Selinsing Company Limited	615			615	10.00	6,150.00	6,150.00	1.00%
69	Thomas De La Rue Lanka Currency & Security Print (Pvt) Ltd	2,800,000			2,800,000	10.00	28,000,000.00	28,000,000.00	40.00%
70	United Motors Lanka Limited	13			13	10.00	130.00	130.00	-
71	Vayangoda Textile Ltd	7,500,000			7,500,000	10.00	75,000,000.00	75,000,000.00	-
72	Wakers & Greig Limited	2,850			2,850	2.00	5,700.00	5,700.00	-
73	Wakers & Greig Limited	100			100	10.00	1,000.00	1,000.00	-
	Total	1,382,114,974	150,360,708	829,200	1,531,646,482		16,311,779,290	17,807,094,370	

21.3 Shareholding in Plantation Companies

Se. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2005	Value of the Investment at cost as at 31.12.2006	Percentage of Share holdings by the Treasury
		As at 01.01.2006	Addition	Deductions	As at 31.12.2006				
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
1	Agaraptana Plantationa Ltd	5,821,162			5,821,162	10.00	58,211,620.00	58,211,620.00	30.39%
2	Agalawatta Plantation Ltd	-	741		741	10.00	-	7,410.00	0.0029%
3	Bagawantalawa Plantation Ltd	9,629	4,814		14,443	10.00	96,290.00	144,430.00	0.028%
4	Balangoda Plantation Ltd	4,760			4,760	10.00	47,600.00	47,600.00	0.20%
5	Chilaw Plantation Ltd	20,000,000			20,000,000	10.00	200,000,000.00	200,000,000.00	100.00%
6	Elkaduwa Plantation Ltd	18,000,010			18,000,010	10.00	180,000,100.00	180,000,100.00	100.00%
7	Elpitiya Plantation Ltd	7,806,546			7,806,546	10.00	78,065,460.00	78,065,460.00	39.00%
8	Hapugastenne Plantation Ltd	1			1	10.00	10.00	10.00	19.00%
9	Horana Plantation Ltd	5,889			5,889	10.00	58,890.00	58,890.00	0.024%
10	Kahawatte Plantation Limited	1			1	10.00	10.00	10.00	0.000002%
11	Kegalle Plantation Ltd	4,387			4,387	10.00	43,870.00	43,870.00	-
12	Kelani Valley Plantation Ltd	1			1	10.00	10.00	10.00	-
13	Kotagala Plantation Ltd	3,800,557			3,800,557	10.00	38,005,570.00	38,005,570.00	11.88%
14	Kurunegala Plantation Ltd	20,000,001			20,000,001	10.00	200,000,010.00	200,000,010.00	100.00%
15	Madulsima Plantation Ltd	3,805,652			3,805,652	10.00	38,056,520.00	38,056,520.00	13.12%
16	Malwalta Valley Plantation Ltd.	1			1	10.00	10.00	10.00	-
17	Maskeliya Plantation Ltd.	9,007			9,007	10.00	90,070.00	90,070.00	-
18	Maturata Plantation Ltd.	7,806,020			7,806,020	10.00	78,060,200.00	78,060,200.00	39.00%
19	Namunukula Plantation Ltd.	3,801,598			3,801,598	10.00	38,015,980.00	38,015,980.00	16.00%
20	Pussellawa Plantation Ltd.	7,817,123			7,817,123	10.00	78,171,230.00	78,171,230.00	32.70%
21	Talawakelle Plantations Limited	368			368	10.00	3,680.00	3,680.00	0.0015%
22	Udapussellawa Plantation Ltd	1			1	10.00	10.00	10.00	19.00%
23	Watawala Plantation Ltd.	16			16	10.00	160.00	160.00	-
Total		98,692,730	5,555	-	98,698,285		986,927,300	986,982,850	

21.4 Shareholding in Bus Companies

Se. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2005	Value of the Investment at cost as at 31.12.2006	Percentage of Share holdings by the Treasury
		As at 01.01.2006	Addition	Deductions	As at 31.12.2006				
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
1	Colombo Metropolitan Bus Company	117,000,000		70,000,000	47,000,000	10.00	1,170,000,000	470,000,000.00	90.00%
2	Gampaha Bus Company	40,050,000			40,050,000	10.00	400,500,000	400,500,000.00	89.00%
3	Kalutara Bus Company Ltd	22,350,000			22,350,000	10.00	223,500,000	223,500,000.00	90.00%
4	Mahanuwara Bus Company Ltd	5,261,756	14,688,244		19,950,000	10.00	52,617,560	199,500,000.00	90.90%
5	New Eastern Bus Company Ltd	38,156,987			38,156,987	10.00	381,569,870	381,569,870.00	95.40%
6	Nuwaraeliya Bus Company Ltd	27,393,695			27,393,695	10.00	273,936,950	273,936,950.00	91.30%
7	Rajarata Bus Company Limited	33,200,000			33,200,000	10.00	332,000,000	332,000,000.00	94.86%
8	Ruhunu Bus Company Limited	30,000,000	10,550,000		40,550,000	10.00	300,000,000	405,500,000.00	40.00%
9	Uva Bus Company Ltd	32,745,357		1,806,984	30,938,373	10.00	327,453,570	309,383,730.00	95.00%
10	Wayamba Bus Company Ltd	79,550,000		30,000,000	49,550,000	10.00	795,500,000	495,500,000.00	90.00%
11	Sabaragamu Bus Company Ltd	-	45,350,000		45,350,000	10.00	-	453,500,000.00	-
Total		425,707,795	70,588,244	101,806,984	394,489,055		4,257,077,950	3,944,890,550	

21.5 Shareholdings in Companies in US Dollor denomination

Se. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2005	Value of the Investment at cost as at 31.12.2006	Percentage of Share holdings by the Treasury
		As at 01.01.2006	Addition	Deductions	As at 31.12.2006				
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
1	Asian Reinsurence Corporation	900			900	US\$ 1000	91,872,000.00	96,935,040.00	-
2	Ceylon Shipping Agency	24,500			24,500	1 (Singapore)	1,502,445.35	1,720,032.30	99.00%
3	International Finance Corporation	1,003			1,003	US\$ 1000	102,386,240.00	108,028,716.80	-
Total		26,403	-	-	26,403		195,760,685.35	206,683,789.10	

Exchange Rate as at 31.12.2005/29.12.2006

Currency	31.12.2005	29.12.2006
	Rate	
US Dollar	102.08	107.71
Singapore Dollar	61.32	70.21

21.6 Shareholdings in Development Banks

Se. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2005	Value of the Investment at cost as at 31.12.2006	Percentage of Share holdings by the Treasury
		As at 01.01.2006	Addition	Deductions	As at 31.12.2006				
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
1	Kandurata Development Bank	10,200,000			10,200,000	10.00	102,000,000.00	102,000,000.00	68.00%
2	Rajarata Development Bank	5,200,000			5,200,000	10.00	52,000,000.00	52,000,000.00	52.00%
3	Ruhunu Development Bank	10,200,000			10,200,000	10.00	102,000,000.00	102,000,000.00	68.00%
4	Sabaragamuwa Development Bank	10,200,000			10,200,000	10.00	102,000,000.00	102,000,000.00	68.00%
5	Uva Development Bank	5,200,000			5,200,000	10.00	52,000,000.00	52,000,000.00	52.00%
6	Wayamba Development Bank	11,220,000			11,220,000	10.00	112,200,000.00	112,200,000.00	60.00%
Total		52,220,000	-	-	52,220,000		522,200,000	522,200,000.00	

Summary		31.12.2006	
Se. No.	Company Name	Numbers of Shares	Nominal Value of Shares (RS.)
1	General	1,531,646,482	17,807,094,370.00
2	Plantation	98,698,285	986,982,850.00
3	Bus	394,489,055	3,944,890,550.00
4	Shares in Dollor Value	26,403	206,683,789.10
5	Development Banks	52,220,000	522,200,000.00
Number of Shares		2,024,860,225	23,467,851,559.10

Note - 21.1.1 (a) Equity (Net worth) of the Commercial Public Corporations

<u>S.No.</u>	<u>Name</u>	<u>As at 01.01.2006</u> <u>Rs.</u>	<u>As at 01.01.2005</u> <u>Rs.</u>
1	Bank of Ceylon	16,182,522,000	15,347,725,000
2	Central Engineering Consultancy Bureau	345,480,369	330,315,352
3	Ceylon Ceramics Corpootion	(114,287,000)	(125,354,000)
4	Ceylon Electricity Board	178,233,978,000	161,167,635,000
5	Ceylon Fisheries Corporation	310,272,431	304,907,955
6	Ceylon Petroleum Corporation	12,673,455,000	2,984,126,000
7	Development Lotteries Board	608,613,715	372,538,497
8	Housing Development Finance Corporation Bank	1,642,877,246	1,012,950,139
9	National Films Corporation of Sri Lanka	236,260,883	197,121,000
10	National Livestock Development Board	514,115,338	541,105,838
11	National Lotteries Board	2,308,407,981	1,850,672,644
12	National Savings Bank	12,520,822,000	11,409,422,000
13	National Water Supply & Drainage Board	71,963,528,254	60,544,018,802
14	People's Bank	4,181,404,000	131,168,000
15	Sri Lanka Ayurvedic Drugs Corporation	135,492,876	115,319,327
16	Sri Lanka Broadcasting Corporation	387,513,866	439,142,313
17	Sri Lanka Cashew Corporation	390,036,928	372,951,754
18	Sri Lanka Cement Corporation	1,526,505,000	1,525,516,000
19	Sri Lanka Export Credit Insurance Corporation	691,732,370	615,902,700
20	Sri Lanka Handicraft Board	90,131,997	90,633,243
21	Sri Lanka Land Reclamation & Development Corporation	935,870,000	839,259,000
22	Sri Lanka Ports Authority	12,164,550,238	2,167,844,369
23	Sri Lanka Rupavahini Corporation	1,791,895,000	1,668,704,000
24	State Development & Construction Corporation	850,470,064	573,493,213
25	State Engineering Corporation of Sri Lanka	(114,787,721)	(125,446,832)
26	State Mortgage & Investment Bank	2,396,491,000	2,350,638,000
27	State Pharmaceuticals Corporation of Sri Lanka	1,591,225,095	1,136,262,178
28	State Pharmaceuticals Manufacturing Corporation	1,026,005,369	1,021,778,059
29	State Printing Corporation	123,354,938	104,387,338
30	State Timber Corporation	1,654,640,768	1,430,830,732
31	Urban Development Authority	4,123,161,079	4,132,541,252
Total (a) Equity (Net worth)		331,371,739,084	274,528,108,873

Note - 21.1.1 (b) Equity (Net worth) of the Central Bank.

<u>S.No.</u>	<u>Name</u>	<u>As at 01.01.2006</u> <u>Rs.</u>	<u>As at 01.01.2005</u> <u>Rs.</u>
1	Centrtal Bank of Sri Lanka	77,135,633,000	88,896,622,000
Total (b) Equity (Net worth)		77,135,633,000	88,896,622,000
Total (a + b) Equity (Net worth)		408,507,372,084	363,424,730,873

(Only to satisfy disclosure requirement)

		Actual	
		2006	2005
		Rs.	Rs.
<u>Note - 22 Advances From Central Bank Sri Lanka</u>			
Advance From CBSL - Monetary Law Act (8176)		49,015,400,000	39,746,300,000
		49,015,400,000	39,746,300,000
<u>Note - 23 Foreign loan Revolving Funds</u>			
Reimbursable Foreign Aid Revolving Fund (8760)		1,598,950,016	2,237,891,735
Central Bank Special Nordic Revolving Fund (9111)		100,839,548	99,714,703
IDA Revolving Fund (8814)		1,358,423,454	2,628,364,937
CBSL Special Dollar Account (International Fund for Agr. Dev. Revolving Fund) (8974)		359,954,922	151,282,786
IBRD Revolving Fund Account (8982)		1,570,884,206	1,759,120,131
ADB Special Dollar Revolving Fund Account (8919)		2,779,351,649	6,159,517,060
CBSL Revolving Fund Account (Yen) - (9095)		506,801,602	69,951,928
CBSL Special Deutsche Mark Revolving Fund Account (9102)		492,926,540	695,958,233
UNDP Revolving Fund Account (9124)		102,913,182	102,117,200
Special Rupee Revolving Fund Account - Netherland & Sri Lanka Cultural Assistance Programme (9131)		45,500,333	-
Special Foreign Currency Revolving Fund Account (Euro Italy) (9121)		(7,178,600)	
Special Foreign Currency Revolving Fund Account (9126)		208,367,559	
		9,117,734,410	13,903,918,713
<u>Note - 24 Miscellaneuos Funds</u>			
Public Service Provident Fund Account (8098)		1,579,279,634	937,642,479
Teachers' Widows & Orphans Pension Fund (8186)		152,193,391	128,515,331
Technical Development Fund (IDB) (8365)		99,887,858	99,887,858
		1,831,360,882	1,166,045,668
<u>Note - 25 Government Borrowings</u>			
	2006	2006	2005
	Face Value	Rs.	Rs.
Treasury Bills (8085)	257,732,000,000	240,949,120,557	220,612,432,148
Treasury Bonds (9093)	885,972,000,000	815,437,089,359	718,009,013,566
Sub Total	1,143,704,000,000	1,056,386,209,916	938,621,445,714
Rupee Loans (8249)		116,713,041,162	140,562,457,312
Sri Lanken Development Bonds (9105)		59,959,056,975	25,705,051,075
Local Loans In Foreign Currency (9107)		55,993,551,625	70,650,771,970
CITI Bank loan (9112)		1,628,622,556	1,668,774,254
Sri Lanka Nations Building Bonds (9128)		260,464,463	
Total Borrowings - Domestic		1,290,940,946,696	1,177,208,500,325
Foreign Loans (8343) - (Adverse Parity Variance recognised in 2006 was Rs.109,207,750,550)	*	1,139,929,966,739	924,454,529,700
		2,430,870,913,435	2,101,663,030,025
* Note : Foreign Loan Balance as per Central Bank of Sri Lanka		1,123,803,064,586	944,478,047,906
<u>Note - 26 Deposits & other Liabilities</u>			
Treasury General Deposit Account (6000)		61,413,196,472	52,273,566,781
Treasury Deposit Account for District Secretaries (6003)		2,755,982,493	2,248,651,183
Public Service Mutual Guarantee Association (8013)		8,152,310	372,503
Subsidy Expenditure Account (9127)		-	(41,885,688,095)
Director General Of Customs - Cess Recovery Account (8105)		3,395,241,256	1,691,400,183
Treasury Certificate of Deposits (8976)		34,566,018	34,566,018
		67,607,138,550	14,362,868,573
<u>Note - 27 Operating Accounts With Government Departments [Dr./ (Cr.)]</u>			
General Manager - Railway Department (8003)		93,652,797	39,029,782
Director General - Dept. of Customs (8005)		11,482,539	(49,909,777)
Post Master General - Department Of Posts (8037)		(5,216,269)	(4,521,714)
Treasury Operations Department (8233) and (8583)		(3,689,734,885)	(2,138,474,683)
Treasury Operations Department (9092)		(79,119,869)	(74,975,847)
State Accounts Department (8584)		(221,366)	(127,419)
Provincial Councils (8657)		464,987	(868,788)
Collection Of GST (9098)		38,940,420	38,940,419
GST Refund Account (9099)		(986,855)	(986,855)
Non Operating Accounts (9100)		20,712,460	20,712,460
Chief Accountant - Kerala (Foreign Pension) (8190)		-	704,204

(3,610,026,041)	(2,170,478,218)
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	<u>2006</u> <u>Rs.</u>	<u>2005</u> <u>Rs.</u>
<u>Note - 28 Sundry Accounts [Dr./ (Cr).]</u>		
Foreign Aid Loan Expenditure Credit Account (8100)	-	(2,587,204,687)
Cheque Returned Account (8315)	1,233,070	2,918,533
Sinking Fund Investment Account (8574)	46,492,720	46,492,720
Sinking Fund Account (8575)	(46,492,720)	(46,492,720)
Parity Variance Account on Crown Agent Account (8029)	(25,050,828)	(1,667,162)
Foreign Aid Expenditure Account (8301)	3,877,938,064	43,401,047
Foreign Aid Grant Account (8314)	(49,819,260)	(48,113,441)
Investment Account for National Housing Bonds (8859)	1,284,200	1,284,200
	<u>3,805,585,246</u>	<u>(2,589,381,510)</u>
<u>Note - 29 Statement of Change in Equity</u>		
Opening Balance of the Consolidated Fund as at 1 st January	(43,242,407,561)	(58,772,176,205)
(Dr.) Prior years' Adjustments.	(2,866,038,155)	
<u>Add Receipts to the Consolidated Fund</u>		
Total Cash Provided from Operations	477,382,179,094	401,277,998,780
Total Cash Provided from Investing Activities	14,454,879,574	11,463,831,843
Total Cash Provided From Financing Activities	514,018,320,607	416,171,288,566
Total Cash Receipts (a)	<u>1,005,855,379,275</u>	<u>828,913,119,189</u>
<u>Less Total Payments of the Consolidated Fund</u>		
Total Cash Disbursement to Operations	(579,238,016,466)	(415,863,528,419)
Total Cash Disbursement to Investing Activities	(197,849,604,176)	(163,674,660,169)
Total Cash Disbursement to Repayment of Debt	(295,693,375,873)	(233,845,161,957)
Total Cash Payments (b)	<u>(1,072,780,996,515)</u>	<u>(813,383,350,545)</u>
Net Cash Receipts (a) - (b)	<u>(66,925,617,240)</u>	<u>15,529,768,644</u>
Closing Balance of the Consolidated Fund as at 31st December (Dr.)	<u>(113,034,062,956)</u>	<u>(43,242,407,561)</u>
<u>Note- 30 Total Investment in Physical Assets and Accumulated Net Revenue Deficit</u>		
Accumulated Revenue Deficit (2006/2005/2004)	161,014,814,309	59,158,976,937
Total Accumulated Value of Physical Assets at cost, with Accumulated Net Revenue Deficit Prior to 2004	1,999,585,354,333	1,783,319,273,659
	<u>2,160,600,168,642</u>	<u>1,842,478,250,596</u>

Note 31 -Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2006

S. NO:	NAME OF INSTITUTION	NAME OF BANK OR INSTITUTION	GURANTEEE AMOUNT (Rs. Million)	DATE OF ISSUE	DATE OF EXPIRY	CAPITAL OUTSTANDING (Rs. in Million)
1	Merchant Bank of Sri Lanka	Employee's Trust Fund Board	125.00	2003.05.30	2006.01.10	125.00
2	Merchant Bank of Sri Lanka	Employee's Trust Fund Board	430.00	2003.05.30	2008.01.10	430.00
3	Ceylon Pertoleum Corporation	National Development Bank	998.80	1997.08.28	2008.02.28	166.60
4	Merchant Bank of Sri Lanka	National Savings Bank	400.00	2002.12.27	2007.12.27	400.00
5	Merchant Bank of Sri Lanka	National Savings Bank	70.00	2004.03.17	2008.12.10	35.00
6	Urban Development Authority	National Savings Bank	500.00	1999.08.17	2010.07.01	187.50
7	Cooperative Whole sale Establishment	People's Bank	207.10	2005.02.02	2006.02.15	207.10
	Sub Total		2,730.90			1,551.20
8	State Pharmaceuticals Corporation	People's Bank	500.00	2001.07.11	2001.12.31	577.32
9	Palindanuwara Kitul Treacle Producers Cooperative Society	People's Bank	0.30	1994.09.01	1994.12.31	0.08
10	Govinna Instrial Cooperative Society	People's Bank	0.25	1994.09.01	1994.12.31	0.16
11	Amaragedara Decorative Granite Slabs Manufactures Cooperative Soc.	People's Bank	0.25	1994.09.01	1994.12.31	0.18
12	Janatha Bandaragama Rice Produces & Sales Coop. Soc.	People's Bank	2.09	1993.03.29	1994.12.31	0.15
13	Bulathsinhala Kitul Treacle & Juggery Producers Coop. Soc.	People's Bank	0.30	1994.09.01	1994.12.31	0.19
14	Colombo Commercial (Engineer's	People's Bank	10.59	1999.09.20	2002.06.30	2.00
15	Relief to Small Holder Tea Sector Credits Scheme	People's Bank	27.25	2000.03.13	2002.06.13	15.58
16	Grayline International Pvt. Ltd.	People's Bank	351.00	1994.08.11	1996.08.08	351.00
17	Overseas Reality Ceylon Pvt.Ltd.	SR & CC & Terriorism Fund	500.00	2000.02.14	2004.12.31	500.00
18	Galadari Hotel Lanka Ltd	SR & CC & Terriorism Fund	350.00	2000.02.14	2004.12.31	350.00
19	Hospilality International Pvt. Ltd.	SR & CC & Terriorism Fund	20.00	200.02.14	2004.12.31	6.46
20	Galadari Hotel Lanka Ltd	SR & CC & Terriorism Fund	50.00	2000.02.14	2004.12.31	48.21
21	Hotel Developer's Lanka Ltd	SR & CC & Terriorism Fund	350.00	2002.02.14	2004.12.31	218.75
	Sub Total		2,162.03			2,070.08
23	Lanka Canneries Ltd.	Bank of Ceylon	20.00	1993.04.30	2006.12.31	4.30
24	Lanka Salu Sala Ltd.	Bank of Ceylon	105.00	1996.07.31	2006.12.31	125.00
25	Ceylon Petrolleum Corporation	People's Bank	17,000.00	1995.04.26	2001.12.31	10,144.74
26	Ceylon Petrolleum Corporation	Bank of Ceylon	20,000.00	2004.12.28	2006.12.31	8,159.50
27	Ceylon Electricity Board	People's Bank	3,000.00	2004.03.03		3,019.25
28	National Textile Corporation	People's Bank	620.00	2005.12.31		269.27
29	S/L Consumer Co-operative Societies	People's Bank	50.00	2006.07.31	2007.01.31	50.00
	Sub Total		40,795.00			21,772.06
	GRAND TOTAL		45,687.93			25,393.34

(B) STATEMENT OF LETTERS OF COMFORT ISSUED TO LOCAL BANKS AND THE LIABILITY AS AT 31.12.2006

S. No.	Name of Institution	Name of Bank	Currency	Total Value of Letters of Comfort Issued	Date of Issue	Liability as at 31.12.2006 (Rs. in Million)
1	Sri Lanka Air Force	Bank of Ceylon	USD	36,099,422	30.08.2000	764.05
2	Sri Lanka Air Force	People's Bank	USD	19,190,502	21.12.2004	1,794.31
3	Sri Lanka Air Force	People's Bank	USD	10,255,776	08.07.2005	676.88
4	Sri Lanka Air Force	People's Bank	USD	5,151,191	11.07.2005	242.57
5	Sri Lanka Air Force	People's Bank	USD	13,976,000	17.08.2006	1,537.36
6	Sri Lanka Air Force	People's Bank	USD	1,175,000	28.12.2006	129.25
7	Sri Lanka Navy	Bank of Ceylon	USD	29,500,000	10.05.2005	429.96
8	Sri Lanka Navy	Bank of Ceylon	EURO	3,714,657	21.12.2005	0.65
	Total					5,575.03



විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அறியுதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல
My No }

ඔබේ අංකය
உமது இல
Your No }

දිනය
திகதி
Date } 2007 මැයි 24 දින

විගණන මතය

ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ 2006 දෙසැම්බර් 31 දිනට ශේෂ පත්‍රය සහ එම දිනයෙන් අවසන් වන වර්ෂය සඳහා වූ මූල්‍ය ප්‍රවාහ ප්‍රකාශය, මූල්‍ය කාර්ය සාධන ප්‍රකාශය, ඉදිරිපත් කර ඇති, ගිණුම්කරන ප්‍රතිපත්ති සහ සටහන් 1 සිට 31 දක්වා ඇති පරිදි වූ අනෙකුත් කරුණු පැහැදිලි කිරීමේ සටහන් ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ ආණ්ඩුක්‍රම ව්‍යවස්ථාවේ 154(1) ව්‍යවස්ථාවෙහි ඇතුළත් විධිවිධාන ප්‍රකාර මාගේ විධානය යටතේ විගණනය කරන ලදී.

මාගේ පරීක්ෂණයෙන් පෙනී යන අන්දමට සහ මාගේ උපරිම තොරතුරු සහ මට සපයන ලද පැහැදිලි කිරීම් අනුව, පොදුවේ පිළිගත් ගිණුම්කරණ මූලධර්මවලට අනුකූලව එම මූල්‍ය ප්‍රකාශයන් පිළියෙල කර ඇති බවත්, එමගින් 2006 දෙසැම්බර් 31 දිනට ශ්‍රී ලංකා ප්‍රජාතාන්ත්‍රික සමාජවාදී ජනරජයේ මූල්‍ය වත්කම් සහ මූල්‍ය වගකීම් පිළිබඳ වූ තත්ත්වය සහ එදිනෙන් අවසන් වර්ෂය සඳහා වූ මෙහෙයුම් ප්‍රතිඵල සහ මූල්‍ය ප්‍රවාහය සත්‍ය හා සාධාරණ ලෙස පෙන්වුම් කරන බව මාගේ මතය වේ.

පී.ඒ. පෙමතිලක.

විගණකාධිපති.

AUDIT OPINION

The Balance Sheet of the Democratic Socialist Republic of Sri Lanka as at 31 December 2006 and the Statement of Financial Performance and Cash Flow Statement, Stated accounting policies set out in Notes and other explanatory notes set out in Notes 1 to 31 for the year then ended were audited under my direction in pursuance of provision in Article 154 (I) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

I am of opinion So far as appears from my examination and to the best of my information and according to the explanations given to me, the said Financial Statements have been prepared and presented in accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial assets and liabilities as at 31 December 2006 and the results of its operations and its cash flows for the year then ended.

Sgd. (P.A.Pematilaka)
Auditor General

තීරුසස් වතුරගුය,
කොළඹ 07, ශ්‍රී ලංකාව
දුරකථනය
தொலைபேசி
Telephone }

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கொழும்பு 07 இலங்கை
පැයස් අංකය
உமது இல
Fax No. }

2697451

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA
ඉලෙක්ට්‍රොනික් තැපෑල
E-mail }

oaggov@slmet.lk