



Ministry of Finance and Planning Sri Lanka

Annual Report 2007

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Ministry of Finance and Planning

3

(as at 31st March, 2008)

His Excellency the President Mahinda Rajapaksa
Minister of Finance and Planning

Hon. Ranjith Siyambalapitiya MP
**Minister of State Revenue and State Finance
and Deputy Minister of Finance and Planning**

PRINCIPAL OFFICIALS

P B Jayasundera
**Secretary, Ministry of Finance and Planning
Secretary to the Treasury**

Deputy Secretaries to the Treasury

S Abeyasinghe
R A Jayatissa
R H S Samaratunga
L R De Silva

Additional Secretary

U R Seneviratne

Administration

U G K Samarasekera - Director General

Operations and Review

N G Dayaratne - Director General

Management Audit Department

P. M. P. Fernando - Actg. Director General
K. M. Jayatillake - Additional Director General
K. Mahalingam - Additional Director General

Senior Advisors

W D Lakshman - Senior Economic Advisor
V Kanagasabapathy - Financial Management
R P L Weerasinghe - Taxation Policy

Fiscal Management Reform Program

Ms. G D C Ekanayake - Project Director

4 Heads of Treasury Departments

(as at 31st March, 2008)

National Planning Department

B Abeygunawardena	-	Director General
H.M.Gunasekera	-	Additional Director General
B.M.S.Batagoda	-	Chief Executive Officer Project Management Bureau
D S Jayaweera	-	Executive Director National Council for Economic Development

External Resources Department

Mrs. S Cooray	-	Director General
J H J Jayamaha	-	Additional Director General
Mrs. M Gamage	-	Additional Director General

National Budget Department

Mrs. W S Karunarathna	-	Director General
Mrs. C S Kumarasinghe	-	Additional Director General

Public Enterprises Department

B M S Batagoda	-	Director General
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Management Services Department

P A Abeysekera	-	Director General
L P Jayampathi	-	Additional Director General

Fiscal Policy Department

S R Attygalle	-	Director General
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Trade, Tariff & Investment Policy Department

Ms. G D C Ekanayake	-	Director General
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Development Finance Department

Mrs. D de Zoysa	-	Director General
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Public Finance Department

W Ekanayake	-	Director General
D Abeysooriya	-	Additional Director General

Legal Affairs Department

Mrs. H M N S Gunawardana	-	Director General
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Treasury Operations Department

L R de Silva	-	Director General
Mrs. D P R Senadhipathi	-	Additional Director General

State Accounts Department

D Widanagamachchi	-	Director General
K Indran	-	Additional Director General

Heds of Departments under the Purview of the Ministry of Finance and Planning

(as at 31st March, 2008)

Inland Revenue Department

S.Angammana	-	Commissioner General
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Customs Department

S A C S W Jayatilake	-	Director General
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Excise Department

D. G. M. V. Hapuarachchi	-	Commissioner General
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Imports and Exports Control Department

N B Hapuhinne	-	Controller
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Valuation Department

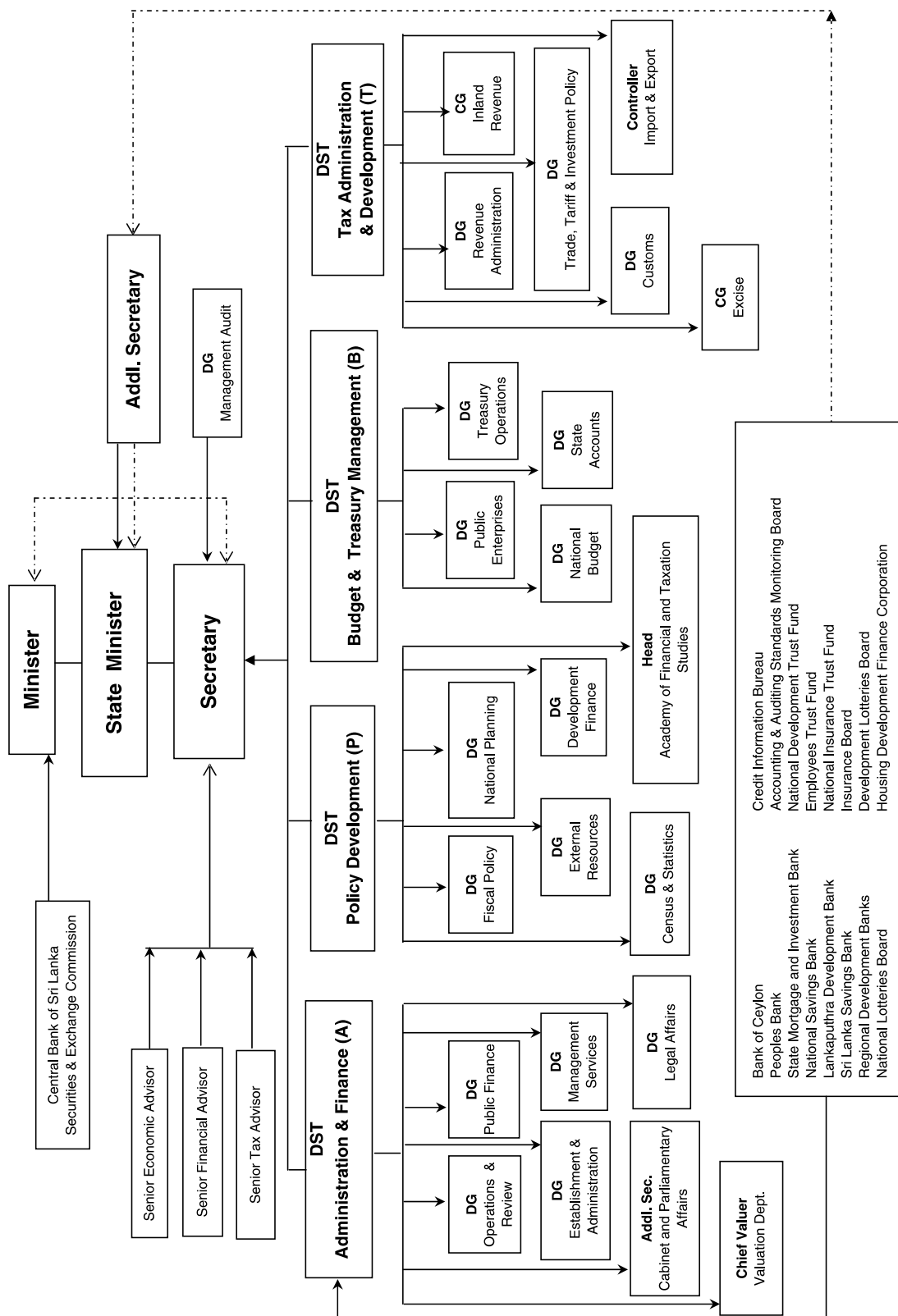
P W Senarathne	-	Chief Valuer
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Census and Statistics Department

Mrs. D B P S Vidyaratne	-	Director General
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Organizational Chart - Ministry of Finance and Planning

(as at 31st March 2008)



Heads of Statutory Boards / State Banks / Other Institutions under the purview of the Ministry of Finance and Planning

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(as at 31st March, 2008)

Central Bank of Sri Lanka	Governor Deputy Governor Deputy Governor	A N Cabraal W A Wijewardena Mrs. R Jayamaha
Bank of Ceylon	Chairman General Manager	G Wickremasinghe B A C Fernando
People's Bank	Chairman General Manager	W Karunajeewa A De Silva
National Savings Bank	Chairman General Manager	K D U Gunarane S H Piyasiri
State Mortgage & Investment Bank	Chairman General Manager	C Weerakkody A Weerasinghe
Lanka Puthra Development Bank	Chairman Chief Executive Officer	A De Vass Gunawardana Mrs. S Wickremasinghe
Rajarata Development Bank	Chairman General Manager	A B Karunathilaka R Siriwardena
Sabaragamuwa Development Bank	Chairman General Manager	B F Siyambalapitiya A B Ariyaratna
Kandurata Development Bank	Chairman General Manager	Mrs. J G W K R Jayawardane -
Ruhuna Development Bank	Chairman General Manager	S C J Rathnayake -
Uva Development Bank	Chairman General Manager	T M W Mallahawa U V Gunadasa
Wayamba Development Bank	Chairman General Manager	I M R B Khombakadawala W A Sirisena
Development Lotteries Board	Chairman General Manager	S Gunawardena J D C Jayasinghe
National Lotteries Board	Chairman General Manager	U Liyanage M S Karunaratne

**Heads of Statutory Boards / State Banks / Other Institutions under the purview of the
Ministry of Finance and Planning
(as at 31st March, 2008) Contd.**

Employees' Trust Fund Board	Chairman/CEO	K M A Godawatta
National Insurance Trust Fund	Chairman Chief Executive Officer	L R Watawala B M S Batagoda
National Development Trust Fund	Chairman Managing Director	J Wickramasinghe H L A De Silva
Sri Lanka Accounting and Auditing Standards Monitoring Board	Chairman Director General	W A Wijewardena A S Ratnayake
Insurance Board of Sri Lanka	Chairman General Manager	G Wickramasinghe Mrs. L Serasinghe
Credit Information Bureau of Sri Lanka	Chairperson General Manager	Mrs. R Jayamaha N P H Amarasena
Securities and Exchange Commission of Sri Lanka	Chairman Acting Director General	G Wickramasinghe Ms. M. Fernando
Sri Lanka Savings Bank	Chairman General Manager	D Dahanayake S. Weeratunga
Housing Development Finance Corporation Bank	Chairman General Manager	S M M Yaseen C A Sarathchandra

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KEY ECONOMIC INDICATORS			
GDP at Market Price (Rs. Bn.)	3578	Total Government Sector Debt (GDP %)	85.8
GDP at Market Price (US\$ Mn.)	32,348	Domestic (GDP %)	47.9
Services (US\$ Mn.)	18,897	Foreign (GDP %)	37.8
Industry (US\$ Mn.)	9,678	MONETARY SECTOR DEVELOPMENT	
Agriculture (US\$ Mn.)	3,773	Narrow Money (Rs. Bn.)	266.6
Per Capita GDP at Market Price (Rs)	178,830	Broad Money (Rs. Bn.)	1,404
Per Capita GDP at Market Price (US\$)	1,617	Money Growth (M2b)	16.6
Inflation - GDP Deflator	14.0	ACCESS TO BANKING & FINANCE	
Inflation - CCPI(N)	15.8	Domestic Commercial Banks	11
Unemployment (No.)	447,000	Branch Network	1,758
Unemployment (%)	6.0	Foreign Commercial Banks	12
STRUCTURE OF THE ECONOMY		Branch Network	176
GDP Growth (%)	6.8	Specialized Banks (excluding RDBs)	9
Services (%)	7.1	Branch Network	412
Industry (%)	7.6	Registered Finance Companies	32
Agriculture (%)	3.3	Registered Finance Leasing Companies	76
EXTERNAL TRADE		Specialized Leasing Companies	20
Exports (US\$ Mn.)	7,740	Merchant Banks	9
Imports (US\$ Mn.)	11,301	Regional Development Banks	6
Trade Balance (US\$ Mn.)	(3,560)	Branch Network	215
Worker Remittances (US\$ Mn.)	2,502	Insurance Companies	15
Current Account Balance (US\$ Mn.)	(1,369)	Life & General	11
Overall Balance (US\$ Mn.)	531	General	3
GOVERNMENT FINANCE		Life	1
Revenue (Rs. Bn.)	565	Unit Trusts	5
Tax Revenue (Rs. Bn.)	509	Student Savings Units	2,269
Total Expenditure (Rs. Bn.)	842	ATMs	1,422
Current (Rs. Bn.)	623	Credit Cards Issued	889,780
Public Investment (Rs. Bn.)	229	Local	57,104
Revenue Deficit/ GDP (%)	1.6	Global	832,676
Budget Deficit/ GDP (%)	7.7	Reserve Requirement (%)	10
Revenue (US\$ Mn.)	5,108	Credit Institutions Reported to CRIB	95
Tax Revenue (US\$ Mn.)	4,601	Credit Rating Institutions	2
Total Expenditure (US\$ Mn.)	7,608	SUSTAINS TARIFF REGIME	
Current Expenditure (US\$ Mn.)	5,630	Duty Free Items	758
Public Investment (US\$ Mn.)	2,073	Duty Below 5%	2,076
Budget Deficit (US\$ Mn.)	2,500	Duty between 5% - 10%	466
Total Government Debt (US\$ Mn.)	27,753	Duty between 15% - 28%	3,063
Total Public Sector Debt (GDP %)	87.4	Total line items	6,432

TAX RATES (%)		SOCIAL DEVELOPMENT	
<i>Personal Income Tax</i>		Life Expectancy at Birth (years)	73.4
First Rs. 300,000	Free	Infant Mortality (per 1,000 live births)	11.4
Next Rs. 300,000	5	Maternal Mortality Rate (100,000 live births)	45
Next Rs. 200,000	10	Crude Birth Rate (per 1,000)	19.0
Next Rs. 200,000	15	Crude Death Rate (per 1,000)	5.8
Next Rs. 200,000	20	Literacy (overall % of population)	91.1
Next Rs. 200,000	25	Dependency Ratio (%)	49.3
Next Rs. 500,000	30	Access to Safe Drinking Water (% of people)	84.8
Balance	35		
Foreign Exchange Earnings	Free		
<i>Corporate Tax</i>		MOBILITY OF PEOPLE	
Taxable Income less than Rs. 5.0 Mn	15	Motor Bicycles	1,604,648
Other	35	Three-Wheelers	361,727
Export Income	15	Tractors	221,326
		Lorries/ Trucks	262,584
		Busses	79,870
		Jeeps/ Cars	361,211
VAT		ACCESS TO BASIC INFRASTRUCTURE	
Exports	0	Electricity to Households (%)	70
Essential Goods	5	Pipe-Borne Water (%)	32
Standard	15		
Luxury	20	<i>Telecommunication</i>	
Port & Airport Development Levy	3	Fixed Access Services('000)	2,742
Social Responsibility Levy	1.5	Cellular Phones('000)	7,983
Customs Duty		<i>Postal</i>	
Inputs/ Raw Material	0 - 2.5	Post Offices	
Intermediate	6 or 15	Public	4,053
Finished & Luxury Goods	28	Private	684
<i>Excise Duty</i>		<i>Roads</i>	
Cigarettes (Rs. per 1,000)		Road Density (km/ sq. km.)	1.5
Length below 60 mm	2,215	Village Coverage (%)	95
Length 60 - 67 mm	4,520	Total Road Length (km)	116,000
Length 67 - 72 mm	7,219		
length 72 - 84 mm	8,850	MAJOR IRRIGATION SCHEMES (Capacity in Acft)	
Length exceeding 84 mm	9,870	Senanayake Samudraya	770,000
Pipe Tobacco (Rs. Per kg)	400	Kala Wewa	727,100
<i>Mortor Vehicles</i>		Lunugamvehera Reservoir	219,147
Passenger Transport	0	Minneriya Wewa	110,000
Three Wheelers	4	Parakrama Samudraya	109,000
Petrol	4	Inginimitiya Reservoir	58,833
Diesel	14	Nuwara Wewa	36,050
Other Vehicles	34 - 120	Yodha Wewa	31,500
		Tissa Wewa	3,500
ANNUAL AVERAGE EXCHANGE RATES			
Rs./US\$	110.62		
Rs./ SDR	169.37		

PROFESSIONALS (Provisional)		MEDIA	
Doctors (Re-registered)	16,813	<i>Registered</i>	
Registered Medical Practitioners	1,741	Sinhala Newspapers (No.)	154
Dental Surgeons (Registered)	1,563	English Newspapers (No.)	36
Engineers (Registered)	9,549	Tamil Newspapers (No.)	61
Accountants		<i>Publishers</i>	
CIMA Qualified (Associate Members & Fellow Members)	1,745	Sinhala Newspapers (No.)	133
Chartered Qualified (Associate Members & Fellow Members)	2,784	English Newspapers (No.)	26
Lawyers (Registered)	18,085	Tamil Newspapers (No.)	46
Technical & Associate Professionals	381,595	TV Stations	14
ACCESS TO BASIC NEEDS		<i>Government</i>	
<i>Health</i>		Sinhala	3
Hospitals	619	English	-
Beds	66,866	Tamil	1
Central Dispensaries	387	<i>Private</i>	
<i>Education</i>		Sinhala	6
Government		English	3
Schools	9,678	Tamil	1
Students	3,942,327	Radio Stations (No.)	41
Teachers	208,277	FM Channels - Government	14
Private & Pirivenas		Sinhala	9
Schools	751	English	1
Students	156,061	Tamil	4
Teachers	11,091	HYDRO CAPACITY (MW)	
Housing		Victoria	210
Access to Semi Permanent & Permanent Houses (% of people)	88	Kothmale	201
WOMEN PARTICIPATION		Randenigala	122
Women Population ('000)	10,105	Samanalawewa	120
Employed Women (000)	2,389	New Laxapana	100
Women Participation in the Labour Force (%)	33.4	Polpitiya	75
Women in the Public Service	548,100	Kukule Ganga	70
Unemployed Women (%)	8.9	Canyon	60
POVERTY		Wimalasurendra	50
Poverty Gap Index (%)	3.1	Old Laxapana	50
Poverty Head Count Index	15.2	Rantambe	49
Average Daily Calorie Intake (06/07)	2,118	STOCK MARKET	
Gini co-efficient of Per Capita Expenditure	0.4	Market Capitalization (Rs. Bn.)	821
		Average Daily Turnover (Rs. Mn.)	435
		All Share Price Index	2,541
		Market Price Earning Ratio %	11.6
		Turnover to Market Capitalization (%)	12.6

Macro Economic Perspectives

**“Monetary policy tightened,
yet inflation is on the rise. Need
specific policy changes in the
food and energy sectors.”**

A Global Overview

In 2007, the World economy was heading towards a recession. Despite the slowing down of economic growth in the US, EU and Japan, the continued growth momentum of emerging and developing economies particularly of India (9.2 per cent) and China (11.4 per cent), contributed to sustain a 4.9 per cent growth in the world economy in 2007. However, there were several disturbing features.

The oil price escalation which started in 2003 continued owing to supply disturbances and growing demand from emerging market economies. This exerted unprecedented pressure on prices and Balance of Payments of oil importing countries as happened in the two oil price shocks in the 1970s. World average crude oil price which was at US\$ 25 per barrel in 2002 had risen to US\$ 71 per barrel in 2007 with considerable uncertainties for the outlook for 2008 and beyond.

The collapse of the US housing market and the associated financial system losses of major international banks and the sudden credit crunch drastically curtailed capital market activities, particularly towards the end of the year, depressing investment and growth.

In the financial markets, the exchange rates and interest rates among the key currencies became excessively volatile, with a sharp depreciation of the US dollar against other major currencies, particularly the EURO.

This trend continued into 2008 and the US dollar had depreciated at a rate of 9 – 10 percent against the Euro since 2003 in the context of large US current account deficit.

Another alarming development was the rising inflation in most countries associated with the oil price escalation and a sharp rise in food prices. The causes for food price inflation were rising global demand, the weakening of the US dollar, impact of fuel costs, use of some of the food commodities for bio-fuel, bad weather and speculations in commodity markets.

Amidst these developments, the growth of world trade decelerated from 9.2 per cent in 2006 to 6.8 per cent in 2007. Imports by advanced countries decelerated to 4.2 per cent from 7.4 per cent while the export growth in emerging and developing economies moderated from 10.9 per cent in 2006 to 8.9 per cent in 2007. It has been projected that the growth of world trade will further decline to 5.6 per cent in 2008, with advanced country imports declining further to 3.1 per cent and non-fuel exports to 8 per cent.

The external current account deficits of debtor countries deteriorated from US\$ 109.3 billion in 2006 to US\$ 187.8 billion in 2007 and is projected to deteriorate further to US\$ 282.6 billion in 2008. While the predictions by the IMF had been based on an average crude oil price assumption of US\$ 95.5 per barrel in 2008, the near term outlook is getting uncertain with oil price reaching US\$ 125 by May 2008.

Although there have been some offsetting effects with the construction boom in the oil rich countries, the new demand generated for labour and other inputs thus helping to transfer some of their surpluses to labour exporting countries such as Sri Lanka and other commodity suppliers, the inflationary trends and the financial market volatility is disturbing.

In the face of the global economic volatility, the available policy options are limited.

Box 1.1
The Global Scenario



The World Bank

Food Price Crisis Imperils 100 Million in Poor Countries, Zoellick Says

April 14, 2008 – The surge in food prices could push 100 million people into deeper poverty, World Bank President Robert B. Zoellick said at the International Monetary Fund-World Bank Spring Meetings in Washington.

“Based on a very rough analysis, we estimate that a doubling of food prices over the last three years could potentially push 100 million people in low-income countries deeper into poverty,” Zoellick said. “This is not just a question of short-term needs, as important as those are; this is ensuring that future generations don’t pay a price too.”

Zoellick spoke Sunday at the concluding press conference of the World Bank Group-International Monetary Fund’s Spring Meetings in Washington, DC.

The Economist

The great American slowdown

The recession may not be as severe as many fear, but the recovery could take longer—and that is dangerous



High Rice Cost Creating Fears of Asia Unrest

By KEITH BRADSHAW



Bernanke warns US economy ‘may shrink’ this year

Federal Reserve chairman Ben Bernanke warned today that the US economy may shrink in the first half of this year, in a frank admission that conditions have worsened in the last two months

“It now appears likely that real gross domestic product will not grow much, if at all, over the first half of 2008 and could even contract slightly,” said Bernanke.

Striking a notably cautious tone, the Fed chairman testified that the US economy was “going through a very difficult period”.



Grains Gone Wild

By PAUL KRUGMAN “Over the past few years the prices of wheat, corn, rice and other basic foodstuffs have doubled or tripled, with much of the increase taking place just in the last few months. High food prices dismay even relatively well-off Americans — but they’re truly devastating in poor countries, where food often accounts for more than half a family’s spending.”



EDITORIAL

The World Food Crisis

Bank of England pumps £5bn more into money markets
By Sean Farrell, Financial Editor



IMF: global economy caught between slowdown and inflation

Dominique Strauss-Kahn, the Fund’s newly-appointed managing director said policymakers were grappling with both “ice and fire” and that there was no one-size-fits-all response to the biggest financial crisis since the 1930s.

“The world economy is balanced between these two risks. Too cold and there is a risk of too big a slowdown in growth; too hot and there is the risk of too big an increase in inflation.”



India inflation hits 3-year high, fans rate hike fears

4 Apr, 2008, 1846 hrs IST, AGENCIES

NEW DELHI: Indian inflation accelerated to a more than three-year high of seven percent, data showed Friday, fanning fears of interest rate hikes that could slow growth further in Asia’s third-largest economy.

Annual inflation quickened by over three-tenths of a percentage point for the week ended March 22, driven in part by higher food prices, according to the Wholesale Price Index, India’s most-tracked cost-of-living monitor.

The country of 1.2 billion has been facing a daunting task in seeking to keep food and other goods affordable, especially for its poor masses, with inflation mainly propelled by soaring world prices for food, energy and metals.

In the context of Sri Lanka, given its near term national priority to consolidate security and strategic infrastructure development, adjustment efforts towards emerging global prices of oil and essential food commodities, coupled with the hard realities of global economic uncertainties, will help to sustain the economic progress realized during the last three years.

However, such adjustment efforts need to be supported by a safety net for the vulnerable and low income earners. Accordingly, the present food production drive, early completion of already commenced infrastructure projects, prudent financial management and a strong safety net for the poor have become priorities in fiscal policy management.



Source: *The Economist*: May 17TH - 23RD 2008 - www.economist.com

Box 1.1
The Global Scenario Contd.



October 17, 2007

Biofuel Demand Pushes Up Food Prices

By Valerie Mercer-Blackman, Hossein Samiei, and Kevin Cheng IMF Research Department

- Boom in energy, metals prices spreads to food, partly reflecting biofuel demand
- Food price hikes push up inflation, particularly in developing countries
- Realizing potential benefits of biofuels requires better policies

Despite the recent financial turmoil that has dampened the global growth outlook, many commodity prices have risen sharply during 2007.

Food prices Cheap no more

Dec 6th 2007

From The Economist print edition

Rising incomes in Asia and ethanol subsidies in America have put an end to a long era of falling food prices.



Thursday, November 22, 2007

Malaysian Petrol Price Hike RM2.62



Kuwait faces 100% food price hike

Kuwait can expect up to 100% increase in the price of some food products by the beginning of 2008, the Union of Cooperative Societies has said.

Chairman Mohammed Amer Al Mutairi told Awan price increases would force traders to import food products from Asia, Arab Times reported.

According to Al Mutairi a dearth in supply would push traders to settle for cheap, but low quality Asian imports over more expensive European products. Prices have increased dramatically in recent months due to rising inflation, which reached 4.6% in July, Al Mutairi said, adding that a hike in prices of raw materials would likely lead to the National Industries Company (NIC) increasing prices.



Food price hike sparks fury in Asia

THURSDAY, 10 APRIL 2008

Asia's governments face strikes, protests and hoarding in response to the spiraling cost of food and other essentials that threatens to damage them at the polls, observers say, reports AFP.

Asia's political leaders are on guard, wary of the potential for social unrest as people across the region struggle to cope with steeper prices for staple goods-particularly rice.

"There will be unrest and the poorer countries will experience that much more than rich countries like Malaysia and Singapore," said Ooi Kee Beng, a fellow at the Institute of Southeast Asian Studies in Singapore. Bangladesh and the Philippines have been particularly hard hit by higher food prices.



Food price hikes begin to grate on Chinese consumers (Xinhua)



An expensive dinner
Nov 3rd 2007

From Economist.com Alarm is growing about rising food prices

"THE world's most vulnerable who spend 60% of their income on food have been priced out of the food market," is the alarming warning from Josette Sheeran, head of the United Nations' World Food Programme (WFP).



Food price hike haunts world

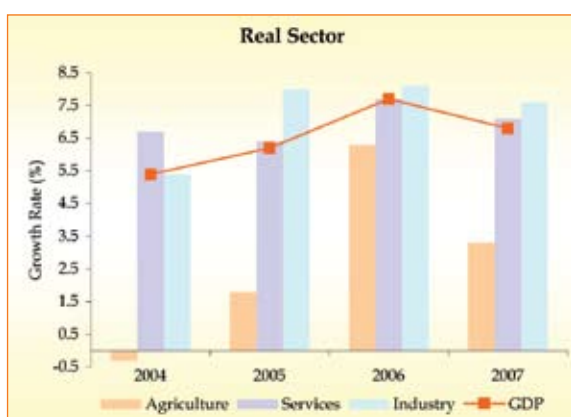
The food price hike virtually started from 2002, but accelerated during the past few years, especially since August, 2007. In year 2007 alone, international grain price soared by 42 percent.

A latest report by the World Bank showed that wheat price on the international market has jumped 181 percent during the past three years, and food price surged 82 percent in general.

A Country Overview

The Sri Lankan economy sustained a growth rate of 6.8 percent in 2007, following growth rates of 7.7 percent in 2006 and 6.0 percent in 2005. This was in the midst of further escalations of world oil prices and corresponding adjustments in the domestic economy, impending global economic slowdown, adverse weather conditions and natural disturbances, the impact of terrorist threats, a worsening global food situation and monetary contraction due to tightened monetary policy conditions.

Chart 1.1



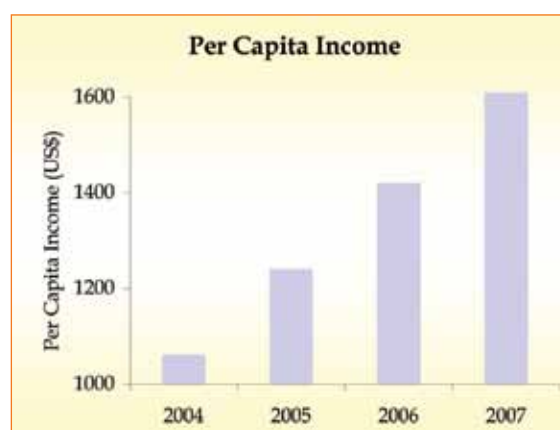
Growth momentum continued despite many constraints...

The growth in the agriculture sector moderated to 3.3 percent mainly due to the reduction in tea and paddy production in 2007, consequent to work stoppages in the plantation sector and the vagaries of weather. Reflecting adverse weather conditions, hydropower generation declined and industry growth was thus affected. The service economy moderated to a growth of 7.1 percent owing to the slowdown in the hotels and restaurants sectors and import trade.

The per capita income reached US\$ 1,617 in 2007. The continued economic expansion supported by a higher level of public investment and the resilience of private sector

activities, particularly in the industry and services sectors, with the agriculture sector too playing a positive role, - resulted in a further reduction of the unemployment rate to 5.6 percent in 2007 from 6.5 per cent in 2006. The contribution to growth from an impressive 12 percent growth of exports in a difficult global and domestic environment, demonstrated productivity improvements as well as the resilience of the economy to many adversities.

Chart 1.2



Sustained a Middle Income Country progress...

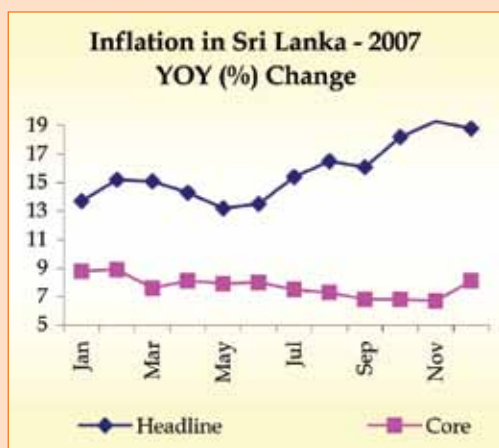
The additional demand generated by growing incomes, coupled with external price pressures mainly attributable to rising energy and food prices, caused untoward inflation, with the new Colombo Consumers' Price Index showing an annual average inflation rate of 15.8 percent. Core inflation increased from 8.6 percent in 2006 to 9.3 percent in 2008 while the GDP deflator reflected an inflation accelerating from 11.3 percent in 2006 to 14 percent in 2007.

Box 1.2
Inflation

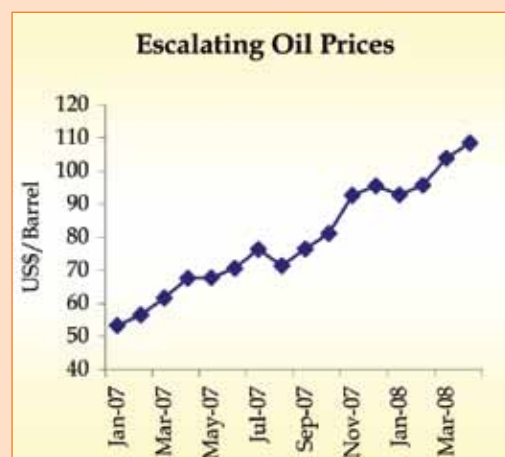
"Monetary policy tightened, yet inflation is on the rise. Need specific policy changes in the food and energy sectors."

The GDP based annual average inflation rate (measured by GDP Deflator) at 14.0 percent in 2007 was relatively high compared to 2006 at 11.3 percent.

Sri Lanka's Core Inflation also reached 8.1 percent in 2007. The headline inflation reflected in the New Colombo Consumer Price Index (CCPIN) in January 2007 was 13.7 percent and it reached 18.8 percent by the end of the year mainly due to higher food and transport costs since food accounts for 45.5 percent while transportation accounts for 9.5 percent.



Increases in international food prices, distribution shortages due to crop failures and the sharp price upswing in oil contributed to accelerate inflation globally.

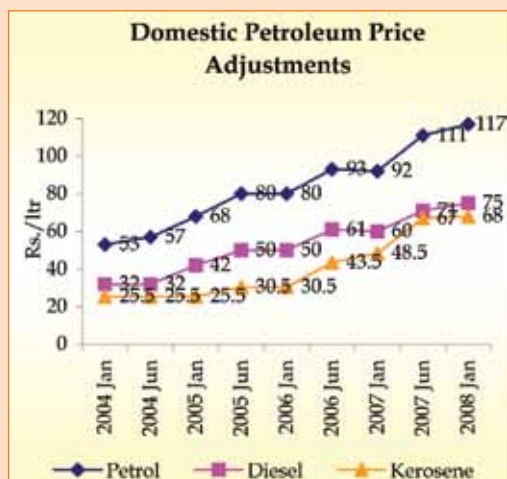


Reflecting movements in international food and fuel prices, the domestic prices showed a sharp increase during 2007 as well.

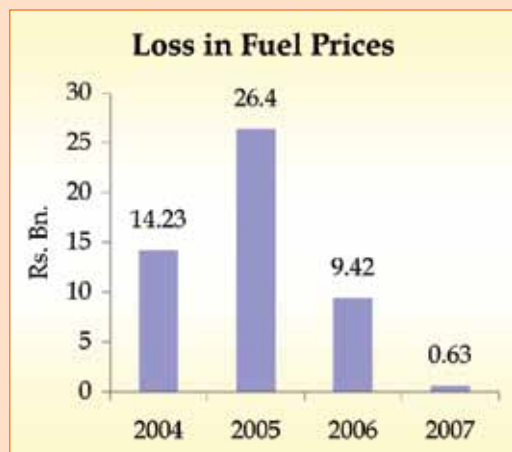


Box 1.2 Inflation Contd.

Upward adjustments of fuel prices were done during 2007 in line with international prices.



Therefore it enabled the Government to contain the fuel subsidy at Rs. 632.0 million in 2007 when compared to Rs. 9,419.0 million in 2006.



There was also pressure from the demand side reflecting increased demand for private sector as well as government credit.

Increased recruitments to the Government services together with wage increases, rise in public investments and less than expected growth in government revenue contributed to exert pressure on demand.

This together with the total aggregate demand, both domestic and external, stood at Rs. 3,578.4 billion at current prices in 2007, recording a 22 percent growth kept an upward pressure on prices.



In this background the monetary policy was further tightened by increasing policy rates, bringing the repo rate to 10.5 percent and reverse repo rate to 12 percent, to reduce inflationary pressure in the economy.



Box 1.2
Inflation Contd.

The Reserve Money declined from 21.2 percent in 2006 to 10.2 percent in 2007. The injection of high powered money was limited to Rs. 24.6 billion in 2007 compared to Rs. 42.0 billion in 2006.

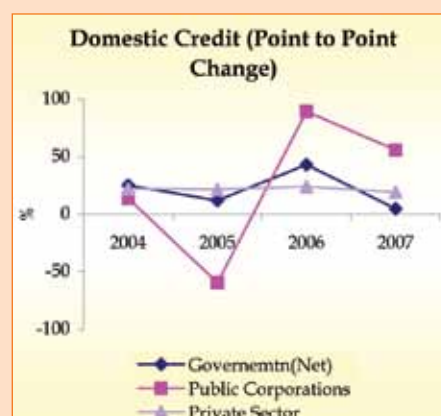
The expansion of Reserve Money was entirely due to the increase in Net Foreign Assets (NFA) of the Central Bank which rose from Rs. 229.9 billion in 2006 to Rs. 292.9 billion in 2007. This increase of around Rs. 63.0 billion was on account of sale of foreign currency receipts of the Government to the Central Bank. However, the Bank was able to reduce its Net Domestic Assets (NDA) through the sale of Treasury Bills from its portfolio by Rs. 23.5 billion, maintaining the Reserve Money Growth within the targeted level in 2007.

Growth in the Narrow Money Supply further upheld its declining trend in 2007, reflecting the tight Monetary Policy stance adopted by the Central Bank since 2005. Narrow Money, which comprises of currency and demand deposits held by the public, continued to register its steady declining trend with growth decelerating from a higher rate of 22.4 percent in 2005 to 12.6 percent in 2006 and further to 2.7 percent in 2007.

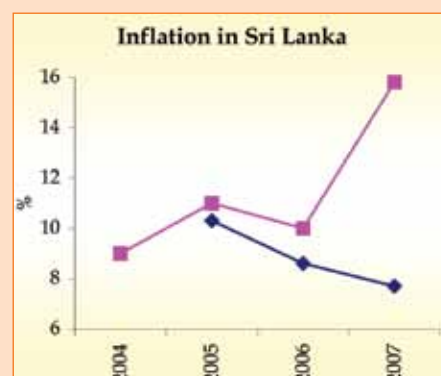
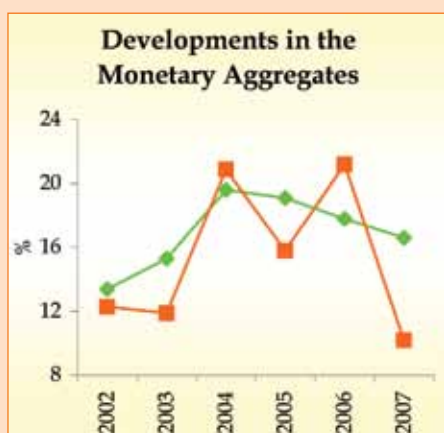
The Broad Money too reflected a deceleration from 19.1 percent in 2005 to 17.8 percent in 2006 and further to 16.6 percent in 2007.

The growth in Private Sector Credit moderated to 19.5 percent, the lowest since 2004 but still higher than the 2002 - 2004 average, reflecting high growth and investment.

Government as well as Corporation credit growth moderated reflecting pricing reforms in fuel, electricity and transport.

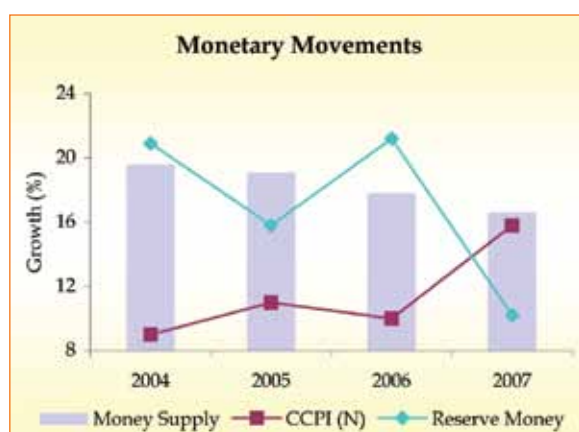


Despite a considerable compression in demand through a three year tightened monetary policy stance which helped to contain the underlying inflation to below 9.0 percent throughout the year 2007, the headline inflation reflected in the New Colombo Consumer Price Index (2002 - 100) recorded an average increase of 15.8 percent, underscoring market price escalations in food, energy and transportation.



In this background, the Government intervened to contain price pressures by granting duty concessions on some essential food commodities. The Central Bank too deployed its monetary policy instruments, through continued increases in policy rates as well as aggressive open market operations, to tighten the monetary policy stance to control inflation. This led to a sharp increase in interest rates and funding costs to the Government as well as to the private sector and a considerable slowdown in the credit growth and monetary expansion.

Chart 1.3

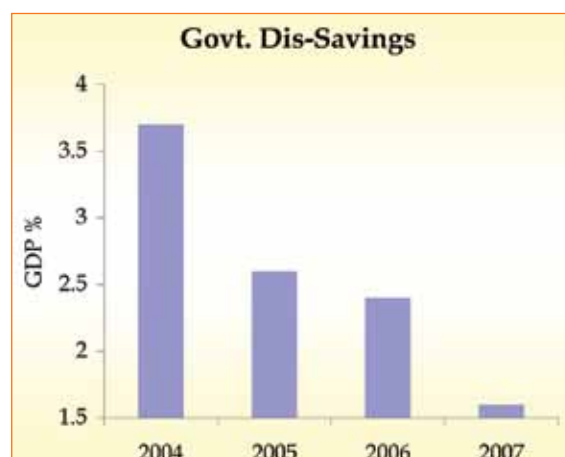


Despite a tight monetary policy, inflation was in the rise due to food and energy prices...

The budgetary situation was managed with the primary focus on augmenting revenue and supporting infrastructure and other priority development projects as well as by managing security expenditure within planned limits, while protecting core social security programs and production support schemes. Government revenue increased by 18 percent from Rs. 477 billion in 2006 to Rs. 565 billion in 2007. However, the increase in revenue was short by Rs. 35 billion (1 percent of GDP) primarily due to tax concessions granted on food imports, reduction in revenue from motor vehicles due to the concessionary duty scheme implemented for public servants and lower growth in excise taxes on liquor and cigarettes, attributable to Government policy.

Consequently, tax to GDP declined to 15.8 percent from 16.3 percent in 2006. However, the revenue deficit was reduced to 1.6 per cent of GDP from 2.4 percent in 2006, as the recurrent expenditure as a ratio of GDP declined to 17.4 percent despite added interest costs. The removal of losses in the petroleum prices helped to contain expenditure in the Budget. Public investment increased to 6.4 percent of GDP, from 6.0 percent in 2006, but the overall fiscal deficit declined to 7.7 percent of GDP in 2007 from 8.1 percent owing to the reduction in the revenue deficit in 2007. It is noteworthy that the deficit was below the target level of 8.4 per cent of GDP. Improved expenditure management and treasury operations in 2007, helped to contain bank financing of the fiscal deficit to slightly below the planned level of Rs.16 billion. The level of net foreign financing including the US \$ 500 million international bonds amounted to 3.7 per cent of GDP. With these developments, the Government total debt to GDP ratios declined further to 86 per cent of GDP, approximating the 85 percent level expected in the Fiscal Management Responsibility Act, with a time lag of one year.

Chart 1.4



Despite revenue shortfalls, the Government Dissavings have declined due to tight expenditure controls...

Box 1.3
Core Inflation

“Core Inflation

The inflation arising from changes in food and energy prices is volatile and often subject to temporary fluctuations caused by supply shocks mostly driven by weather disturbances or external shocks, and changes in administered prices or tax policies which are beyond the control of the monetary authority.

Monetary authorities all over the world make their monetary policy decisions on the basis of the underlying trend in inflation which is derived by removing volatile components in a consumer price index. The underlying trend in inflation is known as core inflation.

Estimation of Core Inflation

There is no unique method of estimating core-inflation. Different countries use different methods. However, many countries use the exclusion method because of its simplicity of computation, easy understandability by the public, derivability without delay, easy replication and verification by others, and increased transparency and accountability of the calculation. As revealed in the under noted Table, a number of countries derive the measure of core inflation having removed food and energy items from a consumer price index.

Country	Official Core Inflation
Industrialized Countries	
Canada	CPI excluding food, energy and indirect taxes
UK	Retail Price Index (RPI) excluding mortgage interest rates (RPIX)
US	CPI excluding food and energy
Japan	CPI excluding fresh food
Emerging Market Countries	
Philippines	CPI excluding food and energy
Pakistan	CPI excluding food and six energy items
China	CPI excluding food and energy
Thailand	CPI excluding fresh food and energy
Malaysia	CPI excluding food and energy

Source: Central Bank of Sri Lanka

”

The Government took a far reaching policy decision to make required adjustments to energy prices to face the realities of the world oil market, while effectively negotiating larger credit lines and certain roll-over of existing credit facilities to ease the balance of payments as well as budgetary pressures due to the rising oil import bill. These developments together with a buoyant growth in exports, sustained rise in worker remittances and other capital flows helped in strengthening the Balance of Payments.

The Government also made considerable progress in the implementation of its long-term development projects aimed at addressing energy and food security. The Food production drive - Api Wawamu, Rata Nagamu was given priority in order to address supply driven inflation and food security.

The overall development and policy actions through monetary and fiscal policy instruments as well as pricing and real sector reforms in 2007, were a demonstration of the country's determination and capacity to face challenges as an emerging middle income country.

Chart 1.5



Current account deficit reduces while overall BOP remained a surplus...

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

Indicator		Target	Actual	Projections		
	2006	2007	2007	2008	2009	2010
GDP at Market Prices (Rs. Bn)	2,939	3,548	3,578	4,307	5,047	5,923
GDP Growth (%)	7.7	7.5	6.8	7.0	7.5	8.2
Inflation-GDP deflator (%)	11.3	12.9	14.0	12.5	9.0	8.5
Total Investments	28.0	29.5	27.9	30.0	31.5	32.5
Private Investments	20.9	22.3	20.7	22.0	23.0	24.4
Public Investments	6.0	7.2	6.4	8.0	8.5	8.1
Domestic Savings	17.0	17.2	17.6	20.4	22.1	23.3
National Savings	22.3	23.7	23.4	28.9	29.5	28.5
Exports (US\$ Mn)	6,883	7,570	7,740	8,529	9,395	10,339
Imports (US\$ Mn)	10,253	11,485	11,301	12,499	13,760	15,142
Services (US\$ Mn) (net)	257	182	238	312	370	414
Worker Remittances (US\$ Mn)	2,326	2,726	2,502	3,114	3,461	3,511
Current Account (US\$ Mn)	-1,478	-1,357	-1,369	-1,545	-1,664	-1,881
Current Account Deficit	-5.3	-4.3	-4.2	-4.0	-3.9	-3.9
Overall Balance (US\$ Mn)	204	450	531	400	396	388
Revenue	16.3	16.9	15.8	17.4	18.0	18.5
Expenditure	24.3	25.3	23.5	24.2	23.9	23.7
Revenue (Deficit/Surplus)	-2.4	0.1	-1.6	0.9	1.8	2.5
Overall Budget Deficit	-8.0	-8.4	-7.7	-6.8	-5.8	-5.2
Government Debt	90.6	88.7	85.8	82.3	77.6	75.0
Reserve Money (%)	21.2	15.0	10.2	15.0	15.0	14.5
Broad Money Supply (%)	17.8	19.0	16.6	15.5	15.5	15.0

Sources:

National Budget Department

Fiscal Policy Department

Central Bank of Sri Lanka

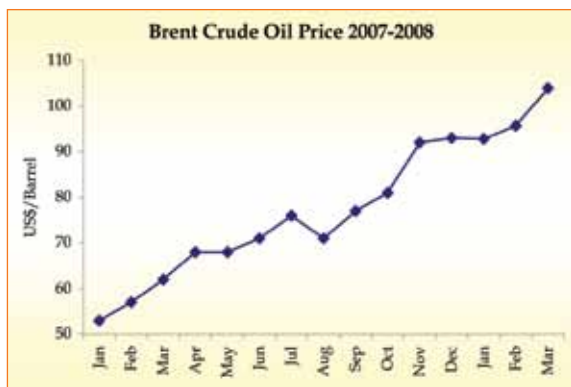
Census and Statistics Department

External and Internal Shocks

Unprecedented High Oil Prices

Being totally dependent on the importation of oil for its petroleum requirements, the country had to adjust to the unprecedented high international oil prices. Crude oil price rose in excess of US \$ 90/bbl by December from US\$ 59 at the beginning of the year, with the present prices exceeding US\$ 125/bbl mark.

Chart 1.6



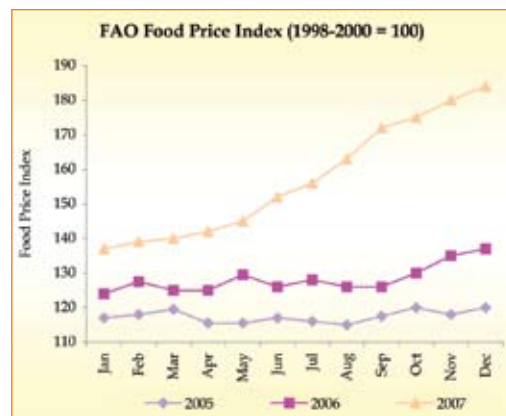
The country's oil bill alone was around US \$ 2,500 million, a three fold increase over expenditure in 2004. This draining out of foreign exchange caused pressure on the exchange rate and the trade deficit. The exceptionally high oil prices compelled the Government to implement difficult price reforms to prevent the accumulation of large budgetary losses. The Government was mindful of the severe burden that the public will encounter with these reforms and opted for gradual adjustments while maintaining the kerosene

subsidy for the benefit of the vulnerable segments of society. Domestic fuel prices were increased during 2007 petrol prices increased to Rs. 117 per litre and diesel to Rs.75 per litre from Rs.60. The Kerosene price however was maintained below cost.

High International Commodity Prices

The world food prices increased sharply in 2007 in response to higher energy and fertilizer prices, increased demand for

Chart 1.7



biofuel especially in the US and the European Union and droughts in Australia and other countries. Adding further pressure to supply shortfalls, Governments in India, China, Indonesia, Philippines etc. have banned the export of certain commodities, resulting in pushing food prices further.

These developments warranted the Government to grant duty concessions on such imports to manage rising prices. Government had to forego revenue of around Rs. 14 billion in 2007 on account of these duty waivers.

Oil hits new record above \$118 a barrel

LONDON, April 22 (Reuters) - Oil struck a record high of more than \$118 on Tuesday, boosted by a jump in oil demand last month from China, the world's second-biggest energy consumer, and worries about supply from key producers Russia and Nigeria.

U.S. light crude for May delivery was up 84 cents at \$118.32 a barrel by 1518 GMT, near an all-time peak of \$118.45 hit earlier.

London Brent crude was up 93 cents at \$115.26 a barrel, after rising to a record peak of \$115.53.

Oil has hit a string of record highs this month, driven by booming demand from emerging markets such as China that has coincided with long-term supply constraints.

A weak U.S. dollar has also played a part in boosting the price of dollar-denominated commodities like oil and also attracted speculative inflows from hedge funds.

"Every time the market does make new highs, it suggests that the upward trend is still intact and that provides a catalyst for the funds to keep buying it," said Tony Machacek of Hache Commodities Ltd.

China's oil demand leapt 8 percent in March from a year ago, the fastest rate in 19 months as refiners boosted imports ahead of the Olympics.

But the high cost of producing more oil plus political constraints on new supplies mean

the market looks set to struggle to keep pace with growing emerging market demand.

"The news that Russia, the largest non-OPEC producer, will produce less this year than the year before and Nigeria's output may be set to fall because of lack of investment makes people realise high prices are justified," said Bob Greer, executive vice president at commodity fund manager

PIMCO.

"The 5 year forward contract has gone above \$100," he said, referring to a surge in long-dated oil prices.

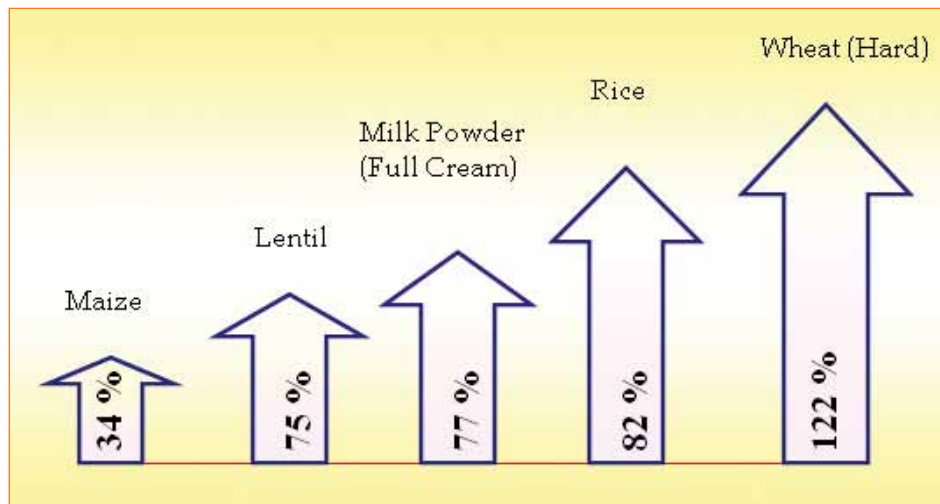
From 2010 to 2016, for example, oil prices currently range from around \$106 to nearly \$108 a barrel.

INVESTMENT

Long-term drivers for investment in the oil market include tight spare capacity, slow output growth from non-OPEC producers and robust demand from emerging economies. This is more than compensating for declining demand from industrial countries.

Continued on B8

Chart 1.8
International Price Hikes in a Single Year



Source: FAO

High Cost - of- Living

High oil prices that prevailed since 2004 and consequent domestic fuel prices adjustments, associated price revisions in transport, electricity water and other services, high international prices of essential commodities, interruption of supplies consequent to natural disasters and crop failures created a high cost-pushed impact in 2007.

The new job creations in the private and public sectors, salary and pension increases as well as wage increases in this sector for public servants, and continued credit expansion caused pressures in the economy. The CCPI(N) increased to 15.8 percent from 10 percent.



Chart 1.9



Box 1.4
Rising Food Prices

"In 2007 the food price index calculated by the Food and Agriculture Organization of the United Nations (FAO) rose by nearly 40 percent, compared with 9 percent the year before, and in the first months of 2008 prices again increased drastically. Nearly every agricultural commodity is part of this rising price trend. Since 2000—a year of low prices—the wheat price in the international market has more than tripled and maize prices have more than doubled. The price of rice jumped to unprecedented levels in March 2008. Dairy products, meat, poultry, palm oil, and cassava have also experienced price hikes.

The Sources of Current Price Increases

The combination of new and ongoing forces is driving the world food situation and, in turn, the prices of food commodities. One emerging factor behind rising food prices is the high price of energy. Energy and agricultural prices have become increasingly intertwined. With oil prices at an all-time high of more than US\$100 a barrel and the U.S. Government subsidizing farmers to grow crops for energy, U.S. farmers have massively shifted their cultivation toward biofuel feedstock, especially maize, often at the expense of soybean and wheat cultivation. About 30 percent of U.S. maize production will go into ethanol in 2008 rather than into world food and feed markets. High energy prices have also made agricultural production more expensive by raising the cost of mechanical cultivation, inputs like fertilizers and pesticides, and transportation of inputs and outputs.

At the same time, the growing world population is demanding more and different kinds of food. Rapid economic growth in many developing countries has pushed up consumers' purchasing power, generated rising demand for food, and shifted food demand away from traditional staples and toward higher-value foods like meat and milk. This dietary shift is leading to increased demand for grains used to feed livestock.

Poor weather and speculative capital have also played a role in the rise of food prices. The severe drought in Australia, one of the world's largest wheat producers, has cut into global wheat production.

Policy Responses So Far

Many countries are taking steps to try to minimize the effects of higher prices on their populations. Argentina, Bolivia, Cambodia, China, Egypt, Ethiopia, India, Indonesia, Kazakhstan, Mexico, Morocco, Russia, Thailand, Ukraine, Venezuela, and Vietnam are among those that have taken the easy option of restricting food exports, setting limits on food prices, or both. For example, China has banned rice and maize exports; India has banned milk powder exports; Bolivia has banned the export of soy oil to Chile, Colombia, Cuba, Ecuador, Peru, and Venezuela; and Ethiopia has banned exports of major cereals. Other countries are reducing restrictions on imports: Morocco, for instance, cut tariffs on wheat imports from 130 percent to 2.5 percent; Nigeria cut its rice import tax from 100 percent to just 2.7 percent.

How effective are these responses likely to be? Price controls and changes in import and export policies may begin to address the problems of poor consumers who find that they can no longer afford an adequate diet for a healthy life. But some of these policies are likely to backfire by making the international market smaller and more volatile. Price controls reduce the price that farmers receive for their agricultural products and thus reduce farmers' incentives to produce more food. Any long-term strategy to stabilize food prices will need to include increased agricultural production, but price controls fail to send farmers a message that encourages them to produce more. In addition, by benefiting all consumers, even those who can afford higher food prices, price controls divert resources toward helping people who do not really need it. Export restrictions and import subsidies have harmful effects on trading partners dependent on imports and also give incorrect incentives to farmers by reducing their potential market size. These

Box 1.4
Rising Food Prices Contd.

national agricultural trade policies undermine the benefits of global integration, as the rich countries' longstanding trade distortions with regard to developing countries are joined by developing countries' interventions against each other.

Sound Policy Actions for the Short and Long Term

The increases in food prices have a dominant role in increasing inflation in many countries now. It would be misguided to address these specific inflation causes with general macroeconomic instruments. Mainly, specific policies are needed to deal with the causes and consequences of high food prices. Although the current situation poses policy challenges on several fronts, there are effective and coherent actions that can be taken to help the most vulnerable people in the short term while working to stabilize food prices by increasing agricultural production in the long term.

First, in the short run, developing-country governments should expand social protection programs (that is, safety net programs like food or income transfers and nutrition programs focused on early childhood) for the poorest people—both urban and rural. Some of the poorest people in developing countries are not well connected to markets and thus will feel few effects from rising food prices, but the much higher international prices could mean serious hardship for millions of poor urban consumers and poor rural residents who are net food buyers, when they actually are exposed to them. These people need direct assistance. Some countries, such as India and South Africa, already have social protection programs in place that they can expand to meet new and emerging needs. Countries that do not have such programs in place will not be able to create them rapidly enough to make a difference in the current food price situation. They may feel forced to rely on cruder measures like export bans and import subsidies. Aid donors should expand food-related development aid, including social protection, child nutrition programs, and food aid, where needed.

Second, developed countries should eliminate domestic biofuel subsidies and open their markets to biofuel exporters like Brazil. Biofuel subsidies in the United States and ethanol and biodiesel subsidies in Europe have proven to be misguided policies that have distorted world food markets. Subsidies on biofuel crops also act as an implicit tax on staple foods, on which the poor depend the most. Developed-country farmers should make decisions about what to cultivate based not on subsidies, but on world market prices for various commodities.

Third, the developed countries should also take this opportunity to eliminate agricultural trade barriers. Although some progress has been made in reducing agricultural subsidies and other trade-distorting policies in developed countries, many remain, and poor countries cannot match them. This issue has been politically difficult for developed-country policymakers to address, but the political risks may now be lower than in the past. A level playing field for developing-country farmers will make it more profitable for them to ramp up production in response to higher prices.

Fourth, to achieve long-term agricultural growth, developing-country governments should increase their medium- and long-term investments in agricultural research and extension, rural infrastructure, and market access for small farmers. Rural investments have been sorely neglected in recent decades, and now is the time to reverse this trend. Farmers in many developing countries are operating in an environment of inadequate infrastructure like roads, electricity, and communications; poor soils; lack of storage and processing capacity; and little or no access to agricultural technologies that could increase their profits and improve their livelihoods. Recent unrest over food prices in a number of countries may tempt policymakers to put the interests of urban consumers over those of rural people, including farmers, but this approach would be shortsighted and counterproductive. Given the scale of investment needed, aid donors should also expand development assistance to agriculture, rural services, and science and technology.

Box 1.4
Rising Food Prices Contd.

Conclusion

World agriculture is facing new challenges that, along with existing forces, pose risks for poor people's livelihoods and food security. This new situation calls for policy actions in three areas:

- a). comprehensive social protection and food and nutrition initiatives to meet the short- and medium-term needs of the poor;
- b). investment in agriculture, particularly in agricultural science and technology and in market access, at a national and global scale to address the long-term problem of boosting supply; and
- c). trade policy reforms, in which developed countries would revise their biofuel and agricultural trade policies and developing countries would stop the new trade-distorting policies with which they are hurting each other.
- d). In the face of rising food prices, both developing and developed countries have a role to play in creating a world where all people have enough food for a healthy and productive life.

Excerpted from Joachim von Braun, "Rising Food Prices: What Should be Done?,"

IFPRI Policy Brief (Washington, DC: International Food Policy Research Institute, 2008).

A Widened Trade Deficit

Exports reached US \$ 7,741 million, an increase of 12.5 percent over 2006. Industrial exports increased by 9.6 percent to US \$ 5,921 million while agricultural exports earned US \$ 1,507 million reflecting high export prices especially for tea and rubber. Total imports in 2007 amounted to US\$ 11,301 million in comparison to US\$ 10,253 million in 2006.

Consumer goods imports which totaled US\$ 2,002 million, an increase of 22 percent, largely reflecting high international prices of essential commodities. Non - oil intermediate imports increased to US\$ 4,017 million from US\$ 3,892 million and capital goods imports increased to US\$ 2,685 million recording a 20 percent increase.

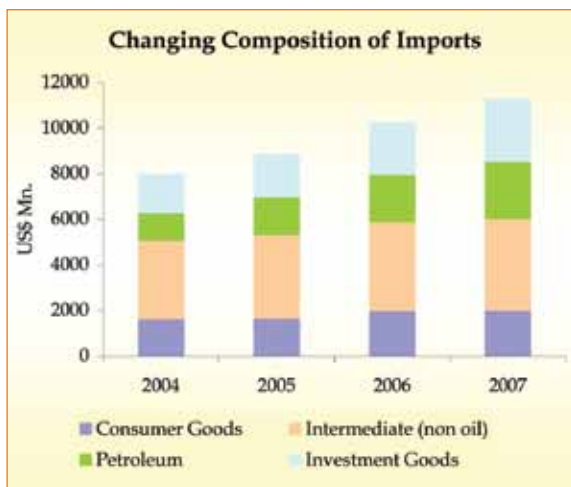
Table 1.2
External Trade

Category	2005	2006	US \$ Mn. 2007
Exports	6,346.7	6,882.7	7,740.5
Agricultural Exports	1,153.8	1,292.7	1,507.2
Tea	810.2	881.2	1,025.2
Other Agricultural Products	343.6	411.5	482.0
Industrial Exports	4,948.4	5,401.1	5,920.5
Textile and Garments	2,894.5	3,080.4	3,341.7
Rubber Products	394.4	427.5	481.5
Machinery and Equipment	329.9	394.3	542.2
Diamond and Jewellery	277.9	327	368
Food, Beverages and Tobacco	318.2	363.9	513.5
Petroleum Products	130.9	188.4	168.9
Other Industrial Products	602.6	619.6	504.7
Gem and Mineral Products	244.5	119.9	129.2
Imports	8,863.3	10,253.7	11,300.5
Consumer Goods	1,643.9	1,980.2	2,001.8
Food and Beverages	752.6	956.0	1,064.8
Other	891.3	1,024.2	937.1
Intermediate Goods	5,317.2	5,962.4	6,513.4
Petroleum	1,655.3	2,070.3	2,496.8
Fertilizer and Chemicals	383.6	424.9	473.9
Textiles and Clothing	1,531.0	1,546.2	1,632.2
Wheat Grain	141	199	234
Other	1,747.3	1,722.0	1,676.5
Investment Goods	1,902.2	2,245.7	2,685.2
Machinery and Equipment	860.4	1,065.4	1,246.7
Transport Equipment	325.3	364.5	364.5
Building Materials	507.0	546.2	780.3
Other	209.5	269.6	293.6
Trade Deficit	(2,516.6)	(3,371.0)	(3,560.0)

Source: Central Bank of Sri Lanka

These developments created a trade deficit of US \$ 3,560 million in 2007 from US \$ 3,371 million in 2006. In GDP terms, it was 11 percent. The cost of petroleum imports contributed to 70 percent of the trade deficit.

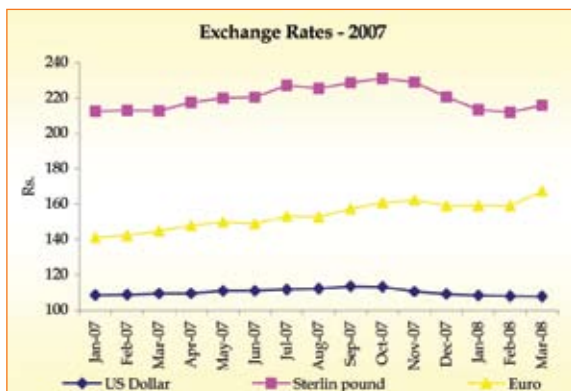
Chart 1.10



Strain on the Exchange Rate

The higher demand for foreign exchange consequent to rising oil and commodity prices, the rupee depreciated at a relatively higher rate against the US Dollar in the first 3 quarters of the year. With the inflow of proceeds from the sovereign bond issue, the rupee started to appreciate during the latter part of the year and stabilized thereafter.

Chart 1.11



A Notable Improvement in National Security. However, it Remains a Prime Concern

A notable improvement in the area of National Security was experienced in 2007. The entire Eastern Province was liberated from the grips of terror. Terrorist related incidents in the rest of the country were also substantially reduced. These achievement demanded resources to meet wages and other needs of the security forces, expenditure associated with replenishment and procurements. Despite these achievements, sectors such as tourism which have a huge potential are hindered due to security concerns. Terrorist activities targeting the civilian population continued in isolated places, demanding the continuous availing of security related expenditure.



Hikkaduwa Bomb Blast -January 2007

Economic Highlights

A Sustained Economic Growth Despite Many Challenges

Demonstrating high resilience to external and internal shocks, the economy witnessed a growth of 6.8 percent in 2007. This was the third year in succession where Sri Lanka sustained an economic growth in excess of 6 percent since independence. The average annual growth for 2005- 2007 was 6.8 percent. All sectors of the economy demonstrated a positive momentum.

Agricultural Sector Records a Growth of 3.3 percent

In 2007, most of the sub-sectors in the agriculture sector achieved relatively high growth rates while tea production declined, mainly due to estate labour unrest in 2006 and adverse weather conditions that prevailed in early 2007. The measures taken to enhance quality, increase value addition and higher world demand, led to an increase of the global prices that Sri Lankan tea fetched, which enabled to offset the declining tea production. An increase of 8 percent was recorded in rubber production, while prices increased by 16 percent in 2007. High demand for natural rubber in the backdrop of increasing oil prices, coupled with incentives granted to growers to improve productivity, were contributory factors for this performance. Coconut production rose by 3 percent, benefiting from conducive weather and high prices for coconut stemming from increased world demand.

The paddy production in Maha 2006/2007 and 2007 Yala recorded a decline of 6.4 percent against the bumper harvest that was witnessed in 2006.



Flooded paddy fields at Batticaloa

This was due to heavy rains that were experienced and floods that prevailed in October-December 2006 and the drop in the extent cultivated, mainly consequent to displacement of farmers in the Eastern Province due to security reasons. Another noteworthy development in 2007 was the substantial shift of the consumption pattern from wheat flour to rice, with the average monthly wheat flour

consumption declining by about 15 percent, to around 52,000 MT from 60,000 MT due to the removal of the flour subsidy.

The production of other minor export crops such as cocoa, cinnamon, pepper, nutmeg and cashew which are also widespread small holder economic activities, increased by 33 percent and fetched higher prices in 2007. Fruits and vegetable production and highland crops also showed a 12 percent growth.

Livestock increased by 7.1 percent with increased dairy and poultry, responding to the initiatives taken by the Government to boost such industries. Local milk production increased to 202 million ltrs in 2007 from 196 million ltrs in 2006. The Fisheries sector recovered in 2006 after the set back experienced in 2005, and further expanded by 16 percent in 2007, reaping benefits from improvements made to fishery harbours and consequent to receiving fishing gear through post Tsunami reconstruction efforts.

With the introduction of the national food drive Api Wawamu - Rata Nagamu to revitalize agricultural food production, continuation of the fertilizer subsidy for paddy and small holder agriculture sectors, expansion of irrigation facilities including drip irrigation and water management technologies for new and underserved lands, granting of tax exemptions for agriculture and livestock industries, increasing the guaranteed price for paddy, milk and the re-orientation of trade policies to safeguard domestic agriculture, removal of the wheat subsidy and provision of enhanced agriculture credit, created a conducive environment for widespread development in this sector.

Industry Sector Remained Resilient

The industry sector expanded by 7.6 percent in terms of value addition. This growth was achieved through favourable contributions from all four sectors namely, manufacturing, mining and quarrying, construction, electricity, gas and water.

Withstanding stiff competition in the post MFA environment, the apparel industry expanded by 8.5 percent and the value of exports of the garment industry reached US \$3,342 million.

The Government's concerted efforts on regional industrialization and small and medium enterprise development with a view to improve quality to suit export markets and address regional income disparities, continued in 2007. The Granting of duty and tax concessions for re-location and the establishment of factories in the regions, establishment of regional industrial parks and enhanced vocational training facilitated growth in the factory industry in 2007. The factory industry grew by 6.7 percent in 2007, compared to the 5.7 percent in 2006.

The output of food, beverages and tobacco products recorded a 6 percent growth despite there being a decline in

cigarette sales and a slow down in liquor production owing to Government policy initiatives taken to discourage the consumption of such products.

Increased production of biscuits, canned fruit and vegetables, ice-cream etc., contributed to the better performance of this sector. Rubber based products grew by 6.8 percent, supported by improved performance through the introduction and promotion of new tyre products with increased local and international demand. The revision of import tariff by removing duty on raw material to give incentives to domestic value addition, also contributed positively for this growth.

The construction industry sustained its growth momentum at 9 percent in comparison to an equally high growth rates witnessed in 2005 and 2006. This dynamism is attributable to Government initiatives taken to improve infrastructure,

Table 1.3 - Manufacturing Sector Statistics

category	Value Addition (current price) Rs. Bn			Number of Projects Approved by BOI			Industrials Volume Index		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Food Beverages and Tobacco Products	203	242	283	8	30	53	143.5	151.9	161.5
Textiles, Wearing Apparel and Leather Products	103	114	132	26	35	35	136.8	142.7	151.6
Wood and Wood Products	1.1	1.2	1.4	1	7	14	121.0	126.9	133.3
Paper and paper products	3	4	5	3	5	5	121.3	127.7	134.5
Chemical/Petroleum/ Coal/ Rubber and Plastic Products	72	95	113	7	18	27	162.0	174.5	187.0
Non metallic mineral products	16	18	20	8	10	19	142.3	157.8	171.5
Basic Metal Products	1.1	1.3	1.5	-	-	-	149.4	158.5	169.0
Fabricated Metal Products, Machinery and Transport Equipment	34	39	48	15	9	27	139.3	144.6	151.5
Manufactured Products n.e. Specified	1.5	1.9	2.2	15	10	28	128.9	133.7	140.8

Sources: Central Bank of Sri Lanka
Census and Statistics Department
Board of Investment.(BOI)

mainly roads, irrigation, water and private sector initiatives with emphasis on urban property development projects.

A Buoyant Service Sector

The service sector grew by 7.1 percent in 2007, despite sub-optimal performance in the hotels and restaurants sector. The growth of around 10 percent in transshipment cargo and 9 percent increase in cargo handling contributed to a significant growth in port services, in 2007. Infrastructure

improvements made to berths, yards and handling facilities improved the efficiency of port operations. The Government having identified the potential of port services has embarked on mega port infrastructure development projects which are in fact in the construction phase.

The telecommunication sector which experienced a buoyant growth in the recent past with an annual growth of over 20 percent, expanded further by 21.5 percent in 2007. This

Table 1.4 - Selected Indicators of Service Sector Expansion

	2005	2006	2007
Ports Services			
Vessel Arrived	4,139	4,469	4,710
Total Cargo handled (MT'000)	37,301	42,661	46,344
Total Container Handled (TEU'000)	2,455	3,079	3,381
Transshipment (TEU'000)	1,716	2,330	2,608
Telecommunication Sector			
Cellular Phones (Nos.'000)	3,362	5,412	7,983
Wireless Phones (Nos.'000)	290	974	1,810
Internet and E-mail (Nos.'000)	115	130	202
Health Sector			
Public Hospitals	606	604	619
No. of Beds (Government)	61,937	62,749	66,866
No. of Doctors	9,648	10,526	11,442
Private Hospitals	190	208	212
Financial Sector			
Bank Branches and Other Outlets	3,516	4,128	4,830
No. of Credit Cards Issued	637,326	811,289	889,780
Branches of Insurance Companies	589	632	698
Registered Finance Companies	28	29	32
Registered Leasing Companies	68	72	76
Transport Services			
Buses	73,887	77,233	79,870
Cars	311,030	338,608	361,211
Lorries	223,740	244,176	262,584
Motor Cycles	1,265,514	1,422,140	1,604,648
Three Wheelers	254,193	318,659	361,727
Tractors	180,940	199,980	221,326

Sources: Telecommunication Regulatory Commission, Sri Lanka Ports Authority,
Ministry of Health, Central Bank of Sri Lanka, Motor Traffic Department

growth is associated with a 48 percent increase in the use of mobile phones, a 56 percent increase in internet and email subscriber levels, 86 percent increase in wireless access and a 36 percent increase in public pay phones. The telephone density (telephones per hundred persons) improved to 54 in 2007 from 37 in 2006.

Enhancing essential service deliveries to the public, several improvements were witnessed in railway and bus transportation with 75 carriages and over 2,000 new buses being added to the existing fleet in the last two years. A further 200 buses were made roadworthy by installing new engine kits.

The activities of financial institutions continued to expand, supporting the financial needs of expanded economic needs covering the regions. The branch network of commercial and Licensed Specialized Banks (LSB) witnessed an expansion, with the opening of new branches and commissioning of new Automated Teller Machines. As such, bank branches of commercial banks increased from 3,537 to 4,203 and LSBs increased to 627 from 591. Most of these banks have invested heavily to offer interconnected branch networks and other facilities such as holiday banking to customers.

Other service sectors with notable private initiatives also further expanded during the year. As such, the number of private sector hospitals stood at 212 with increased modern medical and laboratory facilities being offered to the public. The Government also invested heavily in the health sector, by improving the facilities of existing hospitals, opening new hospitals and providing modern equipment. However the growth in the hotel and restaurant sub-sector declined due to lower tourist arrivals and slower growth in import trade, mainly stemming from the decrease witnessed in motor car imports.

Table 1.5 - Sectoral Distribution of GDP Growth (%)

Sector	2005	2006	2007
Agriculture	1.8	6.3	3.3
Tea	3.0	-2.0	-2.0
Paddy	23.6	2.9	-6.4
Minor Exports	16.3	2.2	5.1
Livestock	2.3	8.1	7.9
Food Crops	7.5	5.1	4.4
Fisheries	-43.0	53.6	15.6
Industry	7.9	8.1	7.6
Agri. Processing	1.4	0.8	2.4
Factory Industry	6.4	5.7	6.7
SMEs	5.7	5.7	5.6
Electricity	13.3	14.8	4.6
Construction	9.0	9.2	9.0
Services	6.4	7.7	7.1
Trade	6.5	7.1	6.1
Hotels	-14.1	2.5	-2.3
Cargo	10.3	20.0	8.8
Post & Telecommunications	36.0	21.6	21.5
Financial Services	7.0	8.5	8.7
Government Services	5.4	5.0	6.0
Private Services	6.4	7.8	7.8
GDP	6.2	7.7	6.8

Source: Census and Statistics Department

Table 1.6 - Gross Domestic Product - Sectoral Composition (2002) Constant Prices

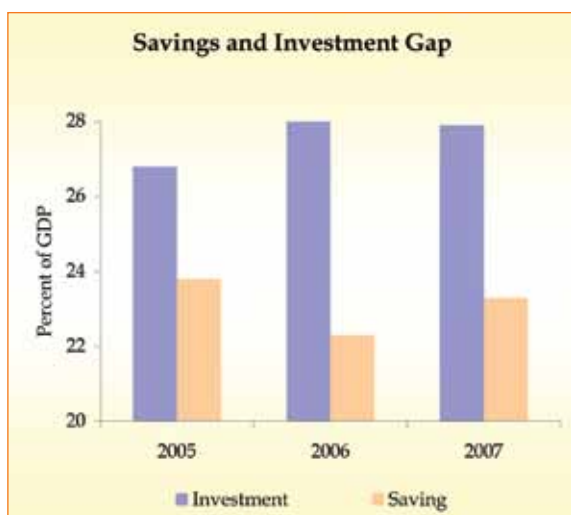
	2005	2006	(Rs. Mn) 2007
Agriculture, Forestry and Fishing	241,851	257,131	265,586
Agriculture, Livestock and Forestry	228,006	235,872	241,010
Tea	27,544	26,985	26,437
Rubber	4,773	4,993	5,376
Coconut	27,204	28,933	30,053
Minor Export Crops	9,966	10,187	10,706
Paddy	36,541	37,608	35,217
Highland Crops	25,745	27,054	28,428
Fruits	1,830	1,745	1,826
Vegetables	52,012	53,138	55,249
Livestock	16,644	17,992	19,415
Other Agriculture	6,641	6,856	6,999
Firewood & Forestry	12,081	12,869	13,544
Fishing	13,846	21,260	24,576
Industry	545,981	590,298	635,199
Mining and Quarrying	28,791	35,769	42,631
Manufacturing	350,886	370,355	394,233
Processing Industries	13,703	13,818	14,150
Factory Industry	315,276	333,372	355,611
Small Industries	21,907	23,166	24,472
Electricity, Gas and Water	46,108	52,926	55,339
Electricity	39,757	46,183	48,303
Gas	4,087	4,399	4,525
Water	2,264	2,344	2,512
Construction	120,196	131,248	142,996
Services	1,153,839	1,243,119	1,331,602
Trade, Hotels and Restaurants			
Import Trade	184,086	196,647	203,105
Export Trade	92,175	95,535	103,926
Domestic Trade	204,142	222,328	239,115
Hotels and Restaurants	9,186	9,411	9,199
Transport and Communication	230,597	259,546	286,779
Transport	198,734	220,990	241,663
Cargo Handling-Ports and Civil Aviation	11,320	13,583	14,773
Post and Telecommunication	20,543	24,973	30,343
Financial Services, Real Estate and Business Services	234,612	249,350	265,720
Banking and Insurance	163,863	177,817	193,375
Real Estates , Renting and Business Services	70,749	71,533	72,345
Government and Other Services	199,043	210,300	223,759
Public Administration and Defense	153,866	161,611	171,259
Community and Other Services	45,177	48,689	52,500
Gross Domestic Product	1,939,231	2,089,444	2,232,387

Source: Census & Statistics Department

A Narrowed Saving – Investment Gap

The domestic savings ratio improved to 17.6 percent of GDP in 2007 from 17.0 percent in 2006. Government dissavings reduced from 2.4 percent in 2006 to 1.6 percent in 2007, attributable to improvements in the savings ratio. The gross domestic investments at 28 percent of GDP remained at a level similar to 2006. Consequent to this favourable development, the domestic savings - investment gap as per GDP, dropped from 11 percent in 2006 to 10.3 percent in 2007.

Chart 1.12



The increasing trend in Foreign Direct Investments (FDIs) witnessed in recent years continued in 2007 and reached US\$ 734 million, more than US \$ 130 million above the level recorded in 2006. This is a noteworthy development as this has been raised without any proceeds from privatization of government enterprises and also reflects the continuous investor confidence in long term development prospects in the country.

Chart 1.13



Buoyant Growth in Exports

Earnings from exports recorded a growth of 12.5 percent to US \$ 7,740 million, with increased volumes as well as prices. The initiatives taken by local entrepreneurs and the Government to promote exports, enhance access to key markets with preferential treatment received by Sri Lankan exporters under Free Trade Agreements, coupled with favourable external demand and quality improvements, contributed to boost exports in 2007. The rise in international commodity prices also had a positive impact on key agricultural commodity exports from Sri Lanka.

Industrial exports grew by 10 percent in 2007, complemented by a marked increase in earnings from export of garments and textiles. Garments and textiles exports recorded a growth of 8.5 percent. This growth supported by initiatives taken under GSP+ scheme enabling increased exports to European Union Countries, and through investments in high calibre management, processing and technology advancements, improving quality standards and environment friendly technological applications and adopting best labour practices, Sri Lankan apparels have consolidated acceptability in niche markets, thereby being able to withstand global competition.

Table 1.7
Balance of Payments

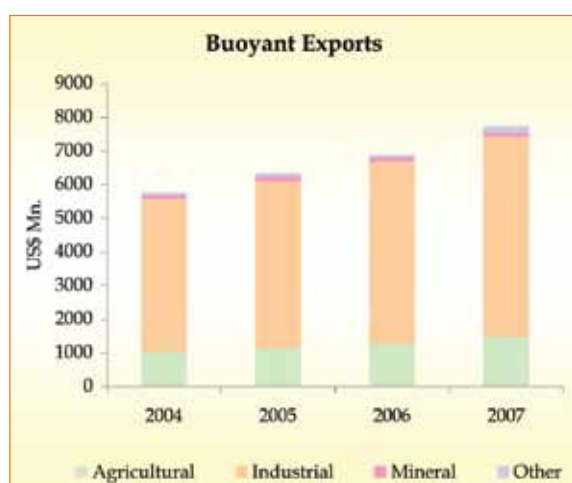
Item	2004	2005	2006	US \$ Mn. 2007
1. Receipts	7,441	7,923	8,828	9,901
Exports	5,757	6,347	6,883	7,741
Services	1,527	1,540	1,639	1,711
Income	157	35	307	449
2. Payments	9,467	10,401	12,332	13,580
Imports	7,999	8,863	10,253	11,301
Services	1,108	1,202	1,380	1,473
Income	360	335	699	807
3. Goods, Services and Income, Net	(2,026)	(2,478)	(3,504)	(3,680)
4. Current Transfers, Net	1,380	1,829	2,170	2,311
Private Transfers, Net	1,350	1,736	2,069	2,214
Official Transfers, Net	30	93	101	97
5. Current Account	(646)	(650)	(1,334)	(1,369)
6. Capital Account	64	250	295	269
Private Capital Transfers, Net	9	106	108	180
Official Capital Transfers, Net	55	144	187	89
7. Financial Account	568	974	1,517	1,828
Long-Term, Net	681	798	907	1,251
Direct Investment	227	234	574	676
Foreign Direct Investment, Net	217	234	574	676
Inflow	223	272	604	731
Outflow	6	38	30	55
Private long-term, Net	14	11	(158)	(96)
Government long-term, Net	440	553	491	672
Short-Term, Net	(113)	176	610	577
8. Errors and Omissions	(189)	(72)	(274)	(198)
9. Overall Balance	(203)	502	204	531
Ratio to GDP in %				
GDP in USD Mn	20,804.39	24,405.79	28,267.18	32,348.45
Exports	27.67	26.00	24.35	23.93
Imports	38.45	36.32	36.27	34.93
Current Account	(3.10)	(2.66)	(4.72)	(4.23)
Overall Balance	(0.97)	2.06	0.72	1.64
FDI, Inflows	1.1	1.1	2.1	2.1

Source: Central Bank of Sri Lanka

Industrial exports such as food and beverages earned US \$ 514 million, an increase of 41 percent, while diamonds and jewellery exports reached US \$ 366 million, an increase of 41 percent over 2006. Rubber products generated US \$ 482 million, a 54 percent increase from US \$ 428 million in 2006. Gem exports increased marginally by 3 percent, indicating that the industry has not exploited its full potential.

For the first time in the history of the country, earnings from tea exports reached the US \$ 1 billion mark in 2007. Increased demand from Middle Eastern and Commonwealth of Independent Status (CIS) countries that pushed average tea prices upwards, helped to achieve this milestone, despite adverse impacts from labour union actions and unfavorable weather conditions experienced by the tea industry during the year. Rubber exports increased to US \$ 109 million, an 18 percent increase over 2006, responding to the rising trend in international prices of natural rubber attributable to increased price of synthetic rubber, stemming from high oil prices. Coconut and other agricultural exports also grew in 2007, contributing to a 17 percent growth in the export value of agricultural exports in 2007.

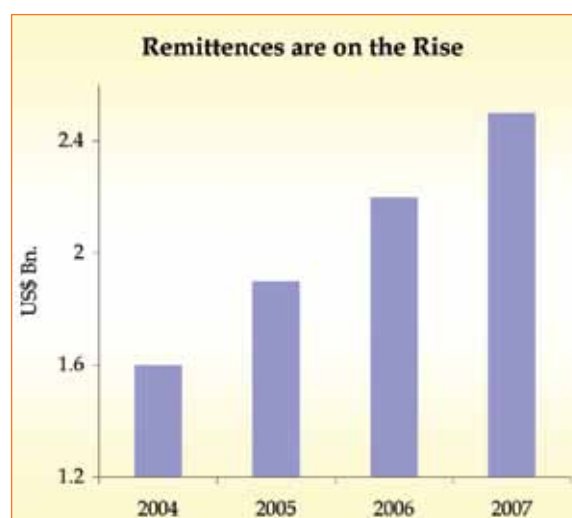
Chart 1.14



Further Increase in Worker Remittances

Worker remittances in 2007, continued to show an increase at a higher rate for the third consecutive year, registering US \$ 2,502 million in 2007. The rise in the average wages of a migrant worker in the Middle Eastern countries and increased migration to high wage countries such as Korea, Malaysia and Singapore, coupled with measures taken by commercial banks to transfer these earnings through banking channels, contributed to this increase. Increased worker remittances provided a considerable protection to the current account of the Balance of Payments and positively supported the stability of the exchange rate and building up reserves.

Chart 1.15



Improvements in the Current Account and Surplus in the Balance of Payments

The current account deficit narrowed to US \$ 1,369 million in 2007, improving to 4.2 percent of GDP from 5.3 percent in 2006. The negative impact of the trade balance was cushioned by increased worker remittances.

The Balance of Payments recorded a surplus for the third consecutive year. The surplus amounted to US \$ 531 million an improvement from a surplus of US \$ 204 million in 2006. The BOP surplus strengthened gross official reserves which increased to US \$ 3,508 million while total external reserves increased to US \$4,956 million.

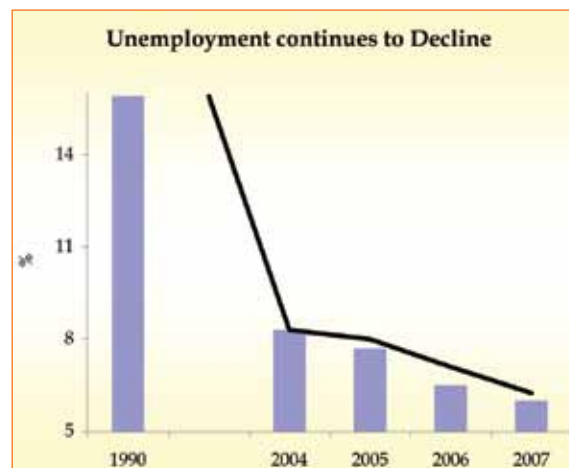
Unemployment Continued to Decline

Demonstrating a continued declining trend, the unemployment rate which was 7.7 in 2005 and 6.5 in 2006, recorded 6.0 percent in 2007. This is attributable to the sustained growth experienced in all three sectors, implementation of several programs for job creation in the public sector inter alia to strengthen the public sector delivery mechanism, coupled with expansions witnessed in dissemination of labour market information and career guidance programs.

Unemployment in the age groups 15-19 years further declined to 21.6 percent in 2007 from 23.1 percent in 2006 and 33.2 percent in 2005. The unemployment rate among those with GCE/OL declined to 8.2 percent from 9.9 percent while the overall unemployment figures in terms of educational categories also declined during 2007. Another salient feature in unemployment figures was that male unemployment rate reduced to 4.3 percent from 4.7 percent while the female rate dipped to 9.0 percent in 2007 from 9.7 percent in 2006.

Overseas job opportunities for the Sri Lankan labour force remained a major source of employment. The total departures were 217, 306, an increase of 7.6 percent in 2007, bringing the total stock of foreign employment to 1.6 million. The Government has also placed greater emphasis on enhancing the skill levels of those who are seeking overseas employment, to supply professional services in order to provide more secured employment and greater earnings.

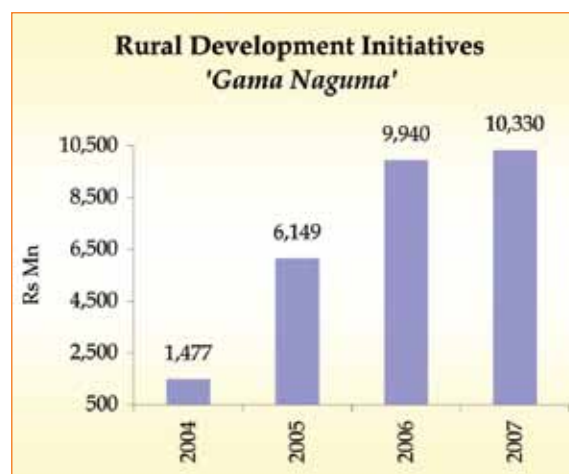
Chart 1.16



Rural Development

Government commitment in improving socio economic conditions in the lagging regions continued in 2007. Gama Neguma, the major initiative to empower the poor through an integrated rural development program with community participation which commenced in 2006, expanded in 2007 and was implemented in 295 divisional secretariats covering 4,222 villages in 23 districts.

Chart 1.17



Maga Neguma - a rural road development program, also expanded with many rural roads being rehabilitated using modern techniques to ensure durability. Under this program around 4,200 km of rural roads have been rehabilitated at a cost of Rs. 4,655 million. The programs such as Gami Pubuduwa and Jana Pubuduwa designed to restore community livelihood development and micro enterprise development were strengthened in 2007.

Infrastructure Development

With a view to accelerate growth through increased investment in infrastructure, the Government has embarked on an infrastructure strategy : Randora , focusing on large scale projects in power generation, roads, ports, water supply and irrigation. The total value of the envisaged investment program for these mega projects during 2006-2011 is around US\$ 1,000 million, annually. The Government was successful in securing donor funds for projects such as Norochcholai Coal Power Plant, Upper Kothmale Power Project, Kerawalapitiya Combined Cycle Power Plant, Hambantota Port, Colombo South Port, Uma Oya Irrigation Project. Most of these projects are now in the construction phase.

Poverty Reduction

The Poverty Headcount Index (PHCI) which describes the population living below the official poverty line has reduced to 15.2 in 2007 from 22.7 recorded in 2002. The sustained economic growth, declining unemployment, more resources having been channeled to rural development, expansion in health and education facilities and favorable producer prices for agricultural products, have contributed to the declining trends in poverty in Sri Lanka. Pro poor growth emphasis, rural development initiatives and enhanced micro and SME credit facilities promoting income generating activities in the regions, have contributed to declining poverty in rural areas.

Table 1.8
Poverty Headcount Index

Sector	2002	2007
Urban	7.9	6.7
Rural	24.7	15.7
Estate	30.0	32.0
Country	22.7	15.2

Source : Census and Statistics Department



Concrete Roads

Box 1.5
Pro-poor, Pro-Growth Strategies

Pro-poor Pro-Growth Strategies have Contributed Towards Poverty Reduction

The Household Income and Expenditure Survey conducted by the Department of Census and Statistics reveals that the Poverty Headcount Index (PHCI) or the population living below the official poverty line in 2007 was 15.2. This showed a significant reduction in poverty compared to that of 2002 recorded as 22.7.

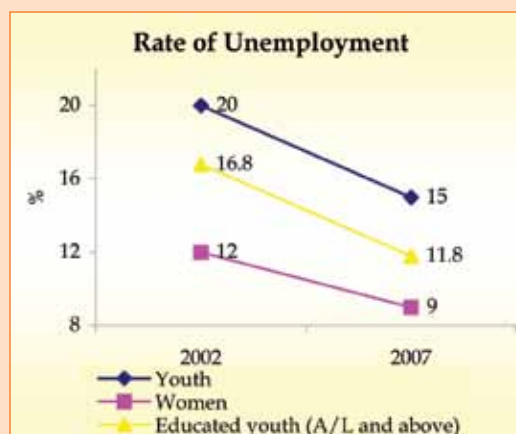
Key Indicators

Indicator	2002	2007
• Poverty HCI	22.7	15.2
• Growth Rate *	2.8	6.9
• Unemployment Rate	8.8	6
• Labor Force Participation Rate		
Male	67.9	67.8
Female	33.6	33.4
• Vehicle population		
- Three-wheelers	133,115	361,727
- Lorries,	187,617	262,584
- Buses (Active fleet)	28,956	33,976
Telephone (per 100 persons)	9.5	51.3
Access to electricity (% of households)	65	80
Access to water (% of households)	70	76
• Investment as a % of GDP		
- Education	2.4	2.8
- Health	1.6	2.0
• Government Expenditure (Rs.mn.)		
- Rural development		
- Skills development	14,431	79,979
- Housing	1,974	4,194
- Income supplementary	3,505	4,481
- Fertilizer subsidy	9920	9600
- Text books	2466	11000
- School Uniform	1100	2250
- Mid day meal	1000	1260
	-	1500
• Wage Index (1978 = 100)	1126	1648
• Average agricultural producer prices (Rs. per Kg.)		
- Tea		
- Rubber	22	54
- Paddy	55	216
• Daily Wage Rates (Rs.)	14	19
- Carpenters		
- Masons		
- Farming	439	732
	432	727
	279	453

Source: Census and Statistics Department
Central Bank of Sri Lanka
Tea Small Holders Development Authority
Rubber Development Department
*Average for 2000-2002 and 2005 – 2007

The official poverty line is defined as total expenditure per person per month at Rs. 2,233.

Several factors seemed to have contributed to this sharp declining trend in poverty. The rapid improvement in the economy, notable decline in unemployment, rise in wages, increased public investments as well as expenditure on rural development, expanded health and education facilities, enhanced mobility through increased use of vehicles, increased access to public utilities, and favorable producer prices for agricultural produce have attributed to the declining trend in poverty. The annual average growth rate of the economy during the period 2000 – 2004 and 2005-2007 were 4.0 and 6.9 respectively. The increase in the growth rate of the agriculture sector, where nearly one third is employed, contributed to the increase in the growth rate. Per capita income increased from US \$ 870 in 2002 to US\$ 1,617 in 2007.



Enhanced investments in education and health including nutritional intervention programs during the period, contributed to increased access to education and health, nutritional status as well as skills of youth. According to statistics provided by the Census and Statistics Department and the Management Services Department, 700,000 new employment opportunities have been created between 2002-2007. Of this, around 278,000 in the public sector and around

Box 1.5
Pro-poor Pro-Growth Strategies Contd.

422,000 in the private sector. The rate of unemployment has declined from 8.8 per cent in 2002 to 6 per cent in 2007.

Labour Productivity

Sector	2002	2007
Agriculture	7.3	120.6
Industry	168.4	339.0
Services	160.5	449.0
Total	131.5	317.0

Source: Census and Statistics Department

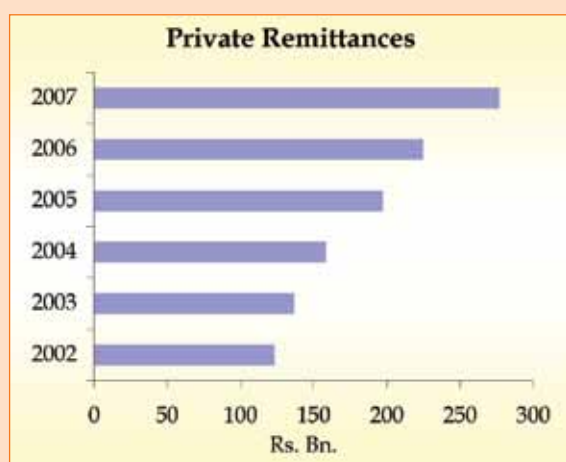
According to the Management Services Department, institutional employment for the same period is 143,000 and as such this figure should be added to public sector employment. In addition, micro and SME credit facilities, dissemination of labour market information and career guidance have progressively increased employment at all levels. Increased departures for foreign employment are also a reason that contributed toward reduced poverty during 2002 - 2007. The remittances from migrant workers increased from Rs.123 billion (US\$ 1,287 mn.) to Rs. 241 billion (US\$ 2,503 mn.) during this period. Since, most of the

migrant workers are from rural areas; this has undoubtedly been a substantial source of income to the rural economy.

An improvement in wages can also be observed. The wage index for those who are covered by the Wage Boards has increased from 1,126 in 2002 to 1,648 in 2007 representing a 46 percent increase. The daily wages in tea, rubber, coconut and paddy sub sectors exhibit an upward movement during the period in parallel with the growth in the agriculture sector. In addition, employees in the construction sector such as masons and carpenters were also able to enjoy significantly higher daily wages with an increase of about 40 percent. The construction sector growth was around 9 percent during the last three years. The wage index of Government employees increased from 1,525 in 2002 to 3,827 in 2007, making an impact to increase income to the rural economy.

Public expenditure on Samurdhi and other income supplement programs, comprising of distribution of free text books and uniforms for school children, and the fertilizer subsidy has shown a significant increase from Rs. 18 billion in 2002 to Rs. 34 billion in 2007. This has been of additional support to the poor, in order to overcome poverty.

Between 2002 and 2007, the incidence of poverty has significantly dropped in the urban and rural sectors. In the urban sector, the poverty ratio is significantly low and this is attributable to improved infrastructure facilities, expanded services and increased business activities in urban areas, particularly in the Western Province. The pro-poor growth emphasis and rural development initiatives such as Gama-Naguma, Jathikasaviya, Maga-Naguma, Dairy Villages, Rural Irrigation, Rehabilitation and Community Water Supply and Sanitation Schemes have revived the rural economy through income generating activities.



Box 1.5
Pro-poor Pro-Growth Strategies Contd.

The poverty incidence in the estate sector where the majority of the population consists of estate workers has increased from 30 to 32 percent between 2002 and 2007. This is in spite of wage increases and social infrastructure developments to upgrade living conditions of estate workers. It appears that high alcoholism, increased price of wheat flour and natural disasters in the hill country have contributed to increased poverty in these areas. It is noteworthy to mention that the Government has already taken initiatives to promote rice consumption among estate worker families, in order to increase their nutritional levels.

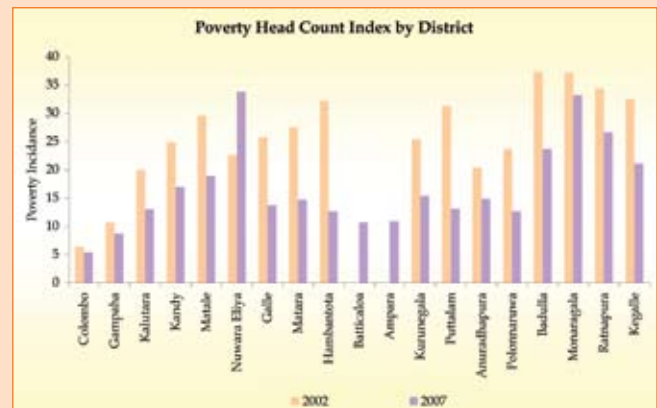
Poverty Headcount Index by Sector

Sector	2002	2007
Urban	7.9	6.7
Rural	24.7	15.7
Estate	30.0	32.0
Sri Lanka	22.7	15.2

Source: Census and Statistics Department

As far as the districts are concerned, except for Nuwara Eliya, the incidence of poverty has reduced between 2002 and 2007. In the Nuwara Eliya District, the majority of the population consists of estate workers and their income avenues are largely dependent on daily wages. However, programs aimed at skills development and entrepreneurial development for both males and females are being implemented in the estate sector to encourage them to be engaged in alternate income generating activities.

Provision of fertilizer subsidy, access to micro and the SME credit facilities, increased availability of high yield seeds, availability of water for cultivation, revival of rice mills, guaranteed prices for paddy and safeguarding measures



introduced to promote local food crops such as maize, onion, potato, fruit, vegetables and dairy products have enhanced the profit margins of farmers.

The Mathata Thitha awareness campaign has helped to reduce consumption of alcohol and cigarettes, thus promoting a healthier and more productive work force, in addition to consequential increased savings.

A significant progress in social infrastructure is also observed during this period. In fact, key social indicators stand well above those of comparable developing countries and are in fact on par with many developed countries.

A consistent decline in maternal deaths was apparent with 55 deaths for 100,000 live-births in 2004 to 45 deaths in 2006. This signifies the priority given by the Government to fulfill the needs of pregnant women and the allocation of resources to enable easy access to maternal care services such as antenatal care and domiciliary care.

Box 1.5
Pro-poor Pro-Growth Strategies Contd.

In 2006, about 90 percent of births took place in medical establishments which is unique in the South Asia perspective. The percentage share of children underweight in the category under 5 years dropped from 29 percent in 2004 to 21 percent in 2006. The Mid-day meal, Threeposha and other nutritional programs have led to improved nutritional standards of children and declined the magnitude of malnutrition among them. The number of infants with a low birth weight have also declined from 22 percent in 2004 to 16 percent in 2006. Increased levels of awareness among mothers, proper distribution of food and successful implementation of immunization programs have contributed towards this trend.

Even though high inflation, stemming inter alia from increased food prices, has eroded the purchasing power of consumers to a certain extent, particularly among urban fixed income earners and the unemployed poor, it has acted as an incentive to rural farmers through higher prices for their produce. Increased supply of food items, favourable farmer incentives coupled with a high economic growth will help to contain food inflation and poverty to a certain extent.

Key Social Indicators

Indicator	2004	2006
Infant Mortality Rate (per 1,000 live births)	12	11.4
Maternal Mortality Rate (per 000' live births)	55*	45
Infants with low birth weight	22	16
Children under weight for age	29	21.6
No schooling mothers	35.7*	4.0
Female literacy rate	90.6	91.5

Source: Census and Statistics Department, Family Health Bureau

* Figure represents the year 2000

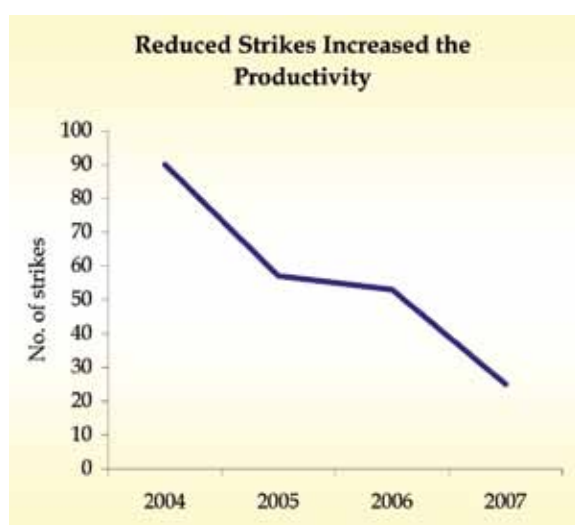
Labour Productivity

Improving labour productivity to sustain a positive economic development is important. The Government has placed emphasis on promoting a skillful and globally competitive work force. The overall labour productivity continued to improve in 2007, following the trend experienced in recent years. As such, productivity improvements were witnessed in all three sectors. The agricultural sector recorded an increase of 7.3 percent in productivity, compared to 4.3 percent in 2006, while productivity in the industrial sector grew by 8.1 percent. These positive developments complement poverty reduction strategies that the Government has embarked upon, since these two sectors could promote providing livelihood for many people. Increased productivity is a favorable development to be able to achieve the desired economic growth in the medium term.

Improved Labour Relations

The steady decline in the number of labour strike actions since 2004 continued in 2007 and recorded only 25 strikes compared to 53 in 2006, reflecting the steps taken to strengthen the understanding between the tripartite partners, the employer, the employees and the Government.

Chart 1.18



A Sluggish Capital Market

The record levels that were witnessed in the capital market operations in first two months of 2007 with strong interests by local investors, slowed down in the second half of 2007 due to rising domestic interest rates and security concerns. This was despite possible developments witnessed in the capital market transactions such as increased funds mobilized through rights issues and the rise in net foreign inflows of Rs. 11.2 billion, reflecting the increasing interest of foreign investors in local stocks.

Table 1.9 - Movements in the Capital Market

	2005	2006	2007
All Share Price Index (1985=100)	1,922.2	2,722.4	2,541.0
Milanka Price Index	2,451.1	3,711.8	3,291.9
Market Capitalization (Rs. Bn.)	584	835	821

Source: Colombo Stock Exchange

The Financial Market

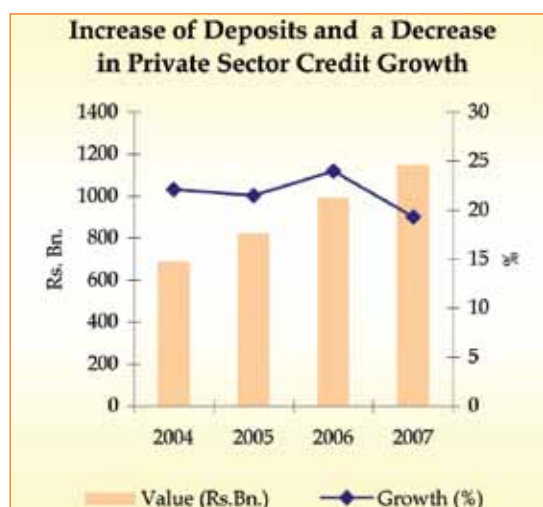
Deposit mobilization by the banking sector increased by 17 percent, reflecting initiatives carried out by commercial banks to mobilize savings. A notable achievement was the sustainability of the growth momentum in deposit mobilization in the recent past.

Credit to private sector has declined gradually from 24-26 percent at the beginning of 2007 to 19.3 percent by end December 2007. The upward adjustments in lending rates by commercial banks and steps taken by the Central Bank to reduce excessive lending by commercial banks in order to curtail high inflationary pressures, contributing to decelerate credit growth.

The tight monetary policy stance pursued by the Central Bank contained the growth in reserve money expansion which was brought down to 10.2 percent in 2007 from 21.2 percent in 2006. The expansion of reserve money was entirely due to the increase in Net Foreign Assets of the Central Bank which resulted in reducing Net Domestic Assets (NDA) to

maintain the reserve money growth. The decline in credit by the Government from the Central Bank supported to reduce the NDA and helped to maintain reserve money targets.

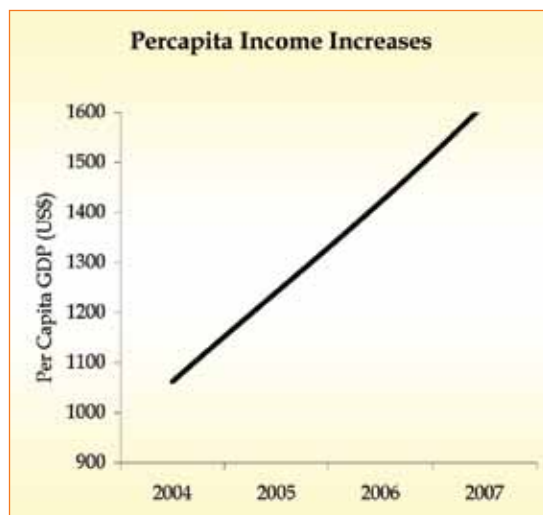
Chart 1.19



Growth in Per Capita Income

Reflecting the resilience of the economy and the ability to grow over 6 percent for three consecutive years in the backdrop of unfavorable domestic and external challenges, the per capita income reached US\$ 1,617 in 2007, a further increase from US\$ 1,355 in 2006.

Chart 1.20



Prospects

The external and internal economic challenges are formidable. Increasing petroleum prices, security concerns and the slow-down of the world economy will continue to pose challenges to the Sri Lankan economy. Higher global food prices together with priority accorded by the Government to promote domestic agriculture with increased incentives and rural development strategies will provide opportunities to increase the agricultural output and income as well as food security in the country. While monetary and financial policies have been tightened to contain demand pressures in the economy, increased food production will enable improvements in supply conditions, in the short term. A significant improvement in the overall agriculture sector performance would assist in poverty reduction and inflation management.

The successful implementation of Randora, the new infrastructure initiative consisting of power generation, construction of ports, highways, water supply and irrigation schemes is bound to be a challenge, but managing the same would enable the country to lay a foundation to move towards cost efficient developments.

The global financial and commodity market volatilities cause major threats, but becoming a country that is able to enjoy food and energy security seems the surest way to sustain development prospects of the nation.

Fiscal Developments

**Concerted efforts towards
correcting fiscal imbalances
amidts many challenges
in the oil and commodity
sectors**

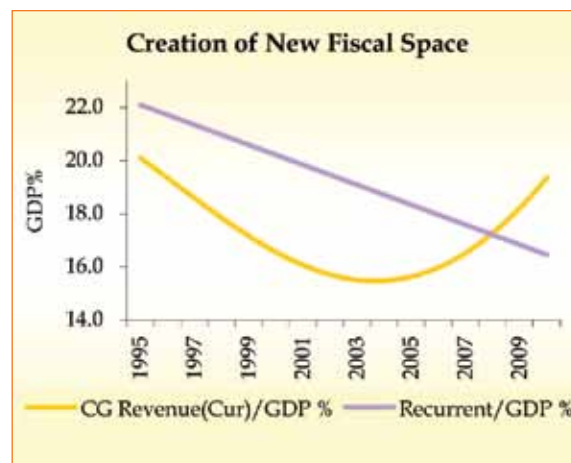
An Overview

The Overall fiscal management in 2007 was steered along the Medium Term Fiscal Framework 2006-2009 amidst several challenges.

Continued operations by security forces to counter terrorist threats necessitated the Government to keep its priority on security related expenditure in 2007, while continuing resettlement and development activities in the liberated areas. Priorities attached to accelerating the implementation of National Infrastructure Projects under *Randora* Programme, rural development initiatives under “*Jathika Saviya - Gama Neguma*” Programme, Food Production drive under “*Api Wawamu-Rata Nagamu*” human resource development initiatives under health and education programmes and social protection programmes to vulnerable groups, required the National Budget to allocate enhanced resources to public investment and social welfare. The high prices of food items warranted the Government to embark on duty concessions on essential commodities with a view to curbing the rising cost of living, compressing Government revenue. In the backdrop of unprecedented high international oil prices, the Government was compelled to revise domestic oil prices to be on par with international prices to contain recurrent expenditures. Amidst these challenges Government’s overall fiscal performance in 2007 was broadly consistent with that envisaged in the Medium Term Fiscal Framework 2006-2010.

The fiscal performance in 2007 helped achieve the medium term targets of reducing the revenue deficit, the budget deficit and lowering debt. Although revenue efforts fell short of expectations, expenditure controls helped to achieve a fiscal space enabling more resources to be channeled for development activities. Public investment/GDP ratio increased to 6.4 percent in 2007 from 6.0 percent in 2006.

Chart 2.1



The overall borrowing from the banking sector reduced to 0.5 percent of GDP from 2.7 percent in 2006. Contrary to the borrowings recorded in past years, there was a net repayment of Rs. 13 billion to the Central Bank to complement its efforts to reduce reserve money expansion.

The overall Budget Deficit including the fully foreign funded projects was 7.7 percent of GDP in 2007 compared to 8.1 percent in 2006 reflecting the downward trend envisaged in the Medium Term Fiscal Framework. The deficit in the revenue account reduced to 1.6 percent of GDP from 2.4 percent, a positive development towards supporting its expected turnaround to a surplus in the medium term. The GDP ratio of Public debt inclusive of the US \$ 500 million raised from the international bond issue declined to 85.7 percent from 88.7 in 2006. Recruitment of public servants to fill gaps in selected public services, the channeling of enhanced funds to strengthen national security, maintenance of welfare programs to support vulnerable groups in the society and high domestic interest rates and exchange rate depreciation, exerted pressure on expenditure management. However, the Government was successful in maintaining the recurrent expenditure at 17.4 percent of GDP in 2007 compared to 18.6 in 2006.

On the negative side the Government Revenue effort was thwarted mainly due to a revenue shortfall, which arose in international trade taxes stemming from granting of duty concessions on motor vehicles for public servants and waivers on certain essential commodities to address rising global prices of such items. This effect was felt throughout the year where the revenue forgone from these measures alone was around 0.5 percent of GDP.

Consequently the revenue / GDP ratio declined marginally to 15.8 percent from 16.3 in 2006. The revenue buoyancy was also constrained due to revenue limits in excise taxation and a wide range of tax exemptions and tax holidays.

Table 2.1
Loss of Revenue Due to Granting of Duty Waivers on Essential Commodities and Motor Vehicles

Description	CD	VAT	PAL	SRL	Excise Duty	Total
Potatoes	911	119	29	17	-	1,075
B' Onions	1,538	10	32	21	-	1,601
Sugar	1,517	76	77	15	-	1,685
Lentils	9	243	97	2	-	351
Milk Powder	2,673	748	428	21	-	3,871
Canned Fish	503	168	69	8	-	747
Coconut Oil	13	3	1	0	-	17
Palm Oil	2,519	552	145	17	-	3,233
Rice	882	44	0	9	-	935
Sprats	55	116	56	2	-	230
Red Onions	94	20	8	1	-	123
Chick Peas	132	66	30	2	-	229
Green Gram	15	33	16	1	-	64
Chillies	566	75	23	6	-	671
Food Items	11,427	2,273	1,010	122		14,832
Motor Vehicles	948	821	114	43	4,203	6,129
Total						20,961

Source: Fiscal Policy Department.

The Government revenue also suffered owing to the implementation of a concessionary motor vehicle duty scheme for public servants. The revenue loss was around Rs. 6,100 million.

Table 2.2
Vehicle Imports for Public Servants under the Concessionary Duty Scheme

Vehicle Category	Qty	Effective Duty Rate (%)		Total Duty Forgone (Rs.Mn)
		Normal	Concessionary	
Petrol, engine capacity < 1000cc	663	176	42	1,127
Petrol, 1000cc < engine capacity 1600cc	2,162	205	50	4,603
Diesel, engine capacity 2000cc	58	501	108	399
Total	2,883			6,129

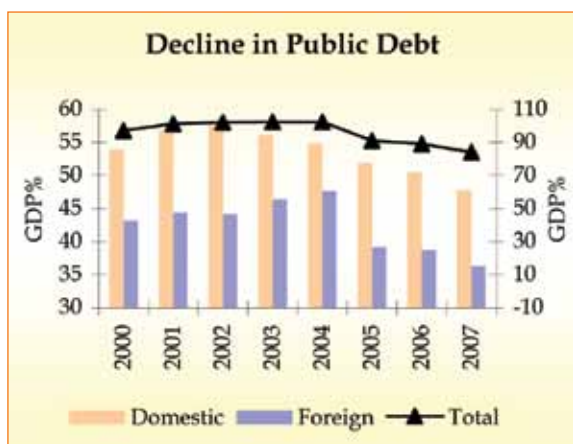
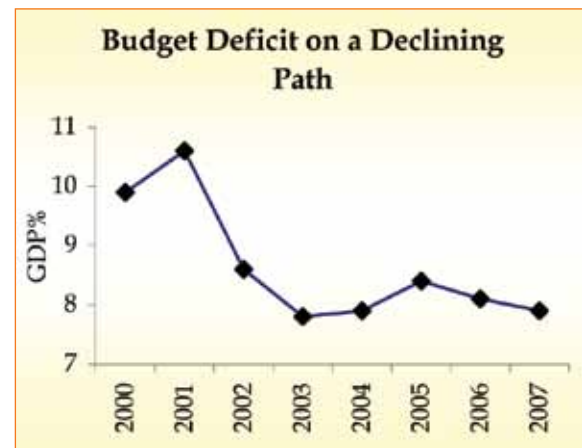
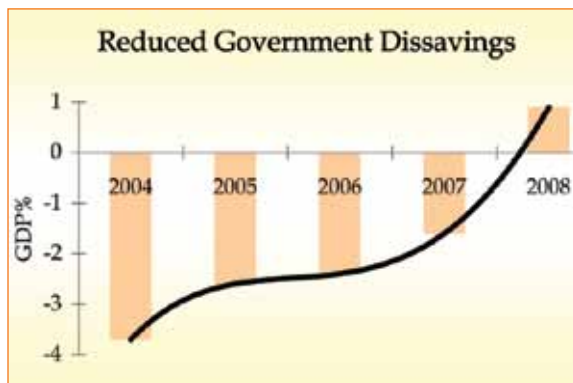
Source: Fiscal Policy Department

Public expenditure management was designed to achieve budgetary targets using allocated resources based on strategic priorities and operational efficiency.

The Government maintained its high priority given to the nationwide infrastructure development programme with a view to accelerate growth in the lagging regions. Equal importance was also given to human resource and skills development.

The implementation of mega development programs were carried out with renewed momentum, thus the country has now entered into construction phase involving large projects in areas such as ports, power generation, roads and irrigation schemes. The gross project related foreign funding which stood at US \$ 1,089 million was an improvement over funds mobilized during 2006.

Chart 2.2
Despite Revenue Shortfalls, Encouraging Achievements in
the Fiscal Consolidation Process



A notable development was that the country was able to mobilize funds for long overdue strategically important infrastructure projects such as the Norochcholai Power Project (US \$ 455 million), Colombo South Harbour Project (US \$ 300 million), Hambantota Sea Port Development Project (US \$ 307 million), Upper Kotmale Hydropower Project (US\$ 350 million), and national roads, bridges and flyovers (US \$ 1,830 million).

Under the Fiscal Management Reform Programme emphasis was given to human resource development and capacity building, to improve efficiency in revenue agencies, to strengthen sectoral budget framework and improve treasury operation activities while reinforcing accountability and governance measures. Data dissemination and transparency aspects were given high priority through submission of comprehensive reports under the Fiscal Management Responsibility Act.

2. Fiscal Developments - 2007

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Table 2.3
Summary of Government Fiscal Operations

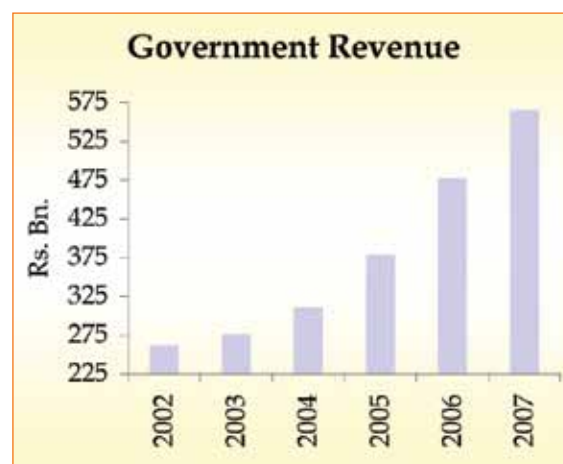
	2004	2005	2006	2007	Rs Bn 2007 Budget
Total Revenue	311.5	389.5	477.8	599.8	565.1
Tax Revenue	281.6	351.1	428.4	540.9	509.0
Income Tax	41.4	55.4	80.5	102.1	107.2
Taxes on Goods and Services	191.5	227.2	289.3	355.0	328.6
Taxes on External Trade	48.7	68.6	58.6	83.8	73.2
Non Tax Revenue	29.9	42.9	49.5	59.1	56.1
Total Expenditure	476.9	584.8	713.6	898.0	841.6
Recurrent	389.7	443.4	548.0	596.8	622.8
Personal Emoluments	106.2	138.6	175.0	198.7	214.2
Interest	119.8	120.2	150.8	169.1	182.7
Subsidies and Transfers	105.4	128.3	144.2	130.8	147.4
Other Goods and Services	58.3	56.3	78.0	97.5	78.5
Capital and net lending	87.2	141.4	165.7	301.8	218.8
Public Investments	97.6	148.5	177.4	303.6	229.3
Other	(10.4)	(7.1)	(11.8)	(1.7)	(10.4)
Revenue Surplus/Deficit (-)	(78.2)	(63.6)	(70.1)	3.6	(57.7)
Budget Deficit	(165.4)	(205.0)	(235.8)	(298.2)	(276.6)
Total Financing	165.4	205.0	235.8	298.2	276.6
Total Foreign Financing	45.4	80.4	72.0	142.0	131.4
Net Foreign Borrowings	37.1	47.8	41.9	117.9	100.9
Gross Foreign Borrowings	70.1	69.1	87.9	177.9	165.0
Debt Repayments	33.0	21.4	46.0	60.0	64.1
Foreign Grants	8.7	32.6	30.1	24.1	30.5
Total Domestic Financing	117.2	123.6	163.8	156.2	127.7
Net Non-Bank Financing	69.3	92.1	83.8	139.5	111.9
Net Foreign currency domestic financing	16.0	41.7	41.1	8.0	3.4
Net Bank Borrowings	27.2	(15.5)	39.0	8.7	12.4
Other	2.4	6.3	-	-	17.4
As a percentage of GDP					
Revenue	14.9	15.5	16.3	16.9	15.8
Tax Revenue	13.5	13.7	14.6	15.2	14.2
Non Tax	1.4	1.7	1.7	1.7	1.6
Expenditure	22.8	23.8	24.4	25.3	23.5
Current Expenditure	18.6	18.1	18.7	16.8	17.4
Public Investment	4.7	6.1	6.1	8.6	6.4
Revenue Deficit	(3.7)	(2.6)	(2.4)	0.1	(1.6)
Budget Deficit	(7.9)	(8.4)	(8.1)	(8.4)	(7.7)
Total Foreign Financing	2.2	3.3	2.5	4.0	3.7
Total Domestic Financing	5.6	5.1	5.6	4.4	3.6

Source: Fiscal Policy Department

Government Revenue

Government Revenue increased by Rs. 87 billion to Rs.565 billion in 2007. The revenue performance fell short of the target envisaged in the Budget 2007 by Rs. 35 billion mainly due to shortfalls stemming arising from the duty concessions granted for importation of essential commodities with a view to stabilizing commodity prices, to curb rising food prices. A significant drop in value of imports of motor vehicles liable for excise duty, implementation of concessionary duty structure on motor vehicles for public servants and the impact of the implementation of Free Trade Agreements, contributed to lower revenue from custom duties, excise taxes and VAT. Further, decline in cigarette sales and the slow down in liquor production moderated the growth in revenue from excise taxes as well as VAT.

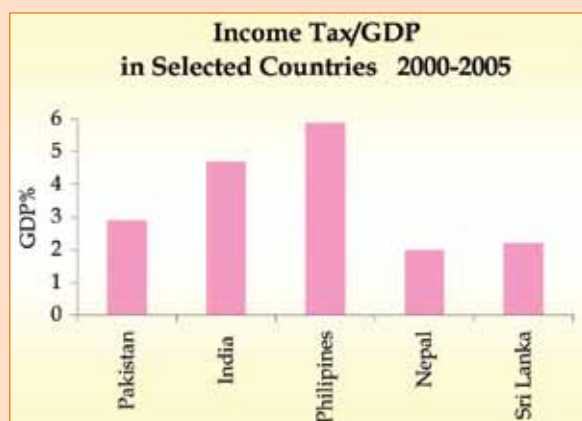
Chart 2.3



The total estimated loss on account of these factors was around Rs. 30 billion. As a percentage of GDP, revenue was 15.8 percent in 2007, a decline from the 16.3 percent in 2006.

Box 2.1 Tax Measures

Income Tax constitutes corporate and personal Income Taxes, Economic Service Charge and tax on interest income. The revenue from Income Taxes was around 2 percent of GDP and it has stagnated at that level for many years. This level of taxation is low when compared with other countries in Asia. Income Tax revenue accounts for 16 percent of total tax revenue, which is an indication that the country relies heavily on indirect taxation for its revenue.



Indirect Tax/Tax ratios of selected countries (average 2000-2005)

Country	Indirect Tax/Tax
Pakistan	70
India	55
Philippines	55
Korea	59
Thailand	59
Sri Lanka	84

Source: Government Finance Statistic- IMF

The Government took several policy initiatives to strengthen the Inland Revenue Department and create an environment conducive to the tax payer as well as for tax administration, in order to raise revenue from income tax. During the past 3 years, the Government was successful in enacting necessary legislation pertaining to policy measures taken to broaden the tax base, rate revisions and administrative measures, prior to the commencement of each tax year.

Box 2.1 Tax Measures Contd

- To broaden the tax base

- Tax holidays that are in existence, not be extended after the expiry of each tax holiday granted.
- A tax holiday which commences after 01.04.2008, not be more than a maximum of three years, other than for strategic development projects and for projects under regional development.
- 100 percent carry forward losses permitted to corporate entities, was restricted to 35 percent of the assessable income.
- Revenue of non governmental organization excluding those engaged in providing humanitarian relief, was brought under taxation.
- Limitations were imposed on concessionary rates applicable to quoted companies and on certain categories of non-resident employees.
- ESC was made applicable to BOI companies and entities enjoying tax holidays and exemptions.
- The maximum payable as the ESC was raised from Rs. 50 million to Rs. 60 million, while the threshold for the turnover was brought down from Rs. 50 million to Rs. 40 million.
- Legal provisions were introduced on arms length transactions to minimize transfer pricing and discourage thin capitalization.
- Restrictions were imposed on deductible expenditure such as advertising costs.
- In ascertaining profits and income in the business of insurance, life insurance and other insurances were made to be treated as separate businesses and as such

any loss from one business of insurance can be set off only against the profits from that business only.

- When the gross dividend distributed by any company is less than 25 percent of its distributable profits for the year, the company to be required to pay an additional tax amounting to 15 percent of the excess of one third of the distributable profits, over the profits already distributed, applicable to tax years commencing on or after April 1st, 2007.
- The 15 percent Income Tax rate applicable to small companies generating a taxable profit of less than 5 million, not be applicable to a company that is either a holding company or a subsidiary or an associate company which will be subject to the normal Income Tax rate.
- Bad debt provisioning of banks or financial institutions was limited to the lesser of the actual amount of the bad debt provision or 1% of loan-debtor balance, at the end of the year.
- ESC non chargeability for 3 years following the commencement of business was limited only to manufacturing businesses.
- The time permitted to file a return was reduced from one year to 6 months.

- Administrative measures to improve compliance / enforcement

- 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.

Box 2.1 Tax Measures Contd

- A 10 percent discount was permitted to taxpayers who pay taxes in advance while a penalty was imposed on late payments.
- In the case of a person with an income of not less than Rs 1 million, who voluntarily opened an Income Tax file, the return to be 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 to be 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.
- The Income tax rate on capital allowance in respect of ships acquired was reduced to 33 1/3 percent. Further, tax exemptions were permitted on remuneration of any resident individual employed on a Sri Lankan ship.
- Tax incentives were granted for entities starting or relocating industries in districts other than Colombo and Gampaha under the “*Gamata Karmantha*” Programme 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.

The Government has also granted income tax exemptions and concessions for several sectors to boost such industries.

Exemptions/ other development measures

- Income tax was exempted on profits from agriculture and this was further extended to agricultural processing
- Income tax was exempted on profits of any individual engaged in construction work outside Sri Lanka for which payments are made in foreign currency and which are remitted to Sri Lanka through a bank.
- Unit Trusts were permitted to claim exemptions on profits from sale of shares.
- Exemptions from Income Tax were granted to professionals on their foreign currency earnings to encourage inward foreign remittances.
- Exemptions from Income Tax were granted on annuities to encourage designing of 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 to be applicable on debt securities, to boost the Corporate Debt Security Market.
- Tax holidays of 10 years and 5 years were granted for newly constructed cinemas and existing cinemas, respectively. The qualifying payments on the cost of production of films that could be deducted from income tax was increased from Rs. 10 million to Rs. 25 million.

The Government also carried on the consultative process through the Taxation Cluster of the National Council for Economic Development (NCED) which constitutes of participants from both the public and private sectors to facilitate the formulation of policy measures thereby taking into consideration the concerns of stakeholders.

Box 2.1 Tax Measures Contd

Under reform initiatives, Codes of Ethics and conduct were introduced to improve governance and accountability. The Tax Payers Charter was introduced to strengthen the rights and obligations of a Tax Payer in the “tax payer friendly environment” that is being promoted.

In the past two years, the capacity building and human resource development of the IRD have been given high priority. New recruits were taken to strengthen tax administration. Comprehensive training subject specific knowledge were given to employees to enhance speech, communication skills and technical skills.

Income tax exceeded the budgetary targets, in 2007

Income taxes realized Rs. 107,168 million in 2007 recording a 33 percent increase over 2006. As a percentage of GDP the revenue from income taxes reached 3 percent which is a noteworthy achievement. Income taxes exceeded its budgetary targets by Rs. 5,044 million.



Country at present has a wide range of tax exemptions and concessions. A proper needs assessment of exemptions and concessions would be required in order to broaden the base and sustain the high revenue effort from income taxes.

Income Tax Performance

Indicator	Rs. Mn.			Growth (%)	
	2005	2006	2007	2006	2007
Corporate tax and					
Personal tax	32,971	50,965	59,659	54	17.2
ESC	7,283	8,853	12,203	21.6	37.8
Withholding tax	12,282	20,665	35,307	68.3	70.9
Total	52,536	80,483	107,169	53.2	33.2
GDP ratio (%)	2.1	2.7	3.0		

Source: Fiscal Policy Department

The overall impact of these initiatives has provided a sustained improvement in income taxation. The overall growth of 33 percent in 2007 reflected a wider base raising revenue / GDP ratio to 3 percent.

Marginal Growth in Excise Taxes

Excise taxes generated from cigarettes, liquor, motor vehicles, petroleum and luxury products increased to Rs. 96,684 million in 2007, a marginal increase of 4 percent over 2006. Consequent to Government policy introduced through “Mathata Thitha” and the awareness programmes introduced in line with this policy and enforcement of legislation such as the National Alcohol and Tobacco Authority Act, a slow down in cigarette sales and liquor production was witnessed in 2007. The overall cigarette sales decreased by 2 percent in 2007. Further the rate revision on cigarettes in December 2006 was limited due to an increase in turnover tax imposed by the Provincial Council from 1 percent to 5 percent with no additional revenue as excise duties in order to an increase provincial revenue. However increase in sales of longer brand cigarettes contributed to a 4 percent increase in excise duty revenue on cigarettes in 2007.

Chart 2.4

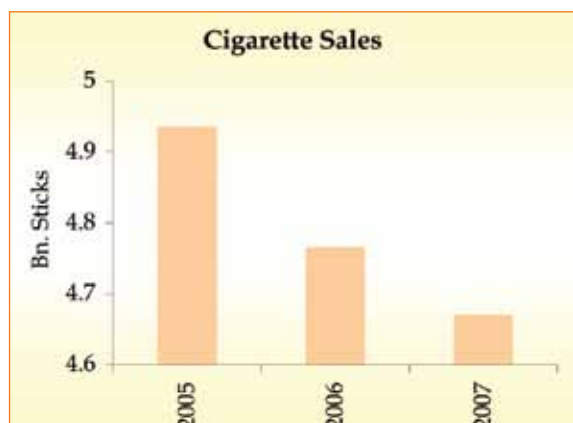


Table 2.4

Excise Duty Rate Revisions on Cigarettes

	Per 1000 sticks					Increase * (%)
	2006 Oct	2007 June	2007 Oct	2007 Nov	2008 Mar	
Benson	7,306	7,588	8,588	8,868	9,840	35
Gold Leaf	7,018	7,283	8,086	8,314	8,850	26
Viceroy	5,919	6,183	6,986	7,219	7,219	22
Other	3,722	3,722	3,722	3,722	4,520	21

Source: Fiscal Policy Department

* This represents the percentage increase of excise duty per 1,000 sticks of cigarette, during the period Oct 2006 to Mar 2008.

The hard liquor production recorded a slow growth of 4 percent in 2007 compared to the 17 percent growth in 2006. Despite the slow down in production the implementation of rate revisions and - the moderate increase in malt liquor production attributed to a revenue of Rs. 23,723 million, a growth of 15 percent over 2006.

Table 2.5
Liquor Production

Category	Production			Growth (%)	
	2005	2006	2007	2006	2007
Hard Liquor (Mn. Proof ltrs)	38.5	45.4	47.2	18	4
Malt Liquor (Mn. ltrs)	51.5	46.9	49.7	(9)	6

Source: Fiscal Policy Department

In order to protect legitimate revenue, detections of illicit liquor were accelerated. 56,464 detections were carried out in 2007 compared to 52,583 in 2006, generating Rs. 200 millions as fines.

The major contributory factor for the slower growth in excise duty was the reduced volume and value growth in vehicle imports as well as concessions extended to public servants to import vehicles. The number of motor cars imported declined by 35 percent in 2007, in addition to a shift to low value motor vehicles importation from India and China constituting 38 percent of the motor vehicles imported in 2007 as compared to 25 percent in 2006.

Table 2.6
Excise Tax Performance

Indicator	Rs. Mn.			Growth (%)	
	2005	2006	2007	2006	2007
Liquor	16,085	20,662	23,723	28.5	14.8
Cigarettes	26,692	30,099	31,447	12.8	4.5
Motor vehicles	14,020	20,731	17,415	47.9	-16
Petroleum & other	19,181	21,353	24,099	11.3	12.8
Total	76,978	92,845	96,684	20.6	4.1
GDP ratio (%)	3.1	3.2	2.7		

Source: Fiscal Policy Department

Rate Changes

Excise duty on liquor and cigarettes was increased. A 5 percent excise duty was imposed on polythene and paints.

Table 2.7
Estimated Shortfalls in Excise Duty Revenue

	Rs. Mn.
Slow down in vehicle imports/Public servants concessionary duty scheme	13,068
Slow down in liquor sales	973
Slow down in cigarettes sales	667
Total	14,708

Source: Fiscal Policy Department

Exemptions / Other Development Measures

Excise tax on certain items relating to the printing and packaging industry was removed to give an impetus to such industries.

Excise Tax imposed on the production of paint was exempted for manufacturers with a turnover of less than Rs 50 million, to support small and medium manufacturers.

Concessionary duty rates were granted on importation of vehicles by public servants. 2,882 of such vehicles were imported in 2007 where the revenue forgone by the Government was Rs. 6,100 million.

Broadening the Tax Base

The Harmonized System (HS) codes pertaining to vehicles were revised through a description change to remove possible ambiguities and close loopholes.

The markup on CIF to charge excise tax at the point of import was increased from 5 to 10 percent with effect from November 2006. This was further increased to 15 percent in October 2007.

Value Added Tax (VAT)

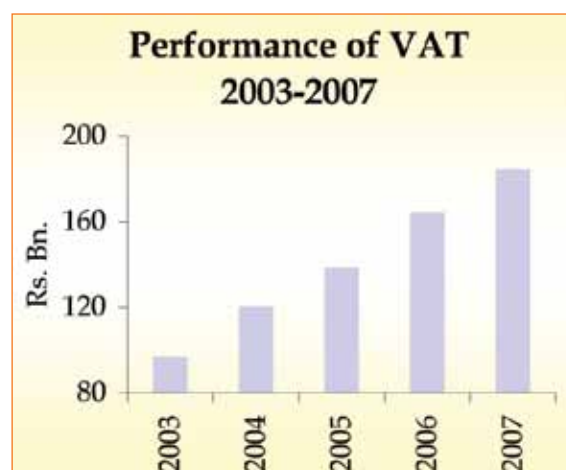
VAT revenue has shown a moderate growth of 14 percent in 2007, below the nominal growth in the economy.

Table 2.8
Collection of Value Added Tax

Tax Base	Rs. Mn.			Growth (%)	
	2005	2006	2007	2006	2007
Domestic	71,444	82,508	95,135	15.5	15.3
Imports	79,497	93,221	101,813	17.3	9.2
Gross Rev.	150,931	175,729	196,948	16.4	12.1
Refunds	12,281	11,174	9,957	(9.0)	(10.9)
Net Rev.	138,650	164,555	186,991	18.7	13.6
Net Rev. as a % of GDP	5.9	6.0	5.2		

Source: Fiscal Policy Department

Chart 2.5



Decline in motor vehicle imports, relief extended to tourism activities, slower growth recorded in liquor and cigarette sales coupled with duty exemptions granted on essential commodities with a view to stabilize consumer prices and the concessionary duty scheme implemented for public servants contributed to the moderate growth in VAT revenue. The impact on VAT revenue is shown below:

Table 2.9
Estimated Shortfalls in VAT Revenue

	Rs. Mn.
Decline in Motor vehicles imports	5,148
Concessionary duty scheme for public servants	906
Duty concessions on essential commodities	2,273
Concessions to the tourism sector	1,000
Slow down in liquor production	368
Decline in cigarette sales	86
Total	9,781

Source : Fiscal Policy Department

The Government has taken several policy measures to broaden the tax base and other administration aspects, while granting exemptions for economic development activities during the period 2005-2007.

Measures to broaden the tax base

- Introduction of a markup on CIF.
- Limitations / ineligibility for refunds in certain rate bands.
- Restriction of input tax credit to 85 percent of output tax paid.
- Time limitations on Tax Debit Notes.
- Removal of Tax Credit on motor vehicles used for traveling and provisions to withhold VAT payable to service providers on supplies made to Government Agencies.

Exemptions for Sectoral Development

- Import or supply of milk processing machinery, computers and computer accessories, machinery used in the construction industry, yarn or dyes used in the handloom industry, rice milling machinery, unprocessed timber logs and ships to boost such industries.
- Supply of high protein and high energy agro food to encourage local grain production and related value adding industries and supply of prawns to support local producers.
- Services provided by the Tower Hall Foundation and the Central Cultural Fund to revive cultural activities.

- Supply of electricity, fuel oil and machinery & equipment imported by the Ceylon Electricity Board and private power suppliers who supply electricity to the grid, to reduce the cost on account of electricity.
- Import of cattle, buffalos etc. and livestock breeding items to enhance the availability of such animals to improve livestock production.
- Importation of machinery to modernize factories in the plantation sector and material for processing and manufacturing of leather products to improve such sectors.
- Production, distribution or exhibition of films to give a boost to the local film industry.
- Importing and chartering of vessels to encourage shipping related activities.
- Locally produced unprocessed vegetables, fruits and fish and locally manufactured clay tiles to promote such ventures.
- Import of rattan to promote associated activities.

Measures taken to streamline VAT Refunds

- The VAT refund system was further streamlined through the opening of a special account to facilitate refunds and avoid refund related delays. 10 percent of VAT collected at the point of import is required to be credited directly to this account maintained with the Central Bank of Sri Lanka.
- 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.
- A dedicated account was opened to facilitate refunds to ensure a smooth flow of funds to be used for such refunds.

- The deferment facility was extended for imports of capital goods by direct exporters, to be used in the manufacture of goods for exports and import of raw material by indirect exporters registered with the Textile Quota Board to be used in the manufacture of garments that would be supplied to exporters.
- Refunds were confined to 15 percent for luxury items, in order to curtail losses stemming from refund outflows.

A substantial improvement in processing refunds was evident in 2007. The success of this process needs support from the tax payers through the filing of correct VAT returns. The processing of refunds gets delayed due to non furnishing of accurate documents and information to prove the input tax claims, and discrepancies in export data provided the tax payers and the Department of Customs. Thus, emphasis has been given to continuous tax payer education in order to improve the process. The frauds that have been occurring in VAT refunds, have prompted the department to take more precautionary measures, requiring more skilled staff to scrutinize the relevant documents. As such more staff was recruited and steps were taken to strengthen the audit mechanism.

Slower Growth in Import Duty Revenue

Import Duty revenue increased by 6.3 per cent to Rs. 56,017 million during 2007. The duty collected witnessed a lower growth compared to the growth in imports in 2007, as the imports in 2007 were predominantly investment and capital goods, which carry lower duty rates with duty waivers granted on essential commodities. Revenue loss resulting from the duty waivers granted on essential in relation with respect to import duties alone amounted to Rs. 11,427 Mn. in 2007. Reduced growth in the value and volume of motor vehicle imports and the Free Trade Agreements causing most tariff lines to be placed at a lower rate of custom duty also contributed for the slower growth in import duty collection.

Introduction of specific duties on certain items (Table 2.11) and high international prices on commodities such as wheat grain, helped towards partially mitigating the revenue

shortfall. The Government introduced a composite tax in lieu of all taxes applicable at Customs on certain essential commodities to address high domestic prices.

Chart 2.6

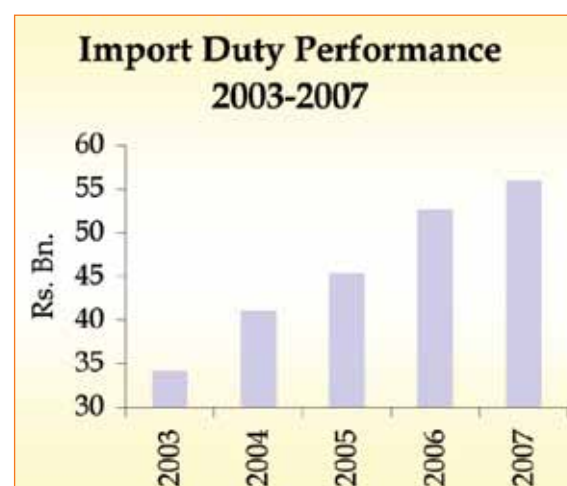


Table 2.10
Special Commodity Levy Structure of Selected Commodities

Item	Levy
Sprats	Rs. 20 / Kg
Onions	Rs. 5/ Kg
Peas	Rs. 15/ Kg
Chickpeas	Rs. 15/ Kg
Green gram	Rs. 13/ Kg
Dhal	Rs. 6/ Kg
Chilies	Rs. 30/ Kg
Canned fish	Rs. 25/ Kg
Cane sugar	Rs. 14/ Kg
Beet sugar	Rs. 14/ Kg

Source: Trade, Tariff and Investment Department

Further Measures to Broaden the Tax Base

The prevailing Harmonized System (HS) codes were revised in order to fulfill the requirement, of the World Customs Organization.

Changes were undertaken in the motor vehicles chapter relating the HS codes to clear ambiguities and thereby close loopholes which were in existence.

A Minimum Retail Prices (MRP) system was introduced for selected items such as biscuits and confectionaries.

Specific Duties were imposed on the following items:

Table 2.11
Imposition of Specific Duties

Item	Duty Rate
Tyres	Rs. 70/ Kg
Chocolate	Rs. 60/ Kg
Other Confectionaries	Rs. 40/ Kg
Salt	Rs. 5/ Kg
Selected Fruits	Rs. 30/ Kg
Agarbatti and other odiferous	Rs. 80/ Kg
Tableware, kitchenware and ornaments	Rs. 15 -Rs. 45/ Kg
Handicraft	Rs. 20-Rs.30 /Kg
Screws, Nuts, Rivets and safety-pins	Rs. 15- Rs. 30/Kg
Air conditioning machines	Rs. 1,200 - Rs. 8,000 / unit
Irons, Ovens and Cookers	Rs. 80 - Rs. 300/ unit
Televisions	Rs. 500- Rs. 9,500/ width

Source: Trade, Tariff and Investment Department

Administrative Measures

Continuous improvements were carried out to improve the custom surveillance mechanism. The automated system of random checking of cargo was improved with enhanced usage of scanning machines.

Exemptions / Other Development Measures

Duty waivers were granted on essential commodities to take charge of the rising cost of living.

Duty waivers were granted on the importation of machinery for the modernization of factories of the plantation sector and machinery used in poultry and film industries to give an impetus to these sectors.

Similarly, duty waivers were granted on raw material used for leather and livestock industries, to encourage such industries. Importation of buses by the private sector to replace any existing fleet was exempted to encourage bus owners to modernize their fleet as well as to be able to provide a better service to commuters.

Other Taxes

Port and Airport Development Levy generated Rs. 26,700 million in 2007, a growth of 26 percent over 2006. Increased duty rate of 3 percent on imports other than imports for export purposes, led to an increase in revenue collection.

Cess which is applied to address issues pertaining to environment, health and inflow of substandard products has generated Rs. 17,157 million. Cess revenue is generally ploughed back to the relevant sectors directly and indirectly through various development initiatives including technology infusion and research and development, the cost of which individual enterprises are unable to bear, to promote exports. Related domestic industries also benefited consequent to these measures. The Government spent Rs 1,000 million on Research and Development in the production sector.

The Regional Infrastructure Development Levy, which was introduced on motor vehicles, other than those vehicles used for goods and public transport, land vehicles and three wheelers, generated Rs. 1,481 million during this period. Revenue generated from this source complemented the Government effort on improving regional and provincial roads and the cost incurred was around Rs. 6.2 billion through *Maga Neguma*: the rural road rehabilitation initiative and provincial council road development.

Stamp Duty introduced on selected instruments generated Rs. 4,026 million exceeding the budgeted figure of Rs. 1,600 million.

Changes in Other Taxes

Rate Changes

Cess was imposed/scaled - up on identified non-essential imports, while Cess imposed on parts used for shoe manufacturing was removed.

The Regional Infrastructure Development Levy rate was revised from 2.5 per cent to the following rates based on the cylinder capacity.

Up to 1,600 cc	-	2.5 per cent
1,600 cc to 2,000 cc	-	5.0 per cent
Above 2,000 cc	-	7.5 per cent

These rates were further revised upwards by 2.5 per cent with effect from January 2008.

Cellular Mobile Phone Levy was increased from 2.5 to 10 per cent from September 2007. This levy was extended to codeless land phones as well.

PAL rate on items other than imports for export, was increased from 2.5 to 3 per cent.

Broadening the Tax Base

A 10 per cent markup on CIF was introduced for charging Cess, with effect from November, 2006.

Exemptions/ Other Development Measures

PAL rate was reduced to 2 per cent on import of specified machinery used in the apparel and textile industry.

PAL was exempted on certain medical drugs used for terminal diseases.

PAL was withdrawn, on the action import of specified gems, diamonds and gold.

Cess rates were scaled up to support manufacturers of straw and similar boards domestically and a Cess was imposed on

the import action of prawns, processed and unprocessed meat products and jewellery to promote support manufacturing/ producing of such items domestically.

Non- Tax Revenue

Non tax revenue including Central Bank Profits transfers amounting to Rs. 4,000 million, was Rs. 56,104 million, a 13 percent increase over 2006. The sub categories such as rent income, social security contributions and profit and dividends recorded increases in 2007.

Table 2.12
A Summary of Government Revenue

	2004	2005	2006	Rs. Mn. 2007
Tax Revenue	281,552	336,829	428,378	508,947
Income Tax	41,372	52,536	80,483	107,169
Personal & Corporate Income Tax	30,098	32,971	50,965	59,659
Economic Service Charge	-	7,283	8,853	12,203
Tax on Interest Income	11,274	12,282	20,665	35,307
Taxes on Goods & Services	199,084	234,459	289,342	328,604
VAT	120,622	138,660	164,555	186,991
Manufacturing	23,106	27,278	30,892	22,523
Non Manufacturing	28,690	32,559	40,615	51,768
Imports	64,859	73,360	84,282	101,501
VAT on Banking & Financing	3,967	5,463	8,766	11,119
Excise Tax	65,790	76,978	92,845	96,651
Liquor	13,512	16,085	20,662	23,723
Tobacco/Cigarettes	23,457	26,692	30,099	31,414
Motor Vehicles	12,672	14,020	20,731	17,415
Petroleum & Other	16,149	19,181	21,353	24,099
Other Taxes & Levies	12,672	18,821	31,942	44,962
Stamp Duty	-	9	1,516	4,026
License fees/Motor Vehicles & Other	624	2,142	3,045	7,049
Debit Tax	4,489	5,701	6,255	7,187
Port & Airport Development Levy	7,559	10,969	21,126	26,700
Tax on External Trade	41,096	49,834	58,553	73,174
Import	41,096	45,390	52,681	56,017
Cess	-	4,444	5,872	17,157
Non Tax Revenue	29,921	42,917	49,456	56,104
Property Income	15,193	20,724	19,066	22,633
CB Profit	1,000	5,000	-	4,000
Interest	8,673	8,641	10,321	9,242
Profits & dividends	4,357	5,928	7,451	7,682
Rent	1,163	1,155	1,294	1,709
Social Security Contribution	3,444	4,910	6,470	8,777
Fines, Fees, Sales and Charges & Other	11,284	17,283	23,920	24,694
Total Revenue	311,473	379,746	477,834	565,051

Source: Fiscal Policy Department

Table 2.13
A Variance Analysis of Government Revenue

Items	2007 Budget	2007	Reasons
Income Tax	102,124	107,169	Under estimation of the impact of policy measures coupled with administrative improvements and better revenue performance from interest income has caused this positive variance.
VAT	202,272	186,991	Under performance of services such as the tourism sector due to security concerns, duty concessions granted on essential commodities to address the rising cost of living, being effective throughout the year coupled with less than expected growth recorded in the manufacturing sector, especially in the production of liquor and cigarettes caused a negative variance. Decline in Motor vehicles imports also contributed to this deviation.
Excise	107,580	96,651	A slow down in cigarette sales and liquor production as a result of Government policy introduced through "Mathata Thitha", the national drug and alcohol prevention initiative and the implementation of the National Alcohol and Tobacco Authority Act caused a negative variance. Decrease in the value and volume of motor vehicle imports also resulted in a slower growth in excise taxes causing the variation.
External Trade Taxes	83,851	73,174	Despite the increase in Cess revenue with the revisions/scaling up of the rates, import duty declined due to granting of duty waivers on essential commodities and such waivers have been applicable thought the year. Around a 35 percent decrease in motor cars and shift to low value motor vehicles, coupled with possible evasions in relation to import taxes appeared to have caused this variations.
PAL	28,947	26,700	45 percent of the deviations is explained by the impact of duty waivers granted on essential items and the slow down in motor vehicle imports.
Other Taxes	16,156	18,262	Despite the stamp duty performing over the budget estimate, deviation in debit tax and the share transaction levy have caused the variation. The lower revenue collected on taxes that are liable to the Social Responsibility Levy also contributed to the negative deviation.
Non Tax	58,888	56,104	Non achievement of profits and dividend anticipated from Government enterprises such as Airport and Aviation Services Limited, Sri Lanka Telecom, SriLankan Airlines and Bank of Ceylon.

Source: Fiscal Policy Department

Table 2.14
A Variance Analysis of Government Revenue

Dept	Tax		2003	2004	2005	2006	2007
Inland Revenue	Income Tax	Est	48.5	61.6	55.4	75.3	102.1
		Act	39.4	41.4	52.5	80.5	107.2
		%	81.3	67.2	94.9	106.5	105.0
	VAT *	Est	120.4	124.8	142.7	174.3	202.2
		Act	97.2	120.4	138.7	164.6	187.7
		%	80.7	96.5	97.2	94.4	92.8
	Stamp Duty	Est	-	-	-	3.7	1.6
		Act	0.1	-	-	1.5	4.0
		%	-	-	-	41.1	251.6
	Debit Tax	Est	4.1	4.4	5.3	6.3	8.1
		Act	3.6	4.5	5.7	6.3	7.2
		%	88.1	102.9	108.6	100	88.2
	Other	Est	0.5	0.5	1.0	1.0	1.1
		Act	0.3	0.3	0.8	0.8	1.3
		%	60	60	80	80	118.2
	Total	Est	173.5	191.3	204.4	260.6	315.1
		Act	140.6	166.6	197.7	253.7	307.4
		%	81.0	87.1	96.7	97.4	97.5
Customs	Import Duty	Est	33.4	42.3	54.8	64.6	70.8
		Act	34.2	41.1	45.4	52.7	56.3
		%	102.2	97.1	82.8	81.6	79.5
	Cess	Est	-	-	4.6	6.8	13.3
		Act	-	-	4.4	5.9	17.2
		%	-	-	95.7	87.0	129.0
	PAL	Est	6.1	6.5	11.4	15.6	28.9
		Act	5.5	7.6	10.9	21.1	26.7
		%	90.3	115.9	95.9	135.1	92.4
	Tobacco/ Cigarettes	Est	20.7	21.8	30.1	33.4	
		Act	20.0	23.5	26.7	30.1	31.4
		%	96.6	107.4	97.8	99.9	94.1
	Petroleum	Est	13.6	16.7	21.9	18.0	19.2
		Act	13.3	14.8	17.0	18.5	19.1
		%	97.2	89.0	77.5	102.6	99.8
	Motor Vehicles and Other	Est	4.1	7.1	10.5	16.9	30.3
		Act	6.9	14.0	16.2	23.6	22.3
		%	168.2	198.0	154.3	139.6	73.6
	Total	Est	77.9	94.4	125.9	152.0	195.9
		Act	79.9	101.0	115.8	151.9	173.0
		%	102.6	106.9	91.9	99.9	88.3
Excise	Liquor	Est	10.9	13.8	17.1	20.3	24.7
		Act	10.7	13.5	16.1	20.7	23.7
		%	98.2	98.3	94.2	101.6	96.5

Estimates and actuals are in Rs. billion

Source: Compiled by the Fiscal Policy Department

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008

Sector	Key Fiscal Incentives
Plantation	<p>2005</p> <ul style="list-style-type: none"> Increasing the rubber replanting subsidy to Rs. 100,000/= per hectare. <p>2006</p> <ul style="list-style-type: none"> Increasing the replanting and new planting subsidies by 25% for rubber, tea and coconut. Setting up of a Rs. 10 billion revolving fund to provide funds for the plantation sector. Reducing ESC from 1% to 0.5% for rubber, tea and coconut processing factories. Establishment of high yield seed clone gardens in Maha Oya, Anuradhapura and Monaragala. <p>2007</p> <ul style="list-style-type: none"> Exemption of VAT and Custom Duty on machinery imports for the modernization of processing factories. Removing Custom duty and providing additional credit facilities on machinery and equipment exclusively used for the manufacturing and processing of high value products. Reducing ESC from 0.5% to 0.25% for tea, rubber and coconut processing factories. Reduction of VAT on electricity indirectly beneficial for the industry.
Fisheries	<p>2005</p> <ul style="list-style-type: none"> Scheme to purchase fishing boats and equipment at concessionary interest rates. <p>2006</p> <ul style="list-style-type: none"> Easy payment scheme for fishermen to purchase multi-day boats. Training facilities for fishing for export markets. Construction of a fish market complex and ornamental fish exchange. <p>2008</p> <ul style="list-style-type: none"> Scheme to purchase 19 identified varieties of fish at guaranteed prices.
Foundry Industry	<p>2005</p> <ul style="list-style-type: none"> Impose a CESS of 25% on Ferrous and Non-Ferrous exports in the form of scrap or any other form.
Fruits, Vegetables and Rice	<p>2005</p> <ul style="list-style-type: none"> Setting up nucleus farms to develop out-grower systems to promote high quality fruits and vegetables. Exemption of agricultural seeds and plants from VAT. Setting up Organic Product Zones. <p>2006</p> <ul style="list-style-type: none"> Provision of all varieties of fertilizer at Rs. 350/= per 50 kg bag. Exemption of profits from processing primary produce, from income tax. Making it mandatory that banking and financial institutions increase their lending to agriculture. Reducing the VAT rate on locally manufactured medicated soft drinks from 20% to 15% Increasing the producer price of paddy to Rs. 16.50 – 17.50 per kg. Exempting agriculture and agricultural processing from tax. Removal of 15% income tax on earnings from export income to promote export of fruits, vegetables and other agricultural produce.

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008 Contd.

	<p>2007</p> <ul style="list-style-type: none"> Implementing a comprehensive package to promote high value agriculture and processing activities by providing credit and tax rebates for machinery, equipment and extension services for farmers. Encouraging nucleus farms through tax and incentives to develop the cultivation base on the out grower system. Exemption of machinery which are not manufactured locally from VAT and import duties, to modernize rice mills. <p>2008</p> <ul style="list-style-type: none"> Exemption of VAT on locally produced unprocessed fruits and vegetables.
Craft Products/ Giftware	<p>2006</p> <ul style="list-style-type: none"> Self employment programme to link giftware and handloom self employees with well established manufacturers to train weavers and designers and harness local raw material. Providing required machinery and technology under the advance technology package, duty and VAT free. <p>2007</p> <ul style="list-style-type: none"> Remove Import duty and provide additional credit facilities on machinery and equipment which are exclusively used for the manufacturing and processing of high value products.
Apparel/ Textile Industry	<p>2005</p> <ul style="list-style-type: none"> Financial Assistance to Technology Improvements. Simplified VAT application. Incentives for Garment buying offices. Incentives for productivity improvements. Incentives for product designing. Incentive for Backward linkages. Assistance the local textile manufacturers through the new SME Bank to restructure and modernize their factories. <p>2006</p> <ul style="list-style-type: none"> Writing-off un paid debt of local textile manufacturers who have registered in textile industry restructuring. Capital goods received by exporters subjected to deferment of VAT. Yarn and Dyes exempt from VAT to support the handloom industry. Establishment of the "College of Textile and Clothing". <p>2007</p> <ul style="list-style-type: none"> Reducing ESC in respect of all textiles, apparel manufactures and trading houses to 0.1 % Imposing a consolidated duty inclusive of CESS of Rs. 25/= per piece for sales of imported garments to discourage unnecessary and poor quality textile imports. Reducing the PAL rate to 2% on import of specified machinery used in the apparel and textile industry. VAT exempted on the supply of locally manufactured handlooms. Concessions for reopening closed garment factories.

Box 2.2 Incentives Granted for Private Sector Development 2005 - 2008 Contd.

	<p>2008</p> <ul style="list-style-type: none"> • A CESS of Rs. 50/= per kilogram on textile imports for domestic consumption. • Exemption on VAT for import of yarn. • VAT exemption on supply of locally manufactured handloom textiles. • Ports Authority charges for garments and other exports made similar to that on agricultural products.
Export Development Incentive Schemes	<p>2005</p> <ul style="list-style-type: none"> • Implementing an incentive scheme for non-traditional exports other than primary and apparels with a minimum of 35% local value addition. • VAT exemption extended to locally manufactured goods sold at the airport in foreign currency.
Gem and Jewellery	<p>2005</p> <ul style="list-style-type: none"> • Setting up of lapidaries in the gem processing areas. • Exempting tax on income earned from export of gem, gold and jewellery. <p>2007</p> <ul style="list-style-type: none"> • Removal of PAL on gems, diamonds and gold. • Reducing VAT on jewellery to 5% from 20%. • Imposing a 15% cess on jewellery imports. • 1% ESC only on value addition of gems, jewellery and diamond exports. <p>2008</p> <ul style="list-style-type: none"> • Income Tax exemption on Export Income from imported gems which are cut and polished in Sri Lanka. • Introduction of a Credit Guarantee Scheme • Only 2.5% tax to apply on the value realized from gem auctions conducted under the supervision of the State Gem Corporation.
Prawn Farming	<p>2005</p> <ul style="list-style-type: none"> • Removal of VAT on shrimp feed <p>2007</p> <ul style="list-style-type: none"> • Exemption VAT on the supply of prawns. • Imposing a cess on importation of prawns and fish. <p>2008</p> <ul style="list-style-type: none"> • VAT exemptions for Prawn Farmers – with retrospective effect from 2004. • Import Duty exemptions on equipments used in prawn farming.
Cashew	<p>2005</p> <ul style="list-style-type: none"> • Setting up high yield seed clone gardens • Provision of new incentives

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008 Contd.

Foreign Employment & Welfare	<p>2005</p> <ul style="list-style-type: none"> Implementing a new housing loan scheme for returning migrant workers. <p>2006</p> <ul style="list-style-type: none"> Increasing the duty free allowance & period of 6 months to utilize the same. Exemption of income tax on Foreign Currency earnings of individuals and partnerships from professional activities carried on outside Sri Lanka. Exemption of income tax in all professional services extended by Sri Lankan professionals in or outside Sri Lanka for foreign currency to a person or partnerships outside Sri Lanka. <p>2007</p> <ul style="list-style-type: none"> Considering expenditure incurred in acquiring international accreditations, over and above as deductible expenditure. Fixing the minimum stipulated salary for foreign employment at Rs. 25,000/=. Exemption of income tax on Foreign Currency earnings from professional services to a person/ partnership outside Sri Lanka. <p>2008</p> <ul style="list-style-type: none"> Exemption of income tax on profits and income earned by any Sri Lankan outside Sri Lanka. Foreign earnings of Sri Lankan individuals and enterprises exempted from income tax. Providing greater welfare facilities to export processing zone employees. Increasing the intake of students for Quantity Surveying from 50 to 150 to cater the external demand for Quantity Surveyors. Setting up of Employment Placement Coordination Centre to assist foreign employment of professionals.
Software Exports	<p>2005</p> <ul style="list-style-type: none"> Requiring a 50% value addition from a local partner in Sri Lanka if a software is bought from a foreign supplier. 100% depreciation in the year of purchase of all locally produced software.
Shipping Industry	<p>2006</p> <ul style="list-style-type: none"> Exemption of VAT for ships registered under the Sri Lankan flag. <p>2007</p> <ul style="list-style-type: none"> Removing Import duty on ships registered under the Sri Lankan flag. Removing VAT and other levies on chartering of vessels. Removing stamp duty on ship mortgages. Exemption income tax on remunerations of Sri Lankan sailors. Increasing the depreciation allowance of ships to 1/3. Removing restrictions on offshore borrowings. <p>2008</p> <ul style="list-style-type: none"> Ships registered under the Sri Lankan Flagship to be considered as non-imports. PAL removed from such ships. Custom Duty limited to 15% of the value of cargo.

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008 Contd.

Leather Industry	<p>2007</p> <ul style="list-style-type: none"> Exemption of Import Duty and VAT on all material imported for processing and manufacturing of leather and leather products. Advanced machinery and equipment identified for this industry have been made duty free. Raise CESS on imported shoes to Rs. 300/= per pair.
Health	<p>2007</p> <ul style="list-style-type: none"> VAT rate reduced from 15% to 5% on import and supply of high-tec medical equipment. <p>2008</p> <ul style="list-style-type: none"> VAT exemption for supply of all health care services by any medical institution.
Local Film Industry	<p>2007</p> <ul style="list-style-type: none"> Exemption of VAT on the production distribution or exhibition of any film and supply of laboratory facilities for the production of any film. Exemption of VAT and PAL on the importation of any film produced locally and taken out of Sri Lanka for further processing or printing. VAT reduced to 5% and import duty exempted on the importation of specified item used in the film industry. Ten year tax holiday for newly constructed cinemas. Five year tax holiday for exiting cinemas, which are equipped with digital technology, advance sound systems and other technologically advanced facilities Deduction from income Tax increased from Rs 10 Mn. to Rs. 25Mn. on qualifying payments on the cost of production of films. <p>2008</p> <ul style="list-style-type: none"> Amending the Inland Revenue Act to grant qualifying payments for the construction of new cinema halls subject to a maximum of Rs 25 Mn. and existing cinema halls subject to maximum of Rs 10 Mn. Reduction of VAT rate from 15% to 5% and exemption of custom duty for certain items used for film industry.
Construction Industry	<p>2006</p> <ul style="list-style-type: none"> Introduction of a Credit Guarantee Scheme for importation of modern machinery and equipment. Exemption of custom duty and VAT for construction machinery. Removal of VAT on unprocessed timber logs. <p>2007</p> <ul style="list-style-type: none"> Exemption of Income tax on profits of any individual engaged in construction work outside Sri Lanka for which payments are made in foreign currency and remitted to SL through a bank. Depreciation allowance has been increased on machinery used in the construction industry from 12.5% to 25%. Reduction of Withholding Tax (WHT) on the construction fee from 5% to 1%. Relaxation of licensing requirement for importation of heavy machinery more than 7 years old. Scaled up cess to support manufacture of straw and similar boards domestically. CGIR empowered to administer the Construction industry Guarantee Fund levy and to collect the WHT to strengthen the construction Industry Guarantee Fund. Construction companies engaged in government projects are given duty concessions to import cement.

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008 Contd.

	<p>2008</p> <ul style="list-style-type: none"> Exemption of all key development projects from VAT.
Poultry	<p>2007</p> <ul style="list-style-type: none"> Customs Duty exempted on importation of poultry keeping machinery, poultry incubators and brooders, and machinery for meat preparation.
Livestock	<p>2005</p> <ul style="list-style-type: none"> Increasing the milk producer price to Rs. 18 per litre. Removal of VAT on animal feed. <p>2006</p> <ul style="list-style-type: none"> Implementation of a special concessionary credit scheme for dairy farmers to purchase cows. Increasing milk producer price to Rs. 25-30 per litre. Exempt import duty and VAT on milk processing machinery. <p>2007</p> <ul style="list-style-type: none"> VAT, and import Duty exempted on the importation of breeding cattle, buffalos, poultry, pigs, goats, sheep and their semen and embryos. Imposition of cess of 20% or Rs.100/-per Kg, which ever is higher on importation of processed and un-processed meat products. <p>2008</p> <ul style="list-style-type: none"> Milk and diary products exempt from VAT.
Entreport Trade	<p>2007</p> <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.
Printing and Packaging	<p>2006</p> <ul style="list-style-type: none"> Reduction of 15% duty on imported paper. Removal of anomalies of import duties by reducing the duty on raw material to a low rate band.
Transport	<p>2006</p> <ul style="list-style-type: none"> Introduction of a concessionary credit scheme to assist private bus operators to replace their own buses. Removal of Excise duty of 5 - 15% on motor bicycles to assist field level officers, Samurdhi Development officers, and media personnel to be able to afford to purchase them. Reduction of import duty from 25% to 15%, on tyres used in three wheelers to provide relief for three wheeler operators. Exemption of ships registered under the Sri Lankann flag from VAT. <p>2007</p> <ul style="list-style-type: none"> VAT and Custom duty exempted on the importation 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% to 5%.

Box 2.2
Incentives Granted for Private Sector Development 2005 - 2008 Contd.

Electricity	<p>2005</p> <ul style="list-style-type: none"> • Incentives for small hydropower plants. • Exempting the supply of energy sources providing electricity to rural areas, from VAT. <p>2006</p> <ul style="list-style-type: none"> • Incentives for renewable energy sources. <p>2007</p> <ul style="list-style-type: none"> • VAT exempted on supply of electricity, importation of machinery and equipment by the Ceylon Electricity Board or any other institution entered into agreement with CEB to supply electricity. • Exemption of VAT on heavy fuel oil, furnace oil and electricity.
Advanced Technology	<p>2005</p> <ul style="list-style-type: none"> • New companies investing over Rs. 5 million and existing companies investing over Rs. 2 million were allowed to duty free import new machinery duty free. <p>2006</p> <ul style="list-style-type: none"> • Increasing the depreciation allowance up to 33 1/3 % on plant and machinery. <p>2007</p> <ul style="list-style-type: none"> • Concessionary rate of 2.0% of PAL for selected plant and machinery imported for high value adding industries and for pharmaceuticals. • Removal of import duty on the importation of advanced machinery and equipment.
Development of less developed provinces	<p>2006</p> <p>Tax incentives for industries setting up in any district, other than Colombo and Gampaha.</p>

Source: Fiscal Policy Department.

Government Expenditure

The overall expenditure of Rs.841,603 million recorded a 18 percent growth in 2007. Recurrent expenditure increased by 14 percent to Rs. 622,758 million, while public investment rose by 29 percent to Rs.229,273. The recurrent expenditure as a percentage of GDP reduced to 17.4 from 18.7 in 2006 complementing the fiscal consolidation effort of the Government. Public investment rose to 6.4 percent of GDP from 6.0 percent indicating sustained improvements in Government's development activities.

Chart 2.7



The following contributed towards high recurrent expenditure

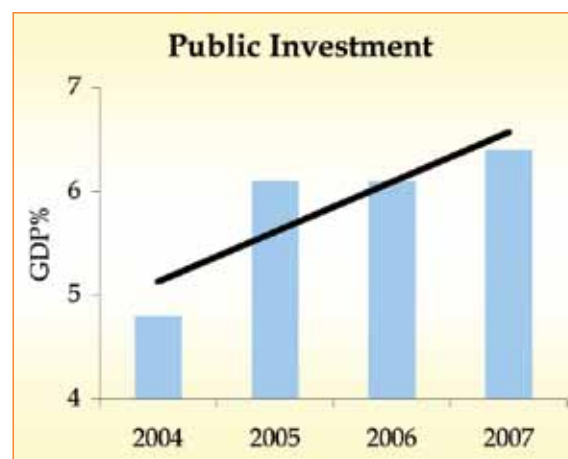
- Revisions of public sector salaries and pensions as announced in the 2006 Budget.
- Cost of Living Allowances (COLA) of Rs. 1,750 per month for the 1st 6 months and Rs. 2,125 per month from July 2007.
- Introduction of the leave encashment allowance equivalent to one month salary for unused leave.
- Recruitments of over 100,000, employees in the last 2 years to strengthen security and public services.
- Increased interest cost incurred in the background of exchange rate depreciation and high interest rates witnessed in domestic debt markets.

The Government succeeded in channelling increased funds to support an enhanced level of development activities especially targeting the poorest divisional secretariats in the country and the areas liberated from terrorist activities through programmes such as “*Jathika Saviya-Gama Neguma*” and other pro-poor, pro-growth programmes. A number of large development projects such as the Puttalam Coal Power project, Combined Cycle Power Plant project at Kerawalaitiya, Upper Kotmale Hydro Power project, and the Hambantota Sea Port Project, made good progress in 2007.

Policy Thrust to Rationalize Public Expenditure

Several policy measures were implemented in line with the fiscal consolidation envisaged in the medium term budgetary framework, with a view to rationalize growth in recurrent expenditure, while channelling increased resources to enhance public investments towards new rural development initiatives and the national infrastructure drive. The Government also succeeded in mobilizing funds for long over due strategically important infrastructure projects, which have entered into the construction phase.

Chart 2.8



With a view to control recurrent expenditure, policy measures were taken through cadre management and new recruitment guidelines, while striking a balance to enable smooth functioning of the public sector service delivery

mechanism. The cap on COLA at Rs. 375 per month for public servants and Rs. 187.50 for pensioners with the 6 month adjustment for inflation was continued. Leave

encashment granted to public servants was terminated with effect from 2008 in view of its cost as well as complexities in administering such scheme.

Table 2.15
Current Expenditure 2005-2007 (1)

Item	2005	2006	Rs. Mn. 2007
Current Expenditure	443,350	547,960	622,758
Salaries & wages	138,603	175,031	214,160
Other Goods & Services	56,257	77,994	78,472
Interest payments	120,159	150,778	182,681
Foreign	6,995	16,990	21,311
Domestic	113,164	133,787	161,370
Pensions	46,782	58,006	68,822
Losses of Railway, Postal and C.T.B.	9,060	11,767	10,137
Payments to Statutory agencies	17,436	27,376	26,248
Fertilizer Subsidy	6,846	11,867	11,000
Welfare payments and subsidies	48,207	35,141	31,238
As a % of GDP			
Current Expenditure	18.7	19.5	17.4
Salaries & wages	5.7	5.9	6.0
Other Goods & Services	2.3	2.7	2.2
Interest payments	4.9	5.1	5.1
Pensions	1.9	1.9	1.9
Losses of enterprises,	0.4	0.4	0.3
Assistance to other statutory bodies	0.7	0.9	0.7

Source: National Budget Department

(1) Figures as per Economic Classification

Box 2.3 Public Service Salaries

The disparities and anomalies in the pay structures had made it increasingly difficult for Government agencies to attract right persons as government employees. Therefore with a view to absorb professionals and to correct the salary anomalies, initial steps were taken in 2006 to revise public servant's salaries, under the guidance and supervision of the Salaries and Cadre Commission.

The new salary structure has several important features. The number of salary scales have been reduced from 126 to 37, regrouping many categories. The new ratio between the lower and higher ranks is 1:4.2. The minimum salary is fixed at Rs. 11,730/= per month. This was Rs. 8,140/= prior to the revision. The minimum increment was increased to Rs. 110/= from Rs. 80/= as well.

The new salary scheme given in the PA Circular 06/2006 was implemented in two stages. Accordingly, fifty percent of the increase was paid in 2006 and the balance was paid with effect from January 2007. Therefore, public employees enjoyed an average 22 percent increase in the basic salary during the year 2007 in addition to around a 30 percent nominal increase in 2006. The total wage increase between the two years was around 55 percent.



In addition, public servants are also entitled to a Cost Of Living Allowance (COLA) which is adjusted every 6 months and concessionary housing & property loans subject to certain limits.

Personnel Emoluments (Minimum) Growth

Category	2005	2007
Basic Salary	8,140	11,730
COLA	0	2,125
Total	8,140	13,855

The Government also embarked on a recruitment drive in order to fill gaps and to improve the public sector service delivery. New recruitments were made through a proper recruitment procedure. Over 15,000 graduates and more than 30,000 were recruited for the security services during the year 2007. More than hundred thousand recruitments were made during the three years from 2005- 2006, employing 50,000 graduates and other cadres to the public service relaxing the long standing recruitment freeze.

Recruitments to Public Services

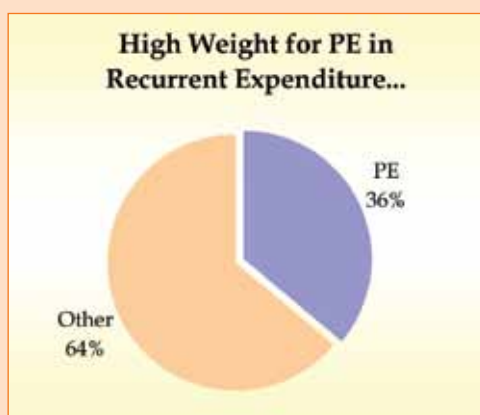
	2005	2006	2007*
Creation of New Cadre	44,184	28,854	35,061
Cumulative	44,184	73,038	108,099
Recruitments	40,926	30,397	36,182
Cumulative	40,926	71,323	107,505

* Provisional

The Government's highest single expenditure is on account of personal emoluments for government employees including central government, provincial councils, defence and civil security personnel.

Box 2.3
Public Service Salaries Contd.

In 2007, Rs. 225.8 billion, which accounted for 36 percent of total recurrent expenditure was on account of salaries and wages of the public servants. The wage bill, which was Rs. 40.0 billion higher than 2006 was almost an 100 percent increase from the level that prevailed in 2004.



Public servants are engaged in a wide range of service delivery systems. 46 percent of civil public servants are in education and health sectors while 15 percent are in civil security services. The balance represents the general civil service.

Distribution of Personal Emoluments

	(Rs. Mn.)			
	2004	2005	2006	2007
Defence Personnel	30,850	38,040	44,960	60,185
Education	31,352	38,853	50,201	58,467
Health	16,949	21,737	24,074	29,128
Judiciary	1,584	2,103	2,754	3,380
General Public	16,129	25,964	32,489	30,753
Police & Civil Security	10,636	9,474	11,123	22,810
Provincial *	4,251	9,704	18,550	21,093
Total	111,751	145,875	184,151	225,816

Source: National Budget Department

* excludes education and health services

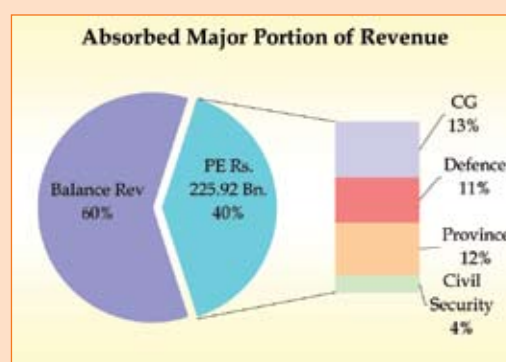
State Sector Human Resource Base*

Category	2005	2006	2007**
General Education	218,194	234,856	237,006
Teachers	200,339	217,000	208,277
Lecturers	3,875	4,016	4,304
Other Staff	13,980	13,840	24,425
Health Services	97,858	104,006	95,744
Doctors	10,537	11,153	11,326
Assistant & Registered Medical Practitioners	1,231	1,274	1,244
Nurses	20,329	21,078	22,088
Attendants	7,148	7,129	7,201
Other Staff	58,613	63,372	53,885
Government Enterprises	39,372	39,968	41,310
Railway	16,055	17,189	17,789
Postal	23,317	22,779	23,521
General Government	244,708	237,836	247,074
Planners (SLPS)	466	460	468
Accountants (SLAcS)	1,128	1,147	1,209
Administrators (SLAS)	1,834	1,901	1,914
Others	241,280	234,328	243,483
Defence & Civil Security	250,135	271,008	316,117
Total	850,267	887,674	937,251

Sources: National Budget Department, Planning Service Board, Accountants Service Board, Ministry of Public Administration, Central Bank of Sri Lanka

* excludes semi government employees

** Provisional



Box 2.3
Public Service Salaries Contd.

A Cost Of Living Allowance of Rs. 1,750/= per employee per month was paid in the first half of the year. This was increased to Rs. 2,125/= in the second half of the year with an upward adjustment of Rs. 375/=. Revisions are done every six months. A Government employee received Rs. 23,250/= for the year 2007 as COLA. The total expense borne by the Government for COLA for 2007 was Rs. 21.6 billion.



A Leave Encashment Allowance was granted in 2007 which resulted in an increase in the total personal emolument expenditure in 2007.

Government servants are given property loans at concessionary interest rates through the State Banks on the basis of sharing interest cost between the employee and the Government as stated in Budget Circular 130 (II) on 29.06.2007.

Interest Rate Calculation for Property Loans*

Loan Amount Rs.	Condition	Rate payable by (%)	
		Employee	Government
Below 500,000	Whole Amount	4	10.5
Below 1,000,000	First 500,000	4	10.5
	Balance	8	6.5
Greater than 1,000,000	First 500,000	4	10.5
	Next 500,000	8	6.5
	Balance	11	3.5

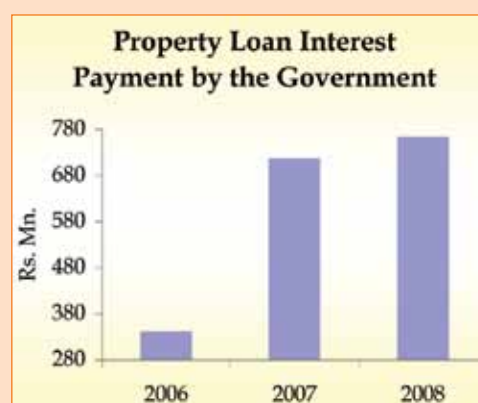
* Prior to the revision with effect from 15.06.2007, a flat rate of 4% was charged from the employee and 7% was contributed by the Government.

Government employees are also given vehicle loans through the State Banks at concessionary interest rates as stated in the Budget Circular 132 (II) on 29th June 2007. This was also implemented on the basis of sharing the interest cost between the employee and the Government.

Calculation of Interest Rates for Vehicle Loans

Loan Condition	Employee (%)	Government (%)
Released before 15/06/2007	4	7
Released after 15/06/2007	11	3.5

The Government contribution for these property loan interest payments stood at Rs. 717.0 million during the year 2007.



The total property loan disbursement through State Banks from 01.04.2005 to 31.12.2007 was Rs. 27,354 million, benefiting 30,779 million public servants.

Box 2.3
Public Service Salaries Contd.

Property Loans by State Banks

	(Rs. Mn.)	
	Up to 31.12.06	Up to 31.12.07
Peoples Bank	4,877	10,346
Bank Of Ceylon	2,150	9,462
National Savings Bank	2,254	6,042
State Mortgage & Investment Bank	189	578
Housing Development Finance Corporation of Sri Lanka	520	926
Total	9,990	27,354

Officers of the Government who satisfied certain requirements were entitled to obtain permits for the importation of a vehicle with duty/ tax concessions, subject to the terms and conditions as stipulated in the Trade, Tariff and Investment Circular No. 01 on 30.03.2007. This was effective from 25th April 2007. The total number of vehicles imported under this scheme in 2007 was 2,883. Total revenue forgone from this was Rs. 6,129 million which is 0.2 percent of GDP.

In addition to above payments, a National Insurance Trust Fund was created to implement a Medical Insurance Scheme for employees and their immediate family members up to retirement, with a Government contribution of Rs. 500 million annually. An employee is expected to contribute Rs. 900/= as the premium for a year. The scheme has reimbursed claims of Rs. 1,000 million benefiting 128,624 public servants from 2006 to the end of 2007.

Future Challenges

Government employees represent 13 percent of the total employed in the country. Education and health sectors have more than 46 percent of Government servants to provide free services in education and health.

Sri Lanka is extending educational opportunities to a large segment of the population by employing more than two hundred thousand teachers and more than four thousand lecturers benefiting the 4 million school going population and students admitted to higher educational institutions. Despite student /teacher ratio being 19 in 2007, some schools in small and remote areas are far below this ratio and are also not in a position to attract teachers. Therefore, further improvement to the education system are needed in the lagging areas. Regular reviews of curriculum and introduction of new subjects & skills are also required to maintain a quality education system.

13 percent of total public servants are engaged in national health services. Doctor to population ratio was 1:1766 and nurse to population ratio was 1:905 in 2007. However, there are some disparities in the supply of several categories of health personnel. Shortages of specialists in some categories cause problems in service delivery. There are some imbalances in distribution of human resources among regions as well. Therefore, further strengthening of the human and financial resources to minimize the disparities among the regions and to improve the quality & range of services in the health sector is desired.

39 percent of the total civil servants are engaged in providing general public services. As such improvements to the delivery mechanism in lagging areas have become an urgent priority to reap maximum benefits from public service.

In order to improve the quality of services offered by Government servants, the Government introduced a Citizen Charter. Providing guidelines to public servants to ensure a quality public services. Rural level development and poverty reduction programmes and agricultural extension work, are Government priorities under the “*10 year development horizon*”, in which a quality public service can play a major role.

While maintaining unchanged interest rates for lower salary earners in the public sector, interest rates in relation to public servants housing loans were revised.

The revised interest rates are still concessionary compared to the high interest rates that prevail. The revised interest rate structure is as follows,

First Rs. 500,000/-	- 4 percent
Next Rs. 500,000/-	- 8 percent
Over Rs. 1,000,000/	- 11 percent

In the context of rising oil prices, administered prices of petroleum products were raised by the Ceylon Petroleum Corporation (CPC) placing the domestic prices on commercial rates and thereby removing the fuel subsidy. To cushion the most vulnerable groups from these price hikes, the Government introduced a subsidy package on kerosene to Samurdhi recipients and a price guaranteed scheme for fishermen.

Table 2.16
Domestic Petroleum Price Adjustments-2007/2008

Item	2007								2008
	Jan 5th	Jan 30th	Mar 18th	Apr 27th	May 11th	May 29th	Jun 29th	Jul 14th	Jan
Petrol	92.00	97.00	104.00	104.00	105.00	106.00	111.00	117.00	127.00
Diesel	60.00	60.00	60.00	63.00	65.00	67.00	71.00	75.00	80.00
Kerosene	48.50	48.50	48.50	50.00	50.00	51.00	67.00	68.00	70.00
Fuel Oil 180 ct	37.70	37.70	37.70	40.70	40.70	43.70	47.70	51.70	61.70
Fuel Oil 380 ct	41.00	35.65	35.65	35.65	35.65	38.65	42.65	46.65	56.65

Source: Fiscal Policy Department

The Government allowed foreign investments in domestic Treasury Bonds up to 5 percent of a Treasury bond stock by opening the Capital Account. US \$ 460 million was invested by foreign investors in Treasury bonds helping to ease the pressure in domestic market borrowings. The Government was also successful in raising US \$ 500 million through the sale of bonds in the international capital markets in October 2007. This helped to ease the pressure on the foreign exchange markets and also supplemented to scale up public investment throughout the country while reducing crowding out of domestic funds by the Government.

In order to create an efficient fund transfer system between the Treasury and line Ministries and agencies and vice versa, steps were taken to move to a Treasury single account system. This helped to utilize all unused cash balances in Government bank accounts resulting in a considerable saving on interest payable by the Government. With the operation of the single account system, the unused cash balances in the system have been reduced on average from Rs. 12 billion to Rs. 1 billion. A one-off interest saving with the system coming into operation was approximately Rs. 1,000 million.

Security Related Expenditure

National security expenditure increased to Rs. 102 billion from Rs. 81 billion in 2006. The corresponding GDP ratios were 2.9 in 2007 and 2.8 in 2006. Out of total defence expenditure Rs. 60 billion was on account of personal emoluments and reflects an increase of 34 percent mainly attributable to new recruitments, salary and COLA revisions and leave enhancements. The expenditure on civil security increased to Rs. 32.5 billion in 2007 from Rs. 25 billion in 2006. New recruitments to strengthen civil security coupled with salary revisions, COLA allowance and leave enhancements have contributed to increased expenditure.

Chart 2.9

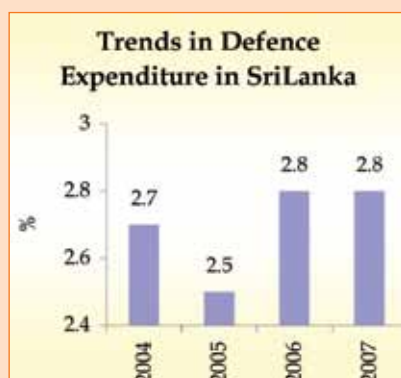


Box 2.4

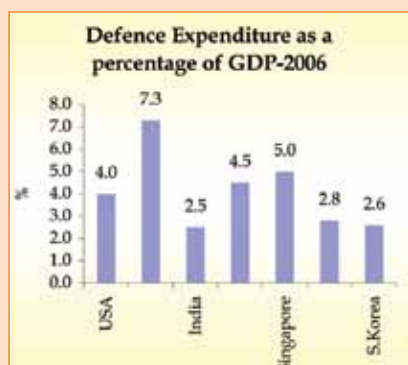
Expenditure on National Security Helped Eastern Development Initiatives

Defence expenditure, in 2007 amounted to Rs.101,856 million (as per economic classification) in comparison to Rs.82,282 million in 2006. The increase of expenditure was on account of new recruitments and salary revisions in 2006 end 2007. However, as a percentage of GDP, such expenditure remained at 2.8 percent in 2007 as was in 2006.

More than the 50 percent of defense expenditure is used for personal emoluments of security personnel while a further 20 percent is on account of food, uniforms, medicine, other supplies, and utilities. Training of security forces with highest levels of skills and discipline to enhance their abilities and to be able to counter terrorism threats on civilian and national assets, has received highest priority in government spending.



In comparison with relative countries, defense expenditure in Sri Lanka remains at a moderate level.



The recurrent expenditure on National Security is focused on the strengthening of air and sea capabilities as well as ground security to manage security risks. Civil security including community police and public awareness have been strengthened. The security forces are also engaged in assisting immediate resettlement and development programs in the liberated areas.

The closure of 'Mavil Aru' irrigation scheme by the LTTE in July 2006 compelled the Government to deploy security forces on a humanitarian operation to liberate people living in the Eastern Province from terrorism. Consequently, Mavil Aru, Vakare, Sampoor and Thoppigala areas were cleared from terrorist occupation and operations in Eastern Province were completed by July 2007.



Resettling of Internally Displaced Persons (IDP) was a major challenge after liberation. The Government was successful in resettling over 108,000 IDPs out of 150,000 displaced persons as at December 2007, with the help of security forces.

As a step towards establishing civil administration, a Local Government election was held on 10th of March 2008 and Provincial Council election was held on 10th May 2008.

Box 2.4

Expenditure on National Security Helped Eastern Development Initiatives Contd.

Road Road Map to Peace and Development

- Continuation of peace talks in Geneva; 22nd -23rd February 2006.
- Killing of 64 people by the LTTE in a claymore attack at kabithigollawa; 15th June 2006.
- Forcible closure of Mawilaru anicut by the LTTE; 22nd June 2006.
- Humanitarian intervention by security force to liberate the Mavil Aru "anisut; 26th July 2006.
- Date of liberation of Mavil Aru anicut by security forces : 08th August 2006.
- Refusal by the LTTE to attend peace talks: 28th -29th October 2006.
- Liberation of terrorist held areas such as Vakera, Sampoor, Muttur, Kalawanchikuddy and completion of the mission by capturing Toppigala; 12th July 2007.
- Restoration of civil security and civil administration in liberated areas commencing with the establishment of the Vakara Police Station ; 20th October 2007.
- Abandoning the Ceasefire Agreement by the Government : 02nd January 2008 following a series of violations by the LTTE.
- Announcement for elections towards devolved administration.
- Conclusion of local Government election in liberated areas ; 10th March 2008.
- Conclusion of Provincial Council election to set up devolved administration in the Eastern Province : 10th May 2008.

In order to strengthen the institutional capacity and maintain law and order, 8 new Police stations, 6 Police accommodation buildings and 37 Police posts have been setup and 18 courts have been made functional throughout Eastern Province.

The High Courts in Batticaloa and Trincomalee and five District Courts in Batticaloa, Trincomalee, Ampara, Akkaraipattu and Kalmune are among the other Courts operating.



New Police Station in Vakare



Population in the Eastern province is estimated at 1.5 million. The Eastern Province, which forms 15 percent of the total land area of the country, contains one sixth of the country's total paddy fields. The coastal area along the Eastern Province provides a vast potential for the country's fishing industry. A valuable mineral sand deposit, tourism resources and the environment conducive for livestock development are the key resources in the Eastern Province. In order to exploit the economic opportunities, the Government has implemented "Nagenahira Navodaya" development programme to restore infrastructure consisting of roads, power, ports, water & irrigation, transport, housing, vocational training and small and medium scale projects to promote livelihood in agriculture, fisheries, livestock and other rural economic activities.

Box 2.4

Expenditure on National Security Helped Eastern Development Initiatives Contd.

In order to promote private investments in the Eastern Province, special tax incentives were introduced in the 2008 Budget. A Five year income tax exemption for profits arising from investment of, not less than Rs.30 million and removal of VAT and Customs duty on the importation of machinery for such projects are included in this package. Banks and financial institutions are also exempted from income tax, on interest arising from lending to such projects.

Major Development Initiatives

Roads: 260 km of (Potuvil - Batticaloa and Trincomalee - Pulmudai), 41 km (Allai - Kantale) and 60 km (Trincomalee Outer Circular road) and 96 km (17 rural roads) are under construction under the “*Maga Neguma*” programme. The Kinniya bridge is under construction and Arugam Bay bridge is to be completed in June 2008.

Ports: Oluvil harbor development programme has been initiated with financing arrangements from the Denmark Government. The port will provide 1,000 direct and 10,000 indirect employment opportunities.

Power: The second coal power project is planned to be setup in Trincomalee with a 500-mw electricity generation capacity.

Fisheries: A programme has already been initiated to develop and establish 15 fish landing sites and anchorages along the eastern coastal area in addition to facilities to be provided under the Oluvil harbor project.

Water & Sanitation: Three mega water supply schemes in Batticaloa, Ampara & Trincomalee Districts and 51 community water supply and sanitation projects in Ampara and Trincomalee districts are being implemented.

Housing: 48,970 housing units have been rehabilitated by end 2007 and 3,518 new housing units have been constructed under the North East Housing Reconstruction programme and North East Emergency programme providing housing

grants for damaged houses due to terrorist activities. Further 18,472 housing units are being rehabilitated.

Education: Two hostels for 420 students have been completed in the South-Eastern University at a cost of Rs.90 million in 2007. An agreement has been signed with the Kuwaiti Fund to improve infrastructure in the university and work will commence in September 2008.

Vocational Training: All the Technical and Vocational Training Colleges have been upgraded and equipped to develop skills of youth living in the eastern province and fulfill emerging demands in the labour market. Opportunities have been arranged to be able to obtain Diploma certificates and Advanced Diploma Certificates in craftsmanship under courses conducted by the Vocational and Technical Training Ministry.

Hardi Technical College in Batticaloa is to be upgraded to an advance College of Technology. 33 vocational training centers under the Vocational Training Authority and 21 centers under the National Apprenticeship and Industrial Training Authority are functioning throughout the Eastern Province.

Gama Neguma: In addition to the mega development programmes, various rural development projects are also being implemented to revive the livelihood of the people living in these areas.

The total amount to be invested by the Government under the Eastern Revival Programme 2007 - 2010 is around Rs. 200 billion. These initiatives will help to expedite the overall economic growth of the country while upgrading living standards of the people in the Eastern Province.

Negenahira Navodaya

Having freed from the gripes of terror, the eastern province is being placed on a rapid development path with large investments in ports, roads, bridges, schools, hospitals, power plants etc. to develop the regional infrastructure and provide a resource base of agriculture, livestock, fisheries, tourism and livelihood in the Eastern Province of Sri Lanka.

Trincomalee Export Processing Zone:

The most convenient location in the far east as a destination of investment



Outer Circular Highway Trincomalee:
67 km, four Lane Highway

Eastern Railway Line

Rehabilitation: 281 km railway line from Maho to Batticaloa and Galoya to Trincomalee



Coal Fired Power Plant:
500 MW power plant to generate electricity at low cost



Arugambe Bridge:
Rehabilitation of two lane bridge



Ampara Water Supply Scheme Phase III: Safe drinking water to 80,000 people



Kappalturai Industrial Estate: 20-30 new industries to provide 2500 employment opportunities



South Eastern University:
Promote opportunities for demand driven degree courses

Eastern Province

Batticaloa

Ampara



Oluvil Port: Shore facilities to accommodate regional cargo demand



High Interest Costs

Interest payments on foreign and domestic debt amounted to Rs. 182,681 million in comparison to Rs. 150,778 million in 2006 registering an increase of 21 percent. The increase in domestic interest rates consequent to Central Bank of Sri Lanka policy rate adjustments, new borrowings to meet deficit financing coupled with the depreciation of the exchange rate influenced the high interest cost.

Chart 2.10

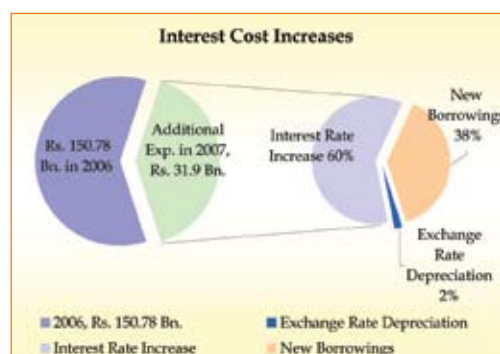
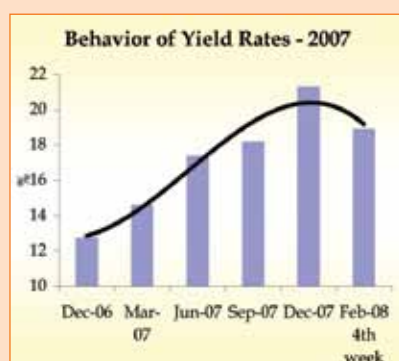
Chart 2.11
Trends in Interest Rates

Table 2.17 Yield Rates

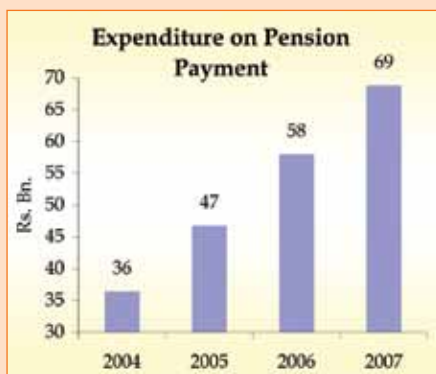
Year	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
December 2006	12.76	12.83	12.96	-	12.16	-	12.36
March 2007	14.62	13.82	14.53	14.07	14.10	13.81	13.68
June 2007	17.40	17.12	16.89	14.07	14.10	14.32	14.22
September 2007	18.20	17.47	17.31	17.27	16.45	14.32	14.22
December 2007	21.30	19.99	19.96	15.50	15.99	14.32	15.55
Change	8.5	7.2	7.0	-	3.8	-	3.2
Feb 2008 (4th week)	18.91	18.95	19.29	18.00	17.06	14.32	15.55

Source: Treasury Operations Department

Box 2.5
Public Service Pensions

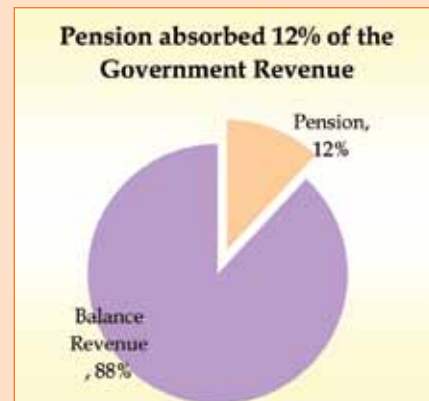
Sri Lanka ranks the highest, in developing countries in the provision of super-numeration benefits to Public Servants.

The expenditure on pensions in the National Budget has increased considerably during the recent years. The annual expenditure for pension payments in 2007 reached Rs. 68.6 billion, which shows 18 percent increase compared to the year 2006. This amount is expected to reach Rs. 73.1 billion in 2008.



This is a combined outcome of the increase in the annual retirements at periodically revised high salary scales, revision to past pensions based on 1997 salary scales and provisions of Cost Of Living Allowance (COLA) to pensioners.

The COLA adjustment for pensioners resulted in a Rs. 375/- increase per month per person in the year 2007. The annual cost of this computation was around Rs. 2,132 million.

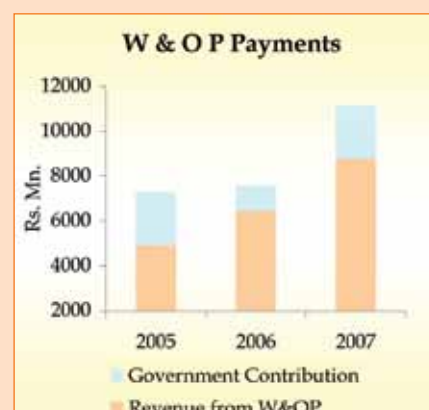


Dependents of the officers who have died whilst contributing towards the Widow/ Widowers and Orphans Pension (W&OP) scheme for any period of time are eligible to W&OP. Public Servants contribute to W&OP Fund on the following basis.

W&OP Contribution

Salary Scale	%
Primary and secondary levels	6
Tertiary and senior levels	7

The annual collection from contributions amounted to Rs. 8,776.7 million in 2007 in comparison to Rs. 6,469.5 million in 2006. This is an increase of 35 percent. However, the payments under W&OP in 2007 totalled to Rs. 11,118.7 million, reflecting a deficit in the scheme.

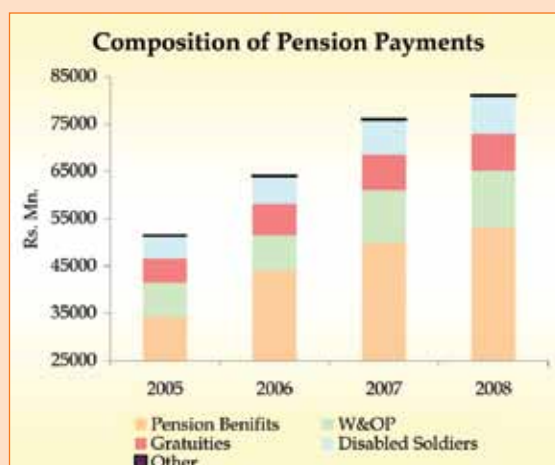


Box 2.5
Public Service Pensions Contd.

The net pension cost (after adjustments are made for W & OP contributions by public servants) absorbed 11% of Government revenue.

Item	Rs. Mn.
1. Gratuities	7,486
2. Pension Benefits	49,996
3. Payments to Disabled Soldiers	7,426
4. Widows/ Widowers and Orphans of Public Officers	11,119
Total	76.027

Source: National Budget Department



Present system of entitlement for pension

Civil Service

- A minimum of 10 years gross service in the Central Government, Provincial and Local Government Service in permanent and pensionable capacities.

Judicial Service

- A minimum of 3 years gross service either Supreme Court judge or Appeal Court judge or both.

- A minimum of 7 years gross service as a Judge of the High Court or a Judicial Officer in a permanent and pensionable category.

Armed Forces

- A commissioned officer is required to have 20 years of service.
- A non-commissioned officer should have a period of 22 years of service.
- A Commissioned regular officer retiring on medical grounds should complete 10 years of service.
- A non-commissioned regular officer should complete 12 years of service unless retiring on medical grounds.

Future Challenges

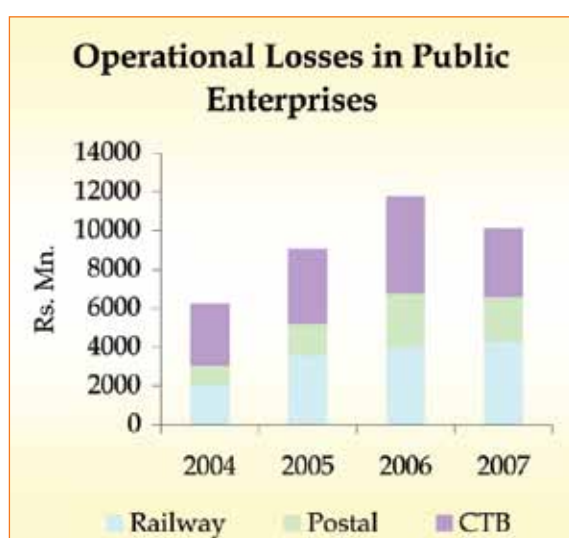
Reflecting demographic change and with long life expectation, the pension expenditure of the country is expected to increase considerably. The increase in the number of recruitments in the public service will also exert a pressure on the pension system, which necessitate contributory pension scheme for its sustainability.



Transfers to State Enterprises

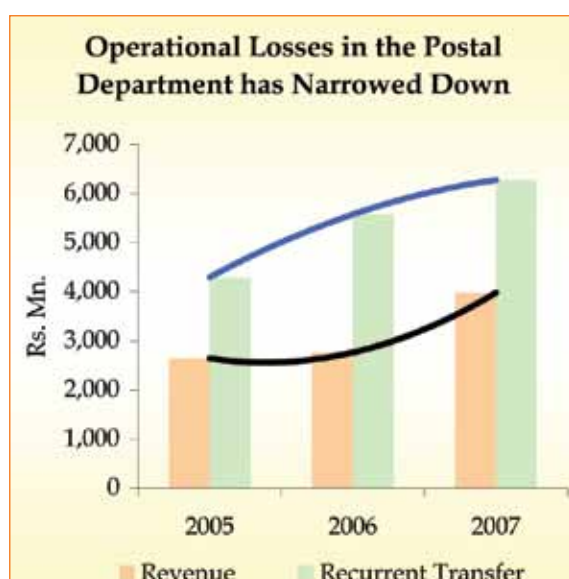
The transfers to cover the operational losses of the CTB, Railways and Postal departments amounted to Rs. 10,137 million. The total transfers including state enterprises amounted to Rs. 10,639 million.

Chart 2.12



The introduction of new postal rates from May 2007 enabled the Postal Department to reduce its operational losses.

Chart 2.13



Although the bus fares were increased twice in 2006 and 2007, the anticipated recovery of operational losses did not materialize due to the increasing fuel prices. Operation of uneconomical bus routes cost Rs. 500 million in 2007.

Table 2.18
Key Statistics of Bus Transportation (SLCTB)

	2006	2007
Expenditure per day (Rs.Mn)	35.32	43.25
Income per day (Rs.Mn)	21.69	33.54
Subsidy per day (Rs.Mn)	13.63	9.71
Average Kilometers operated per day	713,755	872,773
Subsidy per Kilometer (Rs)	19.10	11.13
Capital expenditure (Rs.Bn)	7.8	8.8

Source: National Budget Department

Despite a three fold increase in oil prices in the last 3 years, the railway fares have not been revised since August 2005.

Chart 2.14

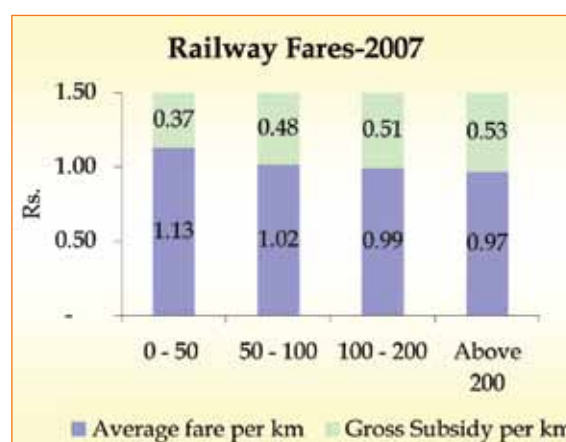


Table 2.19
Key Statistics of Railway Transportation (CGR)

	2006	2007
Operational Expenditure (Rs. Mn.)	6,472.6	7,296.7
Total Income (Rs. Mn.)	2,491.3	2,999.3
Total Subsidy - loss	3,981.3	4,297.3
Passenger Kilometers operated (Mn.)	4316.3	4,766.9
Passengers Transported ('000)	100,602	110,465
Subsidy per passenger per kilometer (Rs.)	0.99	1.01
Train Kilometers operated (Mn.)	8.1	9.2
Passenger Trains	7.8	8.8
Freight Transport Trains	0.3	0.4
Freight Transported (MT Mn.)	1.6	1.7
Subsidy per MT /Km (Rs.)	0.4	0.6

Source: National Budget Department

Recurrent transfers to boards and other statutory Agencies increased to Rs 25,746 million in 2007 from Rs.20,807 million in 2006, mainly due to salary revisions and increases in operational costs, coupled with the rise in oil prices.

Assistance to Agriculture

The fertilizer subsidy scheme continued in 2007, providing fertilizer to paddy farmers at Rs. 350 per 50 kg bag, despite the record price hike over Rs. 3,000 per 50 kg bag in the world market. The Urea fertilizer subsidy was also granted to the plantation smallholder sector owning less than 5 acres, at a subsidised price of Rs. 1,200 per 50 kg bag. The cost of these subsidies amounted to Rs. 11,000 million in 2007 in comparison to Rs. 11,867 million in 2006.

The advances for purchasing paddy at guaranteed prices amounted Rs. 2,000 million to ensure a stable price for paddy farmers. This was mainly carried out by the Sri Lankan Agricultural Products Marketing Authority and the Government Agents in the Northern Province. This process is managed through a revolving fund. The advances provided in 2007 were fully recovered.

Around Rs. 50 million was channelled to assist the agriculture sector by way of interest subsidies on agricultural credit for

cultivation of paddy, maize, onion and potatoes, restructuring credit for paddy mills and provision of agricultural seeds. In addition, support was given to reschedule the loans granted to prawn farmers in order to revitalize the prawn farming industry.

Chart 2.15

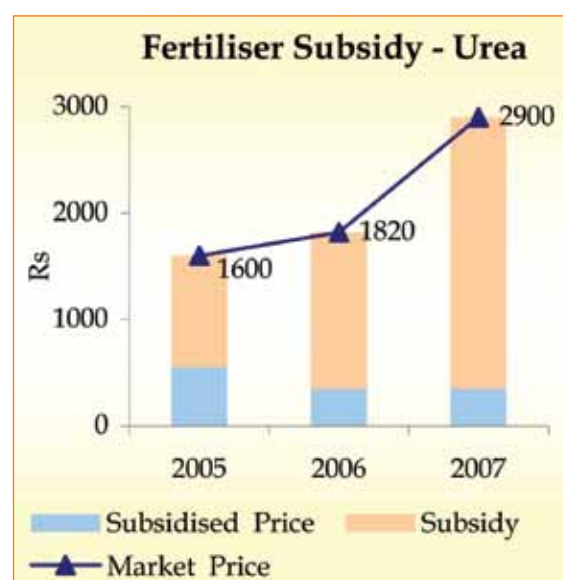


Table 2.20
A Variance Analysis of Government Expenditure(1)

	2007 Budget	2007 Revised Budget	2007	Remarks
Salaries & Wages	198,743	214,419	214,169	The impact of a balance salary revision aligned with the structure announced in the Budget 2006, enhanced COLA allowance, implementation of recommended anomaly corrections, leave encashment being extended to all sectors and new recruitments specially to civil security and defence caused the variance.
Pensions	62,500	67,737	68,822	Impact of granting the balance pension payments to meet the levels announced in the budget 2006, granting of enhanced COLA allowance, new pensioners entering at enhanced salaries not fully captured in the estimates coupled with correction of certain anomalies caused the variation.
Interest Payments	169,122	171,422	182,681	Increase in domestic interest rates and new borrowings to meet deficit financing.
Fertilizer Subsidiary	10,000	12,200	11,000	International price escalations stemming from the increase in oil prices caused the variation.
Transfers to Public Corporation	9,390	10,683	10,639	The expected postal rate revision implemented only in May 2007, more than anticipated operational losses incurred in Railway and CTB due to oil price increases and related cost increases caused the variance.
Transfer to Public Institution	19,206	19,800	25,746	Increased transfers needed due to salary revisions coupled with increased operational expenses of spending agencies stemming from high oil prices and other cost increases.
Samurdhi	9,600	9,600	9,200	Better targeting of deserving families.
Other Subsidies and Transfers	17,023	20,248	21,556	Kerosene subsidy for Samurdhi recipients who do not have electricity, cost escalation in printing of school text books and food assistance programmes caused the variance.
Public Investment	303,567	233,460	229,273	The revenue shortfalls, delays in procuments and under utilization of Foreign Aid in certain foreign funded projects caused the deviation.

Source: National Budget Department

(1) figures as per Economic classification.

Maternal and Childcare

The provision of a nutritional food package worth Rs. 500 per month for expectant mothers and fresh milk worth Rs. 200 per month for children between 2-5 years in order to address nutritional deficiencies introduced in 2006 continued in 2007 benefiting around 112,000 pregnant mothers and children. Further over 750,000 mothers benefited through the “Triposha” programme at a cost of around Rs. 512 million in 2007.

The Schools nutritional Food Programme providing midday meals which was introduced to improve nutritional levels of students in less privileged areas also continued in 2007 at a cost of Rs. 1,308 million. This program was extended to 798,495 children.

Assistance to Vulnerable Groups

Welfare payments to support the vulnerable groups in society continued in 2007 with an enhanced cost. Samurdhi assistance amounted to Rs. 9,200 million, while the kerosene subsidy introduced for Samrudhi families who do not have electricity, costed Rs. 632 million.

Assistance to disabled soldiers was Rs. 7,428 million compared to Rs. 5,921 million in 2006 while assistance to internally displaced persons continued at a cost of Rs. 1,666 million in 2007.

Table 2.21
Welfare Payments to Students

Programme Name	2005	2006	2007	Rs. Mn. Beneficiaries
Free Text Books	1,080	1,123	2,250	3,688,056
School Nutritional Food Programme	166	722	1,308	515,678
School Uniforms	1,060	963	1,067	3,931,588
Burasries and Scholarships (Grade 5)	157	235	185	75,000
Handicapped Students	40	50	71	2,924

Source: National Budget Department

“Senehasa” bank accounts scheme, which was designed to assist children who lost their parents consequent to the tsunami and terrorist activities in North and East continued in 2007 with a further cost of Rs.22 million, benefiting 584 such children.

Other welfare payments such as school season tickets, bursaries, school uniforms, Dharma school text books and uniforms and assistance to differently abled school children continued in 2007.

Resettlement of Internally Displaced Persons

Resettlement of Internally Displaced Persons especially in the newly liberated areas in the Eastern Province gathered momentum in 2007. Such efforts were carried out in Trincomalee and Batticaloa districts in areas in the Eastern Province such as Eruvil, Porathithivuparru, Vawanathivu and Vakari with over 56,000 families being resettled in 2007.

The Government spent Rs. 1,782 million to provide dry rations to 129,352 families in terrorist affected areas. A further Rs.75 million was spent to maintain and upkeep 297 welfare centres for the benefit of around 24,000 affected families.

Table 2.22
Welfare Payments and Subsidies

Description	2005	2006	Rs. Mn 2007
Children Programmes	3,248	4,196	6,453
Infant Milk Food subsidy, Poshana Malla	143	232	431
Tripsha Programme	504	537	512
Free Text Books	863	1,123	2,25
School Uniforms	1,200	963	1,067
School season tickets	261	250	500
Handicapped Students	40	50	71
Dharma school Text books & Uniforms etc,	80	84	102
Bursaries and Scholarships	157	235	212
School Nutritional Foods	166	722	1,308
Welfare Payments to Households	17,617	20,190	21,757
Samurdhi relief	9,103	10,789	9,200
Assistance to Disabled Soldiers	4,749	5,921	7,428
Assistance to Internally Displaced Persons	1,591	2,586	1,666
Food Assistance	1,258	1,075	2,466
Public Assistance through Provincial Councils	640	648	326
Flood and Drought relief	276	171	345
Free Medicine to Government Hospitals	7,100	11,379	10,804
General Fuel Subsidies	26,312	9,418	632
Petrol		650	-
Diesel	13,672	2,145	-
Kerosene	5,642	2,889	632
Fuel Oil	6,348	4,385	-
Agriculture	7,028	12,072	11,140
Interest subsidy for Agriculture Loans etc,	136	158	100
Fertilizer Subsidy	6,846	11,867	11,000
Development Subsidy	46	47	40
Other	788	945	1,030
Street lighting	743	900	1,000
Water subsidy for religious places	45	45	30
Total	61,305	57,255	51,761
Losses of Departmental Enterprises	9,060	11,767	10,137
Sri Lanka Railways	3,554	3,982	4,297
Sri Lanka Transport Board	3,854	4,976	3,545
Postal Department	1,652	2,809	2,294

Source: National Budget Department

Rural Development Initiatives

“Gama Neguma” the major initiative to empower rural economy through an integrated rural development programme, which commenced in 2006 expanded in 2007. This was implemented in 295 divisional secretariats covering 4,222 villages in 23 districts in 2007. Only the districts of Mullativu and Killinochchi could not be reached under this community involved rural development initiative.

Out of the 6,207 projects approved, work on 6,099 projects were completed by end 2007 at a cost of Rs. 3,231 million. These included rural road development projects, minor irrigation projects, social development projects, water supply projects and livelihood development projects.

Table 2.23
Gama Neguma Programme

District	DS Division	GN Division	Approved Projects	Completed Projects	Expenditure Rs.Mn.
Colombo	7	139	151	137	89
Gampaha	12	294	309	228	103
Kalutara	14	248	256	229	177
Galle	19	268	361	310	294
Matara	16	229	294	243	152
Hambantota	12	144	277	186	225
Kandy	20	305	722	528	224
Matale	11	185	202	189	121
Nuwara Eliya	5	150	270	256	106
Anuradhapura	22	254	401	135	229
Polonnaruwa	7	116	124	94	124
Kegalle	11	222	460	390	154
Rathnapura	17	263	277	266	101
Puttalam	16	208	301	101	150
Kurunegala	29	351	480	437	291
Ampara	15	178	171	166	69
Trincomalee	10	98	98	88	69
Batticaloa	3	31	56	32	40
Badulla	15	212	253	237	224
Monaragala	11	126	242	242	144
Mannar	4	31	41	39	53
Vavuniya	4	10	63	10	20
Jaffna	15	160	398	199	69
Total	295	4,222	6,207	4,742	3,231

Source: Ministry of Nation Building and Estate Infrastructure Development



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Maga Neguma rural road development programme was further expanded in 2007, through which many rural roads were rehabilitated using modern techniques to ensure durability. Under this programme 1,202 Km were rehabilitated benefiting around 78,500 families in rural areas at a cost of Rs. 2,422 million in 2007. With the implementation of this program over 4,200 Km of rural roads have been so far rehabilitated at a cost of Rs. 4,655 million.

Table 2.24
Maga Neguma Achievements 2005-2007

	2005	2006	2007
Total completed (Km)	731	2,284	1,204
of which concreted (Km)	21	277	777
Total Cost (Rs. Mn)	433	1,800	2,422
Beneficiary families	51,933	71,904	78,488

Source: National Budget Department

Table 2.25
Maga Neguma - 2007

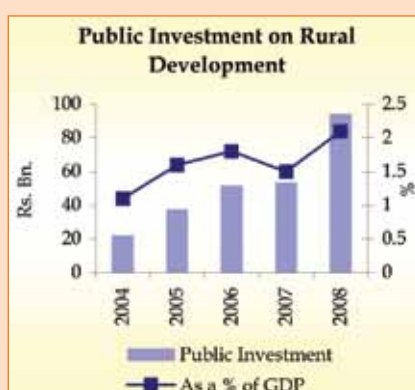
District	No. of Projects	Length of Roads Developed (Km)	Cost Rs.Mn.	Beneficiary Families
Colombo	322	79	158	4,798
Gampaha	554	92	173	5,218
Kalutara	424	67	121	4,178
Kandy	484	54	127	3,944
Matale	155	28	50	950
Nuwara Eliya	161	25	52	1,445
Galle	227	68	120	4,000
Matara	432	80	169	5,063
Hambantota	303	70	272	6,332
Jaffna	7	1	2	170
Mannar	32	9	20	1,412
Vavuniya	16	15	31	1,943
Mullativu	6	17	19	2,150
Killinochchi	19	31	30	2,465
Batticaloa	35	8	39	2,330
Ampara	110	41	103	4,085
Trincomalee	32	8	23	1,910
Kurunegala	651	160	307	7,627
Puttalam	186	36	67	3,610
Anuradhapura	71	36	58	1,728
Polonnaruwa	42	14	45	1,410
Badulla	159	34	86	2,133
Monaragala	183	85	76	2,680
Rathnapura	407	64	153	3,587
Kegalle	416	82	117	3,320
Total	5,434	1,204	2,422	78,488

Source : National Budget Department

Box 2.6

Gama Neguma - Rural Development Initiative

The Government investment on Rural Development focuses on upliftment of rural livelihoods and development of rural infrastructure in backward and lagging regions. These investments keep improving rural access roads, rural electrification, low income housing, drinking water & sanitation, and livelihood & spiritual development of the rural people.



The Government undertakes these investments through different ministries and through a series of multi faceted development programmes & projects. The expenditure in this sector increased from Rs 22,231 mn in 2004 to Rs 53,601 Mn in 2007 amounting 1.5 percent of GDP. This includes major categories of expenditure such as income support and welfare, rural infrastructure development, income generation activities, basic needs improvement and community development.

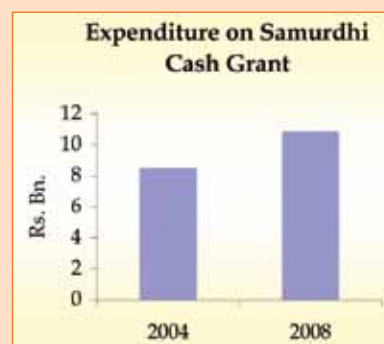
Distribution of Expenditure by Major Categories

Area of Investment	Rs. Mn				
	2004	2005	2006	2007	2008
Income Support and Welfare	14,824	16,721	19,958	21,521	23,435
Rural Infrastructure	5,345	9,205	17,933	19,152	47,285
Income Generation	737	6,006	3,731	4,045	8,779
Basic Needs Improvement	926	4,330	4,158	3,665	6,153
Community Development	399	1396	5,973	5,218	8,568
Total	22,231	37,658	51,753	53,601	94,220
As a % of GDP	1.1	1.6	1.8	1.5	2.1

Of the total expenditure, 40 percent is spent on income support while 35 percent contributes to the rural infrastructure development in 2007. In 2008, over 50 percent of the total allocation will contribute to the improvement of rural infrastructure in backward areas.

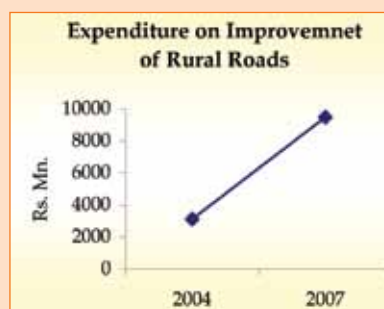
Income Support and Welfare

Expenditure on income support has increased from Rs 14,824 mn in 2004 to Rs 21,521 mn in 2007. It includes Samurdhi cash grants, allowances to the internally displaced people & disable soldiers and assistance to differently able people. In 2006, the allowances of the Samurdhi beneficiaries who live in the 113 poorest divisions of the country have been increased by 50%.



Rural Infrastructure

Rural Infrastructure Development projects include roads, electricity, irrigation etc. Various agencies carry out specific thrust programmes to address these needs in the rural sector. There is a significant increase of expenditure from Rs. 5,345 mn in 2004 to Rs. 19,152 mn. in 2007. Of this Rs. 9,500 mn was spent on rural road development in 2007.



Box 2.6

The Gamaneguma - Rural Development Initiative Contd.

Simultaneously, community participation has been introduced to most of the rural development programmes. At present, 20% of the total estimated cost of many rural development projects is to be borne by the beneficiaries of the project.

Income Generation

Income generating avenues of the rural people are encouraged through the development of the SME sector, small industries, agriculture and skills development programmes. A number of development projects, which are being implemented through Samurdhi Development Programmes, have mainly contributed to improve the livelihoods of the rural people through generating higher income.

Basic Needs Improvement

To fill gaps in the rural sector, in parallel with the national development programmes i.e. housing, water & sanitation, health and education programmes, several specific programmes are being implemented in the backward areas. Community water & sanitation, estate housing, fisheries housing, tsunami housing and north and east housing and few other projects for health & education support are included in these investments. Government expenditure on this sector is around Rs. 3,665 mn. of the total sectoral expenditure in 2007.

Significant Achievements through Investments in Basic Needs

Indicator	2004	2007
Population with access to improved drinking water (%)	72.6	76
Population with access to improved sanitation (%)	74	78
Improved households with electricity (%)	75	80

Source: National Planning Department

Community Development

Expenditure on community development covers the special needy groups of the society. It mainly covers the Estate, North & East and Fishing communities. Over 80 percent of the

total expenditure accounts for community development in the North and Eastern provinces. These investments provide avenues for developing houses, roads, water & sanitation and livelihoods targeting these special communities.

Medium Term Priorities

- Develop 14000 villages as micro economic centres with modern facilities in rural and backward areas.
- Construct access roads through the Maganeguma programme to improve connectivity.
- Construct low income housing to meet the demands of the plantation community, fishing community, and people affected by the tsunami.
- Construct and rehabilitate 10,000 tanks and minor irrigation schemes in agricultural areas.
- Expand community water supply schemes.

Key initiatives to Change the Rural Economy

Gamaneguma, is to develop 14,000 villages immediately, ensuring the speedy change in the rural sector. This is being accelerated from 119 villages in 2006 to 4,222 villages in 2007 and 14,000 villages in 2008. Around Rs. 5,000 million has already been spent on this programme from 2005 – 2007.

Maganeguma is to develop all rural roads in a sustainable manner. During the last year over 60 percent of the roads were constructed using the concrete. 4,217 kms of rural roads have been constructed at a cost of Rs. 4,967 mn.

Jathikasaviya, a special programme to cater to the needs of the people in threatened/border villages. The destroyed socio economic infrastructure due to terrorist attacks is being reconstructed ensuring a conducive environment to revive these areas.

The way forward:

In future, rural development initiatives are expected to be promoted with the greater participation of the community and the private sector through its social responsibility. The private sector could participate in village development under the 14,000 model village development initiative. In this context, the private sector can select, developing dedicated production and marketing centres and promote exports, tourism, sports, recreations etc. to empower the rural economy.

Much needed development work in estate infrastructure was undertaken in 2007, under the development initiatives carried out to support the estate community in Nuwara Eliya, Badulla, Kandy, Kegalle and Galle Districts, at a cost of around Rs 1,000 million.

The “Gemi Pubuduwa” and “Jana Pubuduwa” programmes designed to restore community infrastructure livelihood development and micro enterprise development among Sumurdhi recipients, were strengthened at a cost of Rs. 1,308 million.

Table 2.26
Estate Sector Infrastructure Development

Sector	Cost (Rs.Mn)	Achievement	No of Beneficiary Families
Roads	514	427 Km	49,154
Housing	317	1,049 Houses	4,425
Electricity	85	43 Schemes	5,124
Health	14	Upgrading of wards, and dispensaries, construction of medical officer's quarters	70,100
Education	36	Construction of 17 school buildings, 4 cultural centres & teachers quarters	
Vocational Training	5	35 Programmes	
Water	13	26 schemes	9,079

Source: Ministry of Nation Building and Estate Infrastructure Development

The “Kirigammana” programme designed to develop local milk production continued in 2007 and 396 such projects were completed mainly covering the North Western, Eastern and Central provinces. Also 95 industrial villages have been set up in 19 districts at a cost of Rs. 168 million benefiting 3,410 families.

Under the “Nanasela” and Vidatha Programme designed to transfer IT and technological knowledge to the rural areas continued with 1,000 Nanasela centres and 205 Vidatha centres been established. The rehabilitation of island wide small irrigation schemes continued in 2007 at a cost of Rs. 261 million. 731 projects were completed by end 2007 while work on another 429 were at different stages progressing towards completion.

Table 2.27
Minor Irrigation Works Programme - 2007

Implementing Agency	No. of Schemes	Total Allocation Rs. Mn.	Expenditure Rs. Mn.	Physical Progress-end 2007				
				Complete	75 – 99%	50-74%	25-49%	0-24%
Irrigation Dept.	253	100	82	183	24	12	8	26
Ministry of Nation Building and Estate Infrastructure Development	489	553	111	377	108	3	1	-
Provincial Councils	416	250	64	170	37	47	28	134
Govt. Agent- Trincomalee	2	5	4	1	1	-	-	-

Source: Ministry of Nation Building and Estate Infrastructure Development

2. Fiscal Developments - 2007

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Table 2.28
Government Expenditure - Economic Classification

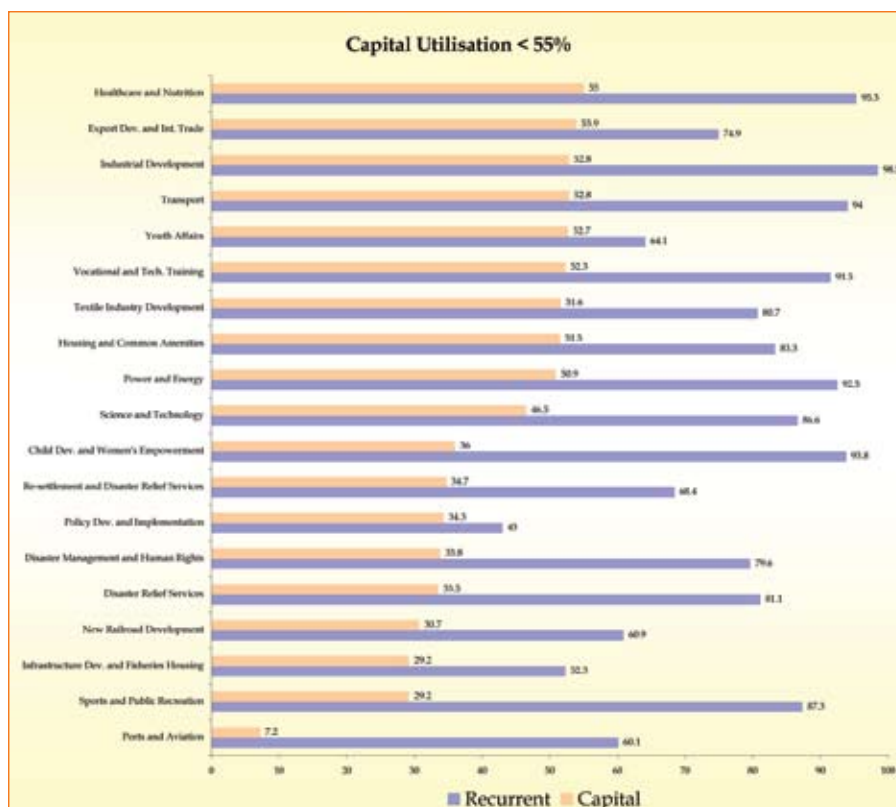
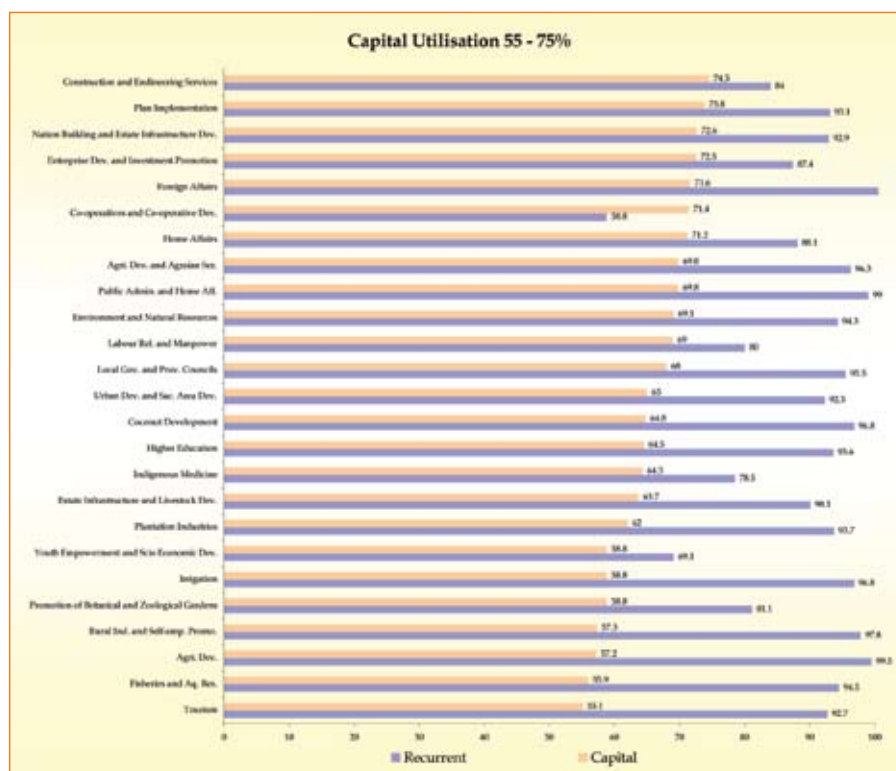
Item	2004	2005	2006	2007
Current Expenditure	389,679	443,350	547,960	622,758
Goods and Services	164,530	194,860	253,025	292,632
Central Government	55,187	66,416	83,556	87,524
Salaries	30,246	44,950	54,544	61,799
other	24,941	21,466	29,012	25,725
Defence	56,341	61,498	81,243	101,856
Salaries	30,856	38,040	44,960	60,185
other	25,491	23,458	36,283	41,671
Police & Public Security	17,111	20,467	25,197	32,470
Salaries	10,636	10,993	14,074	22,810
other	6,475	9,474	11,123	9,660
Provincial Councils	35,891	46,479	63,029	70,782
Salaries	34,455	44,620	61,453	69,366
other	1,436	1,859	1,576	1,410
Interest Payments	119,782	120,159	150,778	182,681
Domestic	105,858	113,164	133,788	161,370
Foreign	13,924	6,995	16,990	21,311
Subsidies & Transfers	105,367	128,331	144,157	147,445
Public Corporations	8,405	10,412	18,336	10,639
o/w Railways & Postal	3,524	5,205	6,781	6,592
Public Institutions	13,019	16,084	20,807	25,746
Local Authorities	358	233	172	150
Households	83,585	101,602	104,842	110,428
Pensions	36,444	46,782	58,006	68,882
Disabled Soldiers	3,860	4,749	6,563	7,428
Free Text Books	788	863	1,123	2,250
Uniforms	1,100	1,200	963	1,067
Nutritional Meals	39	722	712	1,308
Samurdhi	8,498	9,161	10,789	9,200
Fertilizer subsidy	3,572	6,846	11,867	11,000
Fuel subsidy	18,511	26,400	9,419	632
Refugee Assistance	2,532	1,591	2,586	1,666
Other	8,241	3,339	2,814	7,537
Public Investment	97,630	148,582	177,443	229,273
Capital Expenditure-Grants	83,807	140,154	162,213	206,161
Ministries & Departments	40,449	88,190	88,208	110,510
Public Co operations	19,068	19,919	21,526	23,737
Public Institutions	19,306	20,701	32,371	50,408
Provincial Councils	4,812	11,141	19,699	20,346
Other	173	203	409	160
Capital Expenditure-Lending	3,420	1,279	3,473	12,684
Public Enterprises	13,823	8,428	15,230	23,112
Repayment of on lending	15,920	(10,364)	(13,881)	(11,677)
Other	5,517	3,215	2,124	1,249
Total Expenditure	476,905	584,783	713,647	841,603

Source: National Budget Department

2. Fiscal Developments - 2007

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Chart 2.16
Utilization of Budgetary Provisions



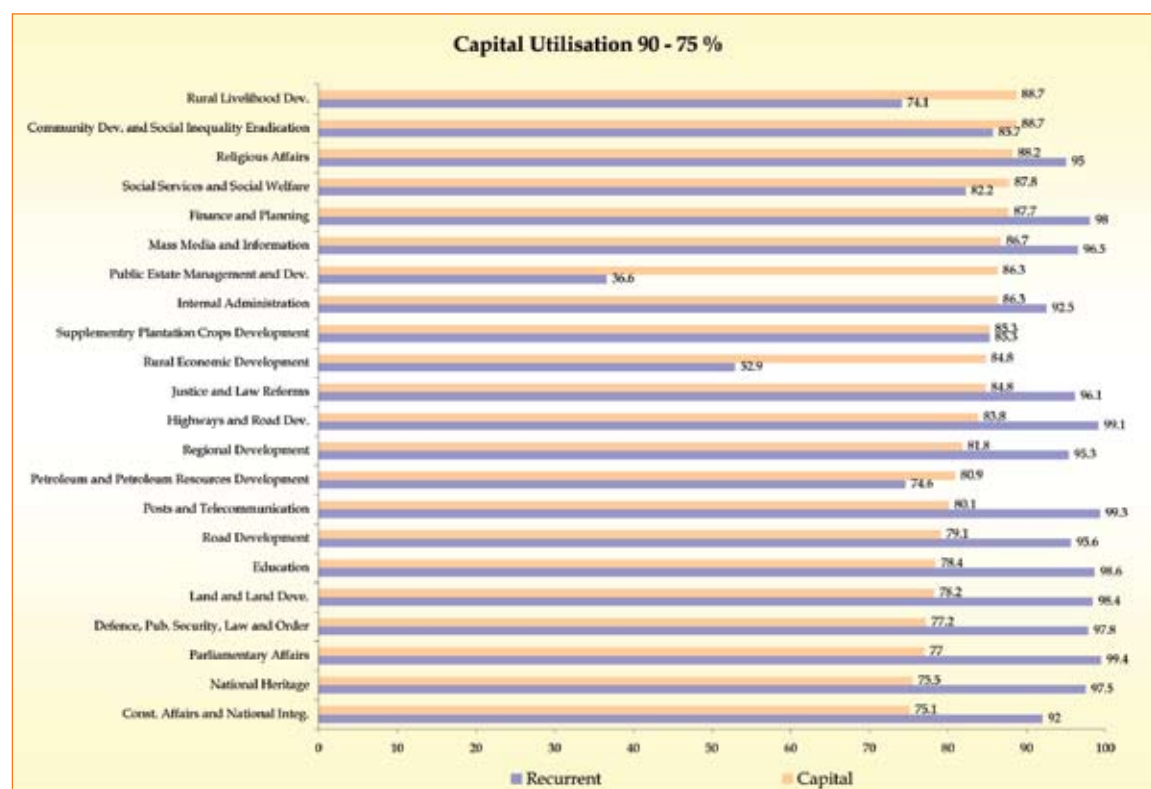
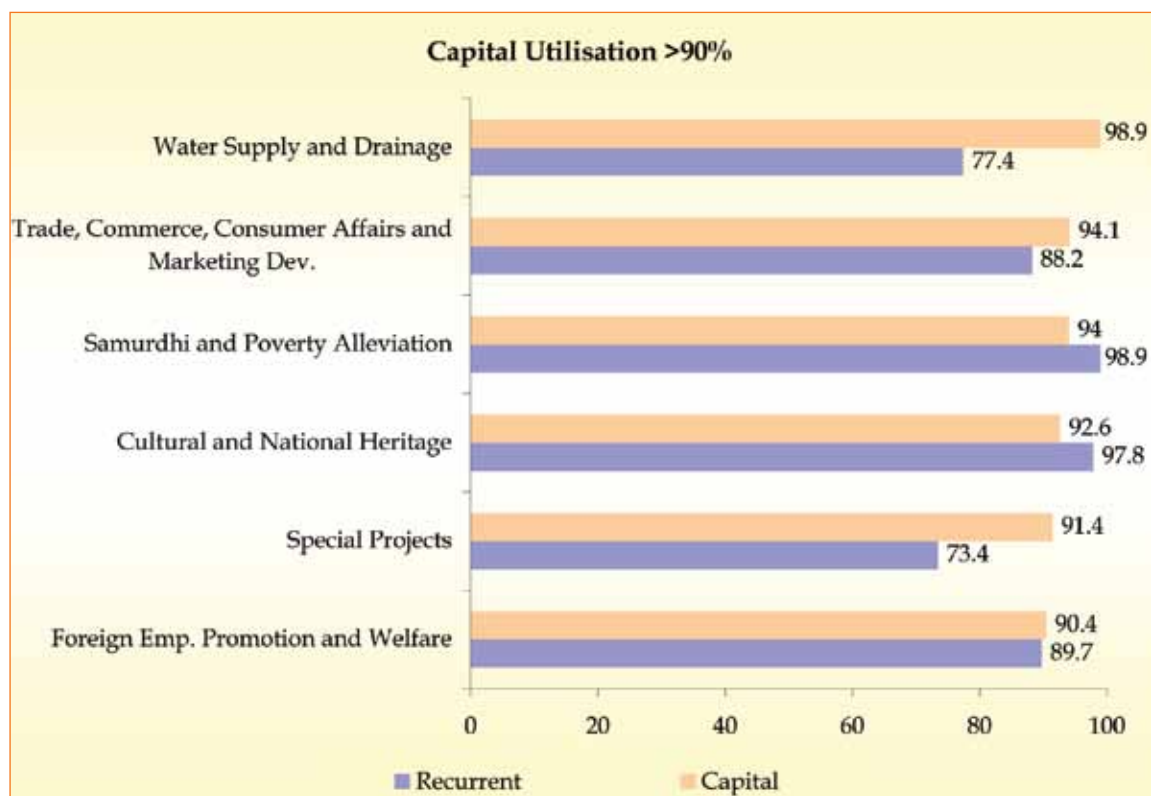


Table 2.29
Government Expenditure -Functional Classification (1)

	2005	2006	Rs.Mn 2007
Current Expenditure¹	323,130	397,182	440,077
General Public Services	105,628	136,352	162,102
Civil Administration	25,027	29,912	31,841
Defence	61,498	81,243	101,856
Public Order and safety	19,103	25,197	28,765
Social Services	188,651	204,635	226,271
Education	50,697	61,144	72,592
Health	34,113	44,069	51,741
Welfare	92,909	86,753	91,747
Community Services	10,933	12,669	10,191
Economic Services	28,725	50,586	49,573
Agriculture and Irrigation	13,500	22,163	22,849
Energy and Water Supply	1,008	2,766	3,647
Transport and Communication	11,303	19,038	18,983
Other	2,914	7,119	4,094
Other	187	5,609	2,131
Public Investment	148,582	177,443	229,273
General Public Services	9,901	21,357	32,143
Civil Administration	8,537	18,109	28,438
Public Order and safety	1,364	3,247	3,705
Social Services	35,992	48,375	54,986
Education	12,860	17,188	19,948
Health	10,738	13,969	16,961
Housing	3,657	4,021	4,481
Community Services	8,737	13,197	13,596
Economic Services	77,540	106,801	141,244
Agriculture and Irrigation	10,041	12,434	14,736
Energy and Water Supply	19,234	26,376	47,850
Transport and Communication	31,765	37,988	50,995
Other	16,500	30,003	27,663
Other	25,152	912	900
Debt Servicing	344,866	444,303	500,514
Interest	120,159	150,777	182,681
Repayments	224,707	293,525	317,833

Source: National Budget Department

¹ Excluding interest payments

Enhanced Development Expenditure

Total public investment in 2007 amounted to Rs. 229,273 million and increase of 29 percent in relation to GDP. Public investment expenditure (Capital Expenditure) increased to 6.4 percent. These expenditure was primarily on education, health and physical infrastructure development on roads, ports, power, irrigation, water supply and rural development. During 2007, major development projects initiated under “Randora”-the Government Infrastructure Development initiative were in progress. Several roads and bridges were also completed in 2007.

Emphasis on Human Resource Development Continues

Health

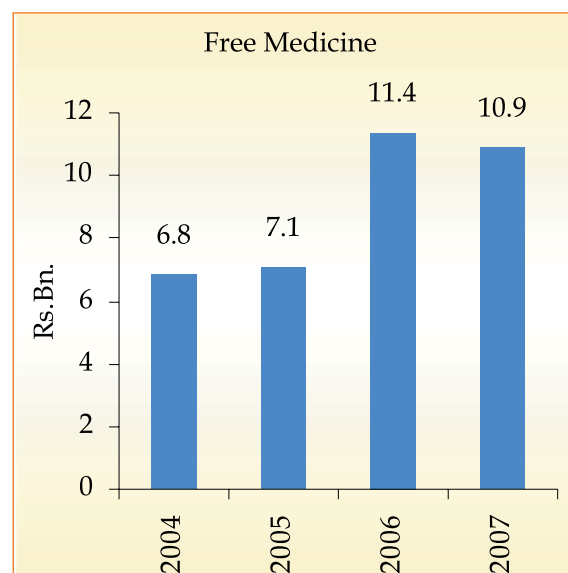
With the commitment to ensure equity health care mainly targeting the lagging regions, the Government invested Rs. 60 billion in 2007, an 11 percent increase over 2006.

Several key development programmes such as the Matara - Godagama Hospital, improvements made to the cardiology and oncology units in Kurunegala Teaching Hospital and construction of theatres at Ragama, Kandy and Kegalle were carried out in 2007. Also Neuro Trauma, Epilepsy and Nephrology units were provided with technologically advanced and modern equipment while modern equipment such as CT Scanners, linear accelerators were provided for Maharagama, Badulla, and Batticaloa hospitals at a cost of Rs. 1,481 million in 2007. Funds were channelled to develop infrastructure facilities of base hospitals in less privileged areas while the Small Scale Infrastructure Rehabilitation and Upgrading Project gave assistance to develop medical quarters, wards and other small scale infrastructure facilities in rural hospitals.

The expenditure on the supply of pharmaceuticals to Government hospitals continued to remain high in 2007.

Several programmes on preventive health services were carried out successfully in 2007 to face the challenges posed with the epidemiological and demographic transitions. Malaria control activities have been conducted with 1,602

Chart 2.17



mobile clinics in 18 high risk districts, while an anti rabies drive was carried out with over 550,000 stray dogs being vaccinated. The dengue prevention programmes targeted 10 high risk districts while cancer preventive awareness programmes were also carried out.

To address the skilled human resource shortages in the health sector, further recruitments were made in 2007. As such 909 Intern Medical Officers, and 3,075 pupil nurses were recruited in 2007 while approximately around 1,000 have been absorbed as midwives, MLTs, pharmacists and other technical grades.

Under the “Hela Weda Punarudha” programme designed to promote the indigenous system of medicine was carried out in 2007. Under this programme 12 mini hospitals with small wards with 10 beds for traditional medical practitioners have been constructed. In addition the development of the Ayurveda Teaching Hospital at Borella has commenced. Around 227 Ayurvedic Medical practitioners were recruited in 2007 to cover the Ayurvedic, Sidda and Unani systems while another 303 practitioners will be absorbed for community health care.

Box 2.7
Investing in Health

Investing in health is an important aspect of the *Mahinda Chinthana*: Vision for a new Sri Lanka : A Ten Year Horizon Development Framework, 2006-2016. The Government expenditure on health includes outlays on preventive, curative and promotive health care services. The actual expenditure on these services grew from Rs. 38 billion in 2004 to Rs. 60 billion in 2007, about 2 percent of the GDP. During the period, a major share of health expenditure was on account of recurrent expenditure while around 23 percent was on capital.



The health services are provided particularly by the Government. However, the private sector provides nearly 50 percent of all outpatient or ambulatory care services. The Government provides a growing share of recurrent and capital expenditure both at National and provincial levels.



Health Expenditures and Outcomes

Capital expenditure on health has increased by 16 percent in 2007. Increased funds have been mainly channelled for hospital development. The foreign aid component of the total capital expenditure amounted to Rs. 2,519 mn in 2007 which accounted for 31 percent of total capital expenditure and reflected the fact that health expenditure is predominantly done by domestic resources. Many key development initiatives, such as the Neuro Trauma Unit at National Hospital Colombo, Matara-Godagama Hospital, Hambantota Hospital Development etc. have been implemented with foreign assistance. However, committed foreign funds are under utilized owing to procedural delays associated with donor funds.

Recurrent Expenditure

Category	(Rs mn)				
	2004	2005	2006	2007	2008
Personal Emoluments	16,949	21,737	24,074	29,128	33,329
Medical Supplies	6,796	7,100	11,379	10,804	13,000
Diets	605	715	706	906	958
Maintenance	221	299	326	398	405
Electricity & Water	2,002	2,175	2,086	2,434	2,727
Welfare Programmes	343	504	538	922	700
Other	2,606	3,266	3,972	4,568	5,285
Total	29,522	35,796	43,081	49,160	56,404

Source: National Budget Department & State Accounts Department

A bulk of recurrent expenditure is on personal emoluments for doctors, nurses, para medicals, support staff and health administrators. During 2004-2007, 9,036 nurses were recruited for training under the programme to recruit 15,000 nurses for the Government service while directing more funds for training of medical officers in specialized areas targeted at improving services in underserved areas.

Box 2.7
Investing in Health Contd.

Health Sector Recruitment

Category	2004	2005	2006	2007
Medical Officers ^(a)	973	936	1,075	1,710
Nurses	2,764	844	1,200	2,230
Pupil Nurses ^(b)	2,179	2,279	1,501	3,077

(a) Appointment of Post Intern Medical Officers

(b) Recruited for training under 15,000 Nurses Programme

Source: Ministry of Healthcare & Nutrition

Budgetary provision for Medical Supplies has increased considering cost escalations, and emergence of new medical units etc. The cost of medical supplies has increased by almost 100 percent between 2004 to 2008.

Recurrent expenditure on diets, electricity & water and maintenance also accounted for high health expenditure. This expenditure was mostly on curative health services. In addition to recurrent expenditure on maintenance, Rs. 1,971 mn has also been provided under capital for hospital building maintenance and plant & machinery in 2007.

Meanwhile, the Government continued financial support on preventive health programmes including nutrition intervention. Foreign assistance, World Bank, Global Fund, WHO, Unicef, extended support for activities on communicable & non-communicable diseases as well as nutrition. A total sum of Rs. 973 mn has been invested on preventive health in 2007 while increasing the allocation on nutrition programmes by more than 100 percent from 2004-2007.

Value for Money in Health

The public expenditure on health incurred mostly on in-patient care services under the range of facilities provided at three levels of curative health care institutions; tertiary, secondary and primary care, ensuring quality and modern healthcare services targeting the needy in all segments of population.

Inputs and Outputs in Healthcare Services

Item	2004	2007
No. of Hospitals	1,003	1,006
No. of Teaching Hospitals	21	19
No. of Provincial/General Hospitals	10	23
No. of Base Hospitals (A & B Type)	38	65
No. of Central Dispensaries	397	387
No. of Patient Beds	61,937	66,866
No. of In-patients	3,990,500	4,343,136
No. of Out-Patients	45,680,594	42,482,621
Government Expenditure as a % of GDP	1.7	2.0
Per Capita Health Expenditure (Rs)	1,961	2,996
Cost per patient per day in an Oncology Ward	-	3,047 ^(a)
Cost per patient per day in a Paediatric Ward	-	1,331 ^(a)
Cost per patient per day in a Surgical Ward	-	1,881 ^(a)

(a) Average cost per patient in Rupees. Research conducted at Kurunegala Teaching Hospital

Source: Ministry of Healthcare and Nutrition and National Budget Department

The average duration of a stay of an in-patient varied with the type of hospital and was significantly longer in the specialized hospitals such as Cancer, Mental and Chest. Cost per patient per day also varied with the specialized care provided under five basic specialties; Surgical, Medical, Gynaecology, ENT & Paediatrics. The increasing share of expenditure on curative health services is mainly utilized for patients treated on non-communicable diseases such as cancer where the average cost per patient per day is Rs. 3,047.

Box 2.7
Investing in Health Contd.

Hospital Facilities with Specialized Care*Hospitals for Paediatric Care*

Lady Ridgeway Children's Hospital, Colombo Srimavo
Bandaranaike Children's Hospital, Peradeniya

Cancer Hospitals

Cancer Institute, Maharagama

Hospitals for Women

Castle Street Hospital for Women, Colombo De Soyza
Maternity Hospital, Colombo

Eye Hospitals

Eye Hospital, Colombo

Hospitals for Respiratory Care

Chest Hospital, Welisara

Hospitals for Mental Care

Mental Hospital, Angoda, Mental Hospital, Mulleriyawa

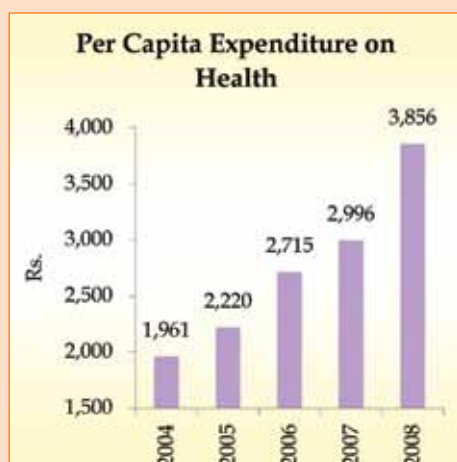
Hospitals for Rehabilitation Care

Ragama Rehabilitation Hospital, Digana Rehabilitation
Hospital

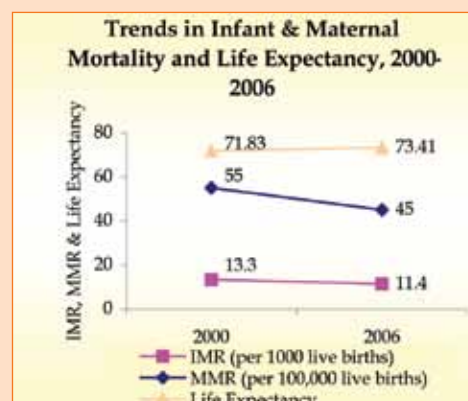
Hospitals for Infectious Diseases

Infectious Diseases Hospital (IDH)

In 2007, per capita spending on health was Rs. 2,996 indicating a significant increase with improved quality of care provided in the public health system over the period.



Improved per capita spending has resulted in enjoying impressive basic health attainment indicators, ranking Sri Lanka in the 99th position of the Human Development Index (HDI) in 2005. The country has fared well in the medium human development status standing at 0.743 of HDI.

**Human Resource Base in the Health Sector**

Human resources for the health sector was strengthened and developed to minimize wide disparities among regions. Specialist doctors and nurses were appointed to hospitals in such districts. This has resulted in increasing the effectiveness and efficiency of the public health care delivery system in lagging regions.

Human Resource Base in the Public Health Service

	2004	2007
Specialist Medical Officers	815	959
Medical Officers- Administrative	122	114
Medical Officers	8,025	10,253
Dental Surgeons	791	861
Registered Medical Officers & Assistant Medical Practitioners	1,281	1,244
Nurses	19,871	22,088
Para Medical Staff	2,551	2,984
Attendants	6,701	7,201

Source: Ministry of Healthcare and Nutrition

Box 2.7
Investing in Health Contd.

Addressing Imbalances in Service Delivery

During 2006-2007, many development initiatives were completed ensuring easy access to quality healthcare services for the people who are in need. Investments to improve the health facilities in hospitals particularly in lagging regions have been further strengthened.

Key Developments

- Established a National Blood Transfusion Centre at Narahenpita - TEC, Rs. 1,809 mn
- Developed Stage I of Sirimavo Bandaranaike Specialized Children's Hospital at Peradeniya - TEC, Rs. 202 mn
- Constructed Cancer Units at Karapitiya Teaching and Badulla General Hospitals - TEC, Rs. 188 mn
- Constructed Accident Ward stage I & II at Kurunegala Teaching Hospital - TEC, Rs 41 mn
- Constructed Drug Stores at Badulla General & Ampara Base Hospitals (TEC- Rs. 93 mn)
- Installed a Linear Accelerator for Cancer Institute, Maharagama - TEC, Rs 610 mn
- Established Blood Banks at Anuradhapura, Matara & Kandy General Hospitals and Ampara Base Hospital - TEC, Rs 58 mn
- Constructed an Out Patient Department Building (TEC - Rs.34 mn) and a Mortuary Building (TEC - Rs.13mn) at Kalmunai Ashroff Memorial Hospital
- Developed infrastructure facilities in 14 hospitals in underserved areas - TEC, Rs. 215 mn
- Constructed a Hostel for Nurses Training School, Batticaloa - TEC, Rs 44.mn

Healthcare Network

Anuradhapura: Improvements to curative healthcare facilities at the Anuradhapura General Hospital have commenced with JICA assistance at a total cost of Rs.950 mn. Further, an OPD Building and a 5 storey Ward complex are being constructed at this hospital.

Badulla: Construction of a Blood Bank at a cost of Rs 15 Mn. and an OPD building with Red Cross assistance are in progress at Badulla General Hospital.

Kandy: Construction of the Stage II of Sirimavo Bandaranaike Specialized Children's Hospital with 200 beds has commenced (TEC- Rs 426 mn). Work on the Theatre Complex at Kandy General Hospital has also commenced at a total cost of Rs. 254 mn.

Galle: Eighty percent of construction work of the Laundry Building at Karapitiya Teaching hospital has been completed. Further, Helmutchol Maternity Hospital, Mahamodara is being constructed at a cost of Rs. 3.5 bn with German assistance.

Hambantota: A four storey ward complex at Hambantota Base Hospital is being constructed while the hospital is being further developed with Hungarian assistance at a cost of Rs.10.8 bn.

Matara: Thirty percent of infrastructure development of the Matara- Godagama Hospital has been completed and the contract has been awarded to construct a three storey Maternity Ward Complex at a cost of Rs. 700 Mn. with Korean Grant Aid.

Kurunegala: Cardiology Unit to be completed in mid 2008 at the Kurunegala Teaching Hospital while 75 percent of construction work of Oncology Unit, 10 percent of Maternity ward & Accident Ward (Stage III) have been completed.

Batticaloa: A drug stores (TEC- Rs 9 mn) and quarters for Consultants (TEC - Rs13 mn) are being built at Batticaloa General Hospital. Further, the Nurses Training School at Batticaloa is being upgraded at a cost of Rs. 9 mn.

Jaffna: Doctors quarters and the Nurses Hostel at Jaffna Teaching Hospital are being developed at a cost of Rs 33 mn.

Colombo: Neuro Trauma Unit at National Hospital Colombo (TEC-Rs 2,675 mn with Saudi assistance) and Nephrology Unit at Maligawatta to be completed in mid 2008. Initiated construction work of Epilepsy Unit at National Hospital Colombo (TEC - Rs 2,918 mn with Saudi assistance) and Dental Institute, Colombo (TEC - Rs 580 mn).

Box 2.7
Investing in Health Contd.

Special Initiatives

- Improve Hospital Management by Introducing 5S practices;
- Awarded National and Provincial Productivity and Quality Awards to ;
 - Castle Street Hospital for Women
 - Base Hospital, Ampara
 - Base Hospital, Mahiyangana
- Developed 93 clinical guide lines for hospitals
- Generate financial information through Cost Accounting Methodologies
- Introduced a Departmental based costing system at Kurunegala, Kuliapitiya & Marawila Hospitals
- Issued receipts for patients at Kuliapitiya Base Hospital
- Prevent/Control chronic Non Communicable Diseases & Traumas.
- Initiated a passive surveillance system on cardiovascular diseases & diabetes at Polonnaruwa, Hingurakgoda & Madirigiriya Hospitals.

Private Sector Participation

To meet the challenges posed by the epidemiological and demographic transition, the Government has encouraged the private sector to participate in the national health care system through the establishment of secondary and tertiary care private hospitals.

Since the Government has an overall responsibility to ensure that patients are protected and get value for money both in public as well as private sectors, the Government established the Private Health Regulatory Council under the Private Medical Institutions Act No.21 of 2006.

Resource Base and Cost of Services in the Private Sector

Item	
Health Facilities ^(a)	
Hospitals	212
Beds	8500
Key Health Personnel ^(a)	
Medical Officers	
Full Time	3,000
Part Time	12,000
Nurses ^(b)	10,000
Nursing Assistants	15,000
Medical Bills Charged (Rs. per person)	
Surgeries	429,618
Bypass	34,662
Cataract	56,344
Hernia	233,000
Accidents	82,600
Caesarian	74,465
Fibroid	

(a) By end 2007 (b) Excludes Pupil Nurses

Source: Ministry of Healthcare & Nutrition

Revival of Indigenous System of Medicine (ISM)

Immense support and encouragement has been given by the Government for the development of traditional systems of medicine; Ayurveda and other indigenous systems of Medicine, during 2004-2007.

The investments on ISM have been increased from Rs. 418 mn in 2004 to Rs. 683 mn in 2007 indicating a 63 percent increase. The funds were invested with the intention of maintaining good health conditions of the people through the extension of traditional systems of medicine island-wide.

Box 2.7
Investing in Health Contd.

Development of the Ayurvedic Teaching Hospital, Borella at a total estimated cost of Rs 1,204 mn is one of the key projects initiated during the period 2004-2007. Greater emphasis has also been given for the maintenance of services provided for the prevention of diseases through the Ayurvedic system of medicine. While promoting the research & development, more investment has been provided for cultivation, conservation and propagation of medicinal plants with the intension of strengthening the essential Ayurvedic drug production locally.

The private sector participation in ISM has also been encouraged during the period by establishing regulatory mechanisms.

Challenges

Despite the good performance, the health care system of Sri Lanka faces several major challenges; resurgence of certain communicable diseases such as malaria & dengue, rising trend of non-communicable diseases, increasing anemia among pregnant & lactating mothers and malnutrition among children under five years.

Number of Cases and Deaths due to Emerging Communicable Diseases

Disease	No. Cases		Deaths	
	2004	2007	2004	2007
Dengue Hemorrhagic Fever	14,560	6,930 ^(a)	87	24
Leptospirosis	1,447	2,195	N.C.	34
Malaria	3,720	196 ^(b)	1	1
Tuberculosis	8,689	8,497	422	205

(a) No. of notified cases

(b) Microscopically Confirmed Cases, N.C. Not Confirmed

Sources: Epidemiology Unit, Anti Malaria Campaign and Tuberculosis & Respiratory Disease Control Programme.

In addition, the rising cost of health is another key challenge. In maintaining a fare health service to the needy in the society it is necessary to provide an efficient and cost effective healthcare service.

Towards a Healthy Economy

Based on the Mahinda Chinthana Goals (MCG), the Mahinda Chinthana: Vision for a new Sri Lanka : A Ten Year Horizon Development 2006-2016, health sector strategies have been developed to realize the Millennium Development Goals (MDG) .

Strategies for Ten Years

Streamline Preventive Healthcare Services

- Promote programmes on preventive health in different settings; schools, workplaces etc.
- Implement cost effective programmes to keep the incidence of non-communicable diseases very low.
- Establish a well designed epidemiological surveillance system in provinces and in hospitals to control major communicable diseases; Malaria, Dengue, Rabies & Japanese Encephalitis.
- Improve nutritional levels of expectant mothers and children through strengthening existing MCH programmes and nutritional surveillance of infants & pre-school children etc.

Expand Curative Healthcare Services

- Establish Centres of Excellence - new units in Oncology, Paediatric & Vascular Surgery, Medical Recording and Centres for Community Health & treatment of AIDS to be set up to full fill the continuing need for very specialized services.
- Strengthen selected healthcare institutions in the periphery to make the services more accessible to the rural population.

Availability and affordability of efficacious and good quality drugs

- Strengthen local pharmaceutical manufacturing industry.
- Develop Human Resources in a systematic manner to full fill the cadres at both central and provincial levels.
- Develop Indigenous System of Medicine to make available the facilities more client oriented.

Education

Government investment to provide access to basic and secondary education was further enhanced in 2007. Expenditure on education totalled Rs. 92,540 million in 2007 compared to Rs. 78,332 million in 2006. 225 schools have been upgraded to have Advance Level classes in all 3 streams under the “Navodya School Programme.” Facilities in 100 primary schools have been developed in 2007 under the model primary school programme designed to reduce excessive competition to enter popular schools in urban areas. Infrastructure facilities of around 220 estate schools were uplifted in 2007. Under the “Isuru School project” 150 schools in 25 districts have been identified to be developed to a superior level in the medium term and 10 such schools have been developed in 2007.

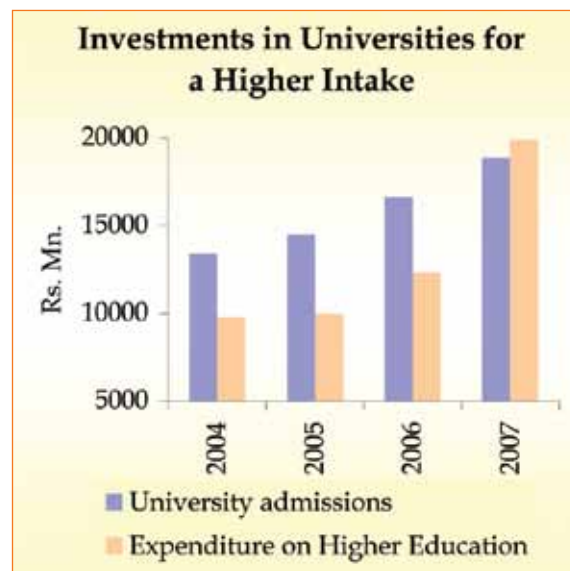
Enhanced funds were channelled to Pirivena institutions, assisted schools and schools with disabled children in 2007. 355 schools have been provided with fully equipped computer labs, while 15,000 teachers were given computer training.

With a view to uplift the long neglected estate education, 3,800 new Tamil teachers were recruited for estate schools in 2007. Further 2,620 new teachers were absorbed to “Vidyapeeta” colleges.

Higher education expenditure in 2007 was Rs. 15,404 million, an increase of 25 percent over 2006. Universities utilized Rs.5,415 million to develop infrastructure facilities such as student hostels, buildings, modern lecture theatres, and regional study centres.

Sir Ivor Genings Hostel at Peradeniya University was improved to house over 520 students while Vimala de Silva girls hostel at Sri Jayawardenepura University with facilities to accommodate 820 undergraduates was improved in 2007. Also hostel buildings and administration buildings in Uva-Wellassa University, and the Management faculty building at Jayawardenapura University were added to the university system in 2007. Around 36 regional study centres of Open University were rehabilitated in 2007.

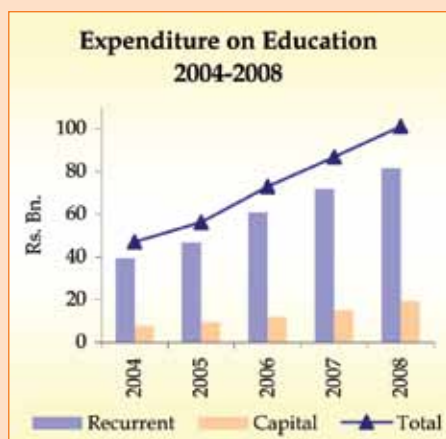
Chart 2.18



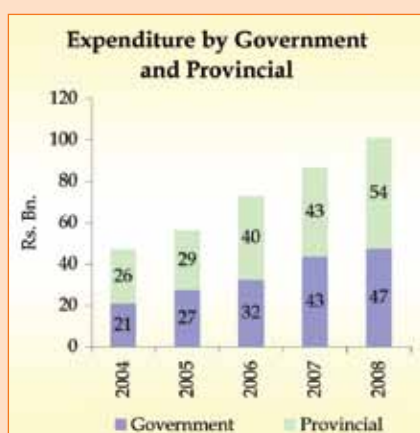
Box 2.8

Education for a Knowledge based Economy

The public expenditure on Education covers Primary, Secondary and Tertiary Education, demarcating General and Higher Education under both the Central Government and Provincial Councils. The expenditure on education has increased from Rs 47 billion in 2004 to Rs 87 billion in 2007 indicating a growth of GDP from 2.2 percent in 2004 to 2.6 percent in 2007. The share of recurrent expenditure has been increasing steadily over the years while capital expenditure has doubled from 2004-2007.



Education is mainly directed towards providing knowledge, values and attitudes of individuals to bring the maximum benefits to society. The public expenditure on education has been accelerating both at National and Provincial level during the recent years.



Reflecting expanded investment, educational facilities have increased significantly during the period 2004-2007.

Expansion of Educational Facilities

Item	2004	2007
No. of Schools	9,765	9,678
No. of National Schools	324	328
No. of Provincial Schools	9,051	8,839
No. of Navodya Schools	391	511
No. of Assisted Schools	60	70
No. of Universities	14	18
School Enrolment Rate		
Primary	95	97.5
Literacy Rate		
Both Sexes	91.1	92.5
Male	92.6	94.5
Female	89.7	90.6
Teacher-Student Ratio	21	19

Source: Ministry of Education

General Education

The total number of schools in the country is around 9,678 of which 328 are national schools. The majority of schools are functioning under provincial councils.

During 2004-2007, the capital expenditure on general education represented only one fourth of the total expenditure and foreign aid component of the total expenditure amounted to Rs 5,649.0 mn in 2007 in comparison to Rs 2336.3 mn in 2004. The utilization of such funds showed improvement.

A major share of recurrent expenditure was spent on salaries of school teachers, principals, academic & non-academic staff of the Universities and administrative officials. In addition, an increasing share of funds has also been directed on welfare programmes ensuring timely provision of school text books, uniforms, nutritional food, scholarships and season tickets to school children supplementing the free education policy and increased access of education for all.

Box 2.8
Education for a Knowledge based Economy Contd.

Recurrent Expenditure

Category	2004	2005	2006	2007	2008
Personal					
Emoluments	31,352	38,853	50,201	58,467	64,563
Welfare programmes					
Text books	1,099	1,079	1,123	2,250	2,000
Uniforms	1,099	1,010	963	1,067	1,260
Scholarships	92	157	235	185	375
Nutritional food	361	481	1,036	1,925	2,250
Season tickets	250	250	250	250	600
Other	4,506	5,189	7,452	8,209	10,527
Total	39,700	47,069	61,259	72,353	81,575

Source: National Budget Department & State Accounts Department

A sharp increase of funds on text books in 2007 was due to an advance payment made for the books printed in 2007 for 2008. Meanwhile, the funds accounted for nutritional programmes since 2006 indicated a sharp increase attributed to expansion of the programme coverage from grade one to all children in the primary sections of schools in less privileged and lagging regions.

Number of Beneficiary Children

Item	2004	2005	2006	2007
Text Books	3,750,573	3,732,332	3,709,557	3,688,056
Uniforms	4,026,822	4,003,598	4,000,321	3,931,588
Nutritional Food	176,427	196,834	695,934	798,495
Year 5 Scholarships	70,000	70,000	70,000	70,000
Season Tickets	401,406	371,745	318,702	362,519

Source: Ministry of Education

Over the past four years, the number of children provided with text books and uniforms remained at around 3.7 million.

Teacher Development

Out of the total number of teachers, 31,927 belonged to national schools. Around 3,000 teachers are trained annually at the level of Diploma in Education by 17 Colleges of Education (Vidyapeeta) at a cost of Rs 813.0 mn (2008). The number of teachers in schools has remained almost the same during 2004 to 2005. However, new recruitments of 2599 from Vidya peeta, 137 Graduates, 3799 tamil teachers, 1569 development assistants, 448 management officers, 960 volunteer teachers and 1490 teacher assistants since 2006 resulted in a sharp increase of 13,527 indicating Government commitment to provide resources needed to strengthen the education sector of the country.

**'Navodya' and Schools Development in Plantation Areas**

The Navodya school programme aims to upgrade schools to have Advanced Level Arts, Commerce and Science classes, by giving them sufficient facilities for improvement. Since 2004, Rs 900 mn has been allocated for development of 511 'Navodya' schools, while allocating Rs 275 mn in 2007 only to develop 15 such schools.

Presently, there are 819 plantation area schools functioning in the areas closer to estates in Central, Uva, Sabaragamuwa, Western, Southern and North-Western provinces. In 2007, capital expenditure of Rs 160 mn was spent on infrastructure development in plantation area schools.

Box 2.8
Education for a Knowledge based Economy Contd.

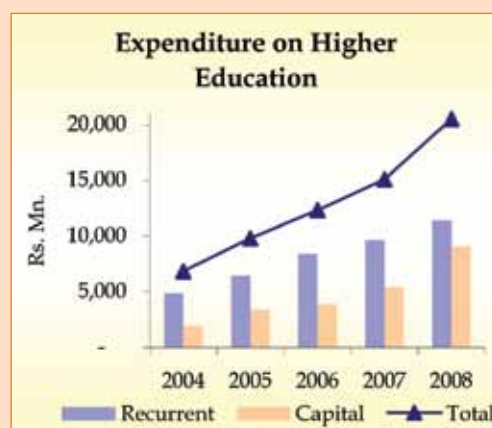
Achievements

- The percentage of students who have qualified for Advance Level has increased from 45.0 percent in 2005 to 51.3 percent in 2007.
- Developed 120 schools as 'Navodya' schools at a cost of Rs. 900.0 mn since 2004.
- Completed construction of class rooms, science labs, computer rooms and libraries in 64 estate sector schools in 2007 at a cost of Rs 160 mn.
- Appointed 3,799 new Tamil medium teachers to the estate sector with a view to improve the quality of school education of plantation sector children.
- Developed 26 schools under the Isuru school programme at a cost of Rs 100.0 mn in 2007.
- Out of 183 tsunami hit schools, 80 were constructed at a cost of Rs. 5,229 mn.
- Set up fully equipped computer labs in 355 schools under the Secondary Education Modernization Project.
- Appointed 5,937 Vidya Peeta teachers during 2006-2007.
- The number of students who have obtained marks above cut off mark level at the year five scholarship programme increased from 8.04 percent in 2004 to 11.95 percent in 2007.

The *Isuru school programme* was initiated in 2007 with the objective to develop schools at the rate of one fully-fledged secondary school on a Divisional Secretariat level. So far, it has developed 26 schools as fully fledged secondary schools with standard physical and human resources. Moreover, 10 schools in 10 districts have already been identified to be developed under this programme in 2008 at a cost of Rs 428 mn.

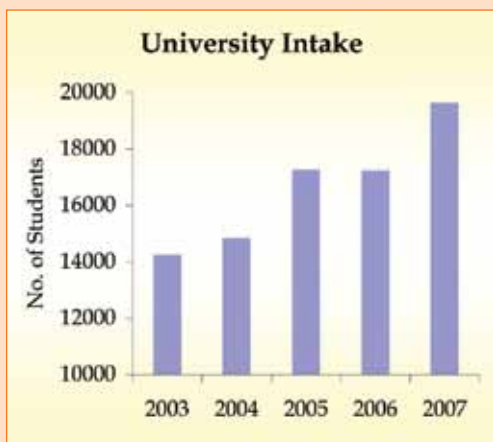
Higher Education

Over the last five years, the financial assistance given for the higher education sector; Universities and Higher Education Institutions, has been increased. The total expenditure has doubled from Rs. 6,850 mn in 2004 to Rs 15,104 mn in year 2007.



Meanwhile, capital expenditure on higher education has also been increased by 39 percent in 2007 compared to 2006. The domestic component of capital expenditure has accounted for Rs. 3,604.5 mn which was mainly spent on infrastructure development i.e. construction of hostels, lecture halls, libraries, faculty buildings, administrative buildings of Universities and Higher Education Institutions. The foreign aid component of the total expenditure represented 33.8 percent in 2007. Out of total foreign aid allocated for 2008, Rs 2,796.0 million has been targeted for undergraduate education development, improve E-learning, develop distance education, infrastructure development of advance technological institutes and strengthening of research facilities in the universities.

Box 2.8
Education for a Knowledge based Economy Contd.



With the enhanced facilities of Universities, the intake has also sharply increased in 2008 in comparison to the past. Similarly, the financial assistance has also increased for Universities to facilitate the large intake. The number of students who qualified for University entrance after sitting for A/L exams has also increased from 2.3 percent in 2003 to 8.6 percent in 2007.

Achievements

- Constructed Sir Ivor Gennings Hostel with an accommodation capacity for 512 male students at the University of Peradeniya with a cost of Rs. 150 Mn.
- Development of the Vimala De Silva girls hostel with an accommodation capacity of 820 for the students at the University of Sri Jayawardanapura for a cost of Rs 165 Mn.
- Established Universities of Uwa- wellassa, Visual & Performing Arts and Wayamba
- Obtained University status for Kothalawala Defense Academy.

Attaining the Goals

The strategies highlighted in Mahinda Chinthana: Ten Year Horizon Development Framework are designed to realize Millennium Development Goals.

Future Strategies

- Ensure implementation of the free education policy, provide equal educational opportunities and increase school enrolment & maintain high retention rates of basic compulsory education.
- Achieve 100 percent participation rate through reduction of the number of out-of school children, by introducing special measures to provide education to children who come from disadvantaged backgrounds.
- Review and introduce curricular reforms and develop appropriate teaching –learning materials to promote child friendly primary schools, develop an activity based curriculum, develop generic skills such as initiative, problem-solving, team work and responsibility.
- Strengthen the Quality Assurance Unit to oversee all schools by 2016.
- Incorporate Information Technology in the core curriculum in senior secondary grades
- Continuation of compulsory education regulations
- Introduce examination reforms to promote acquisition of higher order transferable skills.
- Strengthen and modernize primary and secondary education curricula.

With a view to address the lacuna in skill requirements needed for the present domestic and international labour markets, several skill development programmes were continued in 2007 under the National Vocational Qualification System.

Enhanced facilities in training were provided in 2007 with upgrading of the Niyagama National Vocational Training Centre at a cost of Rs. 1,200 million. Vocational Training Centres at Samanthurai, Thalalla, Ahangama, Koggala, Narigama, Tangalle, Ninthavur, Trincomalee and Kalawanchikudi were also upgraded in 2007 while funds were channelled to modernize the Technical colleges at Maradana and Galle for set up a career path to trainees to follow courses up to degree levels.

Table 2.30
Enrolment of Trainees for Skills Development Programmes

Department / Institution	2006	2007
Department of Technical Education	26,480	29,100
Vocational Training Institute of Sri Lanka	19,302	26,000
National Apprenticeships and Industrial Training Authority	16,100	18,100
National Institute of Technical Education of Sri Lanka	1,887	2,000

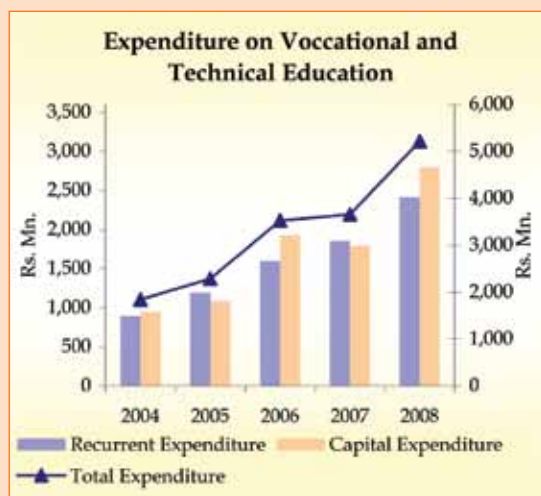
Source: Ministry of Vocational and Technical Training

Box 2.9
Skills Development for a Competitive Economy

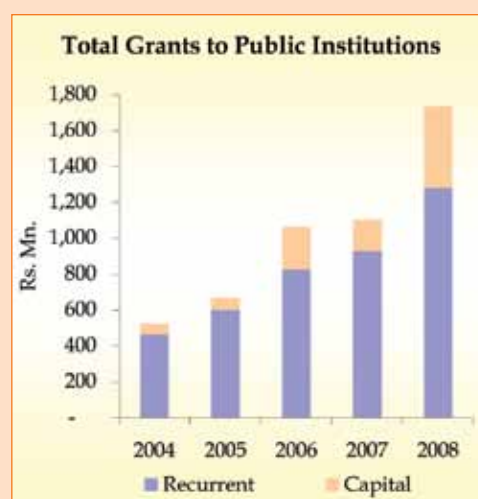
"Skills for life – Jobs for skills", is the theme of Vocational and Technical Education, providing internationally and nationally recognized skills to meet emerging demand in a growing economy.

Mobilizing Resources for Vocational and Technical Education

The total government expenditure on the vocational and technical training sector increased from Rs.1,846 mn in 2004 to Rs 3,657 mn in 2007, indicating almost a 100 percent increase. Both the recurrent and Capital expenditure increased by 63 percent and 66 percent respectively. Out of the total capital investment, the foreign financing component has increased significantly from Rs. 761 mn in 2004 to Rs. 2,023 mn in 2008. This increase was mainly due to investment made by ADB assisted Skills Development Project during this period.



Major development initiatives such as Technical Educational Development Project, Jaffna Technical College upgrading Project (KOICA), Maradana Technical College upgrading project (JICA), Niyagama Vocational Training Centre at Niyagama (Korea) etc. were implemented with foreign assistance.



A lion share of both recurrent and capital expenditure is channelled to Public institutions; Vocational Training Authority (VTA), National Institute of Technical Education of Sri Lanka (NITSL), Tertiary & Vocational Education Commission (TVEC), National Apprenticeship & Industrial Training Authority (NAITA), and the National Human Resource Development Council. Such allocations have increased from Rs 523 mn in 2004 to Rs. 1,734 mn in 2007 an increase of 57 percent.

Matching with Labour Market Requirements

Many development initiatives have been implemented to overcome the inadequacies of skills, knowledge and competencies in the labour force.

Box 2.9
Skills Development for a Competitive Economy Contd.

Enhanced Training Facilities and Increased Intake

Training Centres	2004	2007
No. of Technical Colleges	36	38
No. of Training Centres- Vocational Training Authority (VTA),	205	267
No. of Training Centres- National Apprenticeship & Industrial Training Authority (NAITA)	46	53
No. of Courses Conducted		
Technical Colleges	62	7
Vocational Training Authority (VTA)	67	72
National Apprenticeship & Industrial Training Authority (NAITA)	105	171
Student Intake		
Technical Colleges	11,866	13,471
Vocational Training Authority (VTA)	25,290	26,060
National Apprenticeship & Industrial Training Authority (NAITA)	11,178	18,291

Source: Ministry of Vocational & Technical Training

Key Developments

- Implemented National Vocational Qualification (NVQ) System in order to improve the quality of training ensuring uniformity in national skills standards.
- Upgraded 9 Technical Colleges to Colleges of Technology (COT) on Provincial basis (Galle, Maradana, Rathnapura, Anuradhapura, Ampara, Jaffna, Kurunegala, Badulla, and Kandy.) in order to conduct technical training courses at level 5 & 6 of NVQ.
- Established a University of Vocational Technology at Ratmalana in 2008 to provide higher education opportunities in vocational and technical education training.

- Established Technical Colleges at Anamaduwa and Akkaraipaththu.

Key Initiatives

Project on Upgrading the Niyagama National Vocational Training Centre (TEC – Rs. 1,210 mn with Korean assistance)

- Provide vocational skills to the rural unemployed youth and provide them employment after training or direct them towards self employment.

Technical Education Development Project (TEC – Rs 2,841 mn with ADB assistance)

- Improve access to and strengthen the capacity of the technical education and TVET system.
- Upgrade the capacity of selected public sector TVET institutions to expand to the needs of industry for Technicians.

Project on Upgrading the Maradana Technical College to a College of Technology (TEC – Rs. 600 mn with JICA assistance)

- Upgrade the Technical College, Maradana to College of Technology
- Conduct two year Diploma Courses (at levels 5 and 6 of (NVQ)) inter alia in Metal work Technology.

The Future Emphasis

The vocational and technical training skills will be further developed in line with the strategies embodied in the Mahinda Chinthana: A Ten Year Horizon Development Framework, 2006-2016. Priority will be given to improve quality and opportunities for an upward career path, to ensure uniformity in national skills standards, improve quality and the relevance of skills.

Infrastructure Development Initiatives***Roads and Bridges***

Investments in the road sector increased from Rs. 34,987 million in 2006 to Rs. 46,938 million in 2007. This included Rs. 20,360 million on highways, Rs. 9,081 million on express ways, Rs. 6,302 million on the rehabilitation of tsunami affected roads and Rs. 1,889 million on bridges and flyovers. Expenditure on the Provincial Road Development Programme in 2007 amounted to Rs. 5,971 million.

The construction of the longest bridge in Sri Lanka at Manampitiya and the Mahanama bridge at Matara were completed in 2007, while construction of the Mannar bridge commenced in 2007. Further several bridges such as Periya Kallaru, Koddai Kallaru, Panichchankerny and Komari were completed. Nine bridges in Southern and Eastern provinces damaged by tsunami at Akarali, Seenigama, Magalla, Goyyapana were restored. The construction of bridges at Katugastota, Tangalle, Arugambay, Bandaragama and Bentota are in progress.



Further the construction work to replace ferries by bridges are being carried out at Kinniya, Hirana, Molkawa, Yan Oya, Irrankandi and Weralugasotutpola. The Ramboda tunnel was completed and was opened for traffic in 2007.

The flyover project to ease traffic congestion commenced with a total investment of Rs. 2 billion. The first flyover in Kelaniya was commissioned. The construction was completed within 61 days. The construction of flyovers in Panadura, Pannipitiya, Nugegoda, Wellampitiya and Maho are scheduled to be completed early.


Several intra provincial level major roads projects such as Ambalangoda-Elpitiya, Gampola-Nuwara Eliya and Katukurunda-Matara roads have been completed, covering over 225 km. Major part of work has been carried out on the rehabilitation of over 600 km of roads including Balangoda-Badulla, Haliela-Bandarawela, Panadura-Ingiriya, Katugastota - Kurunegala, Beragala-Bandarawela, Padeniya - Puttalam, Nittambuwa-Kandy, Galle-Deniyaya and Wellawaya-Siyabalanduwa-Ampara.

Southern Development Hub


Hambantota – Monaragala districts being two lagging districts in the overall development process, the government accorded highest priority under Mahinda Chinthana – 10 year horizon development framework 2006 – 2016 to undertake key infrastructure development projects consisting of Expressways, Airports, Ports, Conventional Centers, Hospitals, Schools, Irrigation and Water Supply schemes pave the way for a rapid development linking the area with the rest of the economy as well as with the global economy.

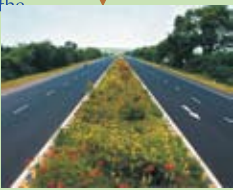
Godagama Hospital: A fully fledged hospital with modern facilities




Thai Suchi National School - Sooriyawewa: A new school with modern facilities – lab, library, hostels, playground, swimming pool




Extension of Southern Expressway: A four lane expressway will meet the demands of people in the Hambantota District




Uma Oya Irrigation Project: A massive irrigation project for the cultivation of 5000 ha.




Port Development
An industrial and services port which is close to the world's busiest shipping lane




Weerawila International Airport: The Second international airport



International Conventional Centre: A modern conventional centre which can accommodate 1500 people at a time

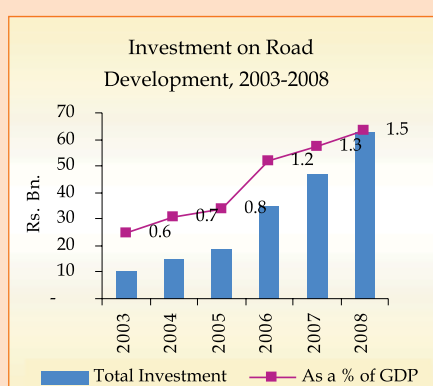


Administrative Complex: 4 Storied administrative complex which will accommodate all offices of national and provincial level ministries



Box 2.10
Randora : Road Development Initiative

The Government's 'Ten Year Development Framework' considers road development as the key to promote regionally balanced development and reduction of poverty. The investment on road development has increased from Rs. 10 billion in 2003 to Rs. 47 billion in 2007. In relation to GDP such investment has increased from 0.6 percent in 2003 to 1.3 percent in 2007.



Increased investment was distributed at three levels i.e. national, provincial and local.



The lion share of 81 percent had been spent on national road development in 2007. The share of expenditure for local roads went up from 3 percent in 2003 to 7 percent in 2007. The Maga Neguma Programme, on rural road upgrading contributed significantly to this increase amounting to 81 percent of the total expenditure for local roads in 2007. During 2003 – 2007 investment on provincial roads has grown from Rs. 1 billion to Rs. 6 billion.

Investment on Road Development

The growing share of public funds in the recent past has been spent on the construction of expressways, maintenance & improvements and land acquisition for road development.

Investment by Major Categories, 2003 – 2008

Category	(Rs.Bn.)					
	2003	2004	2005	2006	2007	2008
Expressways	2.9	1.7	2.4	6.8	7.7	10.9
Maintenance	1.6	1.2	1.8	2.9	3.4	3.0
Rehabilitation	3.0	6.4	8.6	14.7	23.7	31.0
Improvements	0.9	1.1	2.5	3.0	4.6	4.9
Upgrading			0.4	1.8	2.4	4.0
Land Acquisition	1.2	2.8	2.3	2.3	3.0	5.7
Other	0.7	1.9	0.8	1.2	2.1	3.0
Total	10.3	15.1	18.8	32.8	46.9	62.5

In 2007, around 51 percent of the total investment was invested on rehabilitation of roads to eliminate the impediments on development activities in lagging regions. Around 269 km of roads have been rehabilitated along with the proposed development of regional economic centers such as Greater Hambantota, Greater Dambulla, Greater Trincomalee, Puttalam etc.

High priority has also been given for the restoration of roads and bridges in tsunami & conflict affected areas where 123 km of national road and 250 km of provincial & local road have been rehabilitated. Further to road rehabilitation, 9 bridges have been reconstructed and 95 damaged bridges have been replaced by bailey bridges.

In addition, with the assistance of the Government of Japan and ADB, 900 km of provincial roads and 700 km of plantation roads have been identified for rehabilitation. Of these, 754 km of provincial roads and 140 km of plantation roads have been rehabilitated. A Provincial Specific Development Grant of Rs. 1,750 million was utilized for local and provincial road development in 2007.

Box 2.10

Randora : Road Development Initiative Contd.

Nearly Rs. 2 billion has been utilized for the reconstruction of bridges, replacement of ferries and construction of fly-overs in 2007. Four major bridges at Manampittiya, Getambe, Matara and Waskaduwa have been reconstructed and opened to the public in 2007.

The mega development initiatives; i.e. Southern Expressway, Outer Circular Highway, and Colombo-Katunayake Expressway projects accounted for the second highest share in the roads investment in 2007. During 2003 – 2007, in addition to the construction expenditure, a total of Rs. 4,780 million has been spent for land acquisition and resettlement of these expressways. Work has commenced for a four-lane expansion of the total length of Southern Expressway in 2007. Due to procedural delays, construction work has not commenced for the Outer Circular and Colombo - Katunayake expressways in 2007 and is expected to begin in 2008.

In 2007, a sum of Rs. 3,410 mn has been spent for national road maintenance. The Road Maintenance Trust Funds, which were established in 2006 through excise tax collection on fuel, amounted to around Rs. 1,500 mn in 2007. Routine maintenance of 11,700 km of national roads and 4,000 bridges and periodic maintenance of 3,000 km of national roads are targeted annually under this programme.

Road sections that needed realignment and expansion have been widened & improved islandwide, at a cost of Rs. 4,582 mn in 2007. Foreign aid amounting to Rs. 800 mn has been provided for improvements of roads in Ampara, Badulla, Hambantota and Moneragala districts. Improvements, predominately implemented by domestic resources, have utilized 98 percent of the allocated amount in 2007.

Budgetary provision for Maga Neguma Programme has increased, considering the priority given to rural accessibility and durability of rural roads. The investment has increased drastically from Rs. 434 mn in 2005 to Rs.2,442 mn in 2007. A sum of Rs. 2,408 mn has been used for concreting 777 km of rural roads in 2007.

During 2003 – 2007, a considerable amount of domestic funds have been provided to acquire land for national road development and resettlement. Land acquisition for roads is being done with a minimum cost to the affected people. Value of land is assessed and compensation paid accordingly. Seven percent interest per annum is added to value of the acquired land for delayed payments. Land acquisition cost, especially in metropolitan and town areas, exceeds the cost of road improvement and rehabilitation.

Expenditure on Land Acquisition 2003-2007

	2003	2004	2005	2006	2007
Land Acquisition (Rs.mn)	1,200	2,848	2,288	2,320	2,962
As a % of Domestic Funds	13	39	30	23	17

With regard to foreign financing, Rs. 23 billion has been utilized in 2007, which was 52 percent of the total expenditure. During the period 2003 – 2007 the foreign financing component went up from 31 percent to 52 percent of the total expenditure.



The rising foreign financing in 2007 was mostly spent on rehabilitation (72%) and construction of expressways (24%) projects at national and provincial levels. However, due to procedural delays, only 82 percent of committed foreign funds have been spent for these purposes in 2007.

Box 2.10
Randora : Road Development Initiative Contd.

Achievement in Medium Term, 2005 - 2007

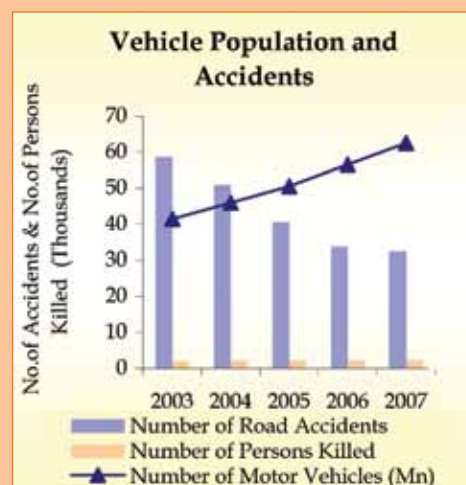
The increased capital investment was mainly spent on rehabilitation, improvements and upgrading of roads at national, provincial and local levels. During 2005 – 2007 the following developments have been realized:

Achievement	Total Cost (Rs.mn)
269 km of roads have been rehabilitated in lagging regions: Gampola – Nawalapitiya (17 km), Gampola – Nuwara Eliya (54 Km), Nawalapitiya - Ginigathena Road (12 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), Timbolketiya - Embilipitiya - New Japanese Road (12 km), Nagoda- Agalawatta Road (23km), and Ambalamgoda - Elpitiya Road (16.2 km) etc.	11,500
Mannampittiya, Getambe, Mahanama and Wasgaduwa, Bridges were completed	2,382
221 km of road sections have been widened and improved	6,684
Reconstruction of 115 km of tsunami affected roads Katukurunda – Matara road, Akurala, Seenigama, Magalla, Goyyapana, Weligama, Komari, Kodaikallaru, Periyakallaru & Panichchankerny bridges in the southern and eastern coastal area	4,114
95 damaged bridges have been replaced by bailey bridges in North, East and adjoining provinces and 250 km of provincial and local roads and 8 km of Paranthan - Poonakary road have been rehabilitated.	4,545
Maintenance of 11,700 km of national roads & 4,000 bridges / year.	8,131
Around 754 km of provincial roads and 7 bridges in Uva, North Central, North Western and Western provinces have been rehabilitated	7,161
140 km of estate roads have been upgraded	341
4,217 km of rural roads have been upgraded of which 1,075 km of roads have been concreted.	4,967

The Way Forward

- Improve clear coordinated process to identify regional investments and a dialogue among all road projects implementing agencies for integrated development and monitoring.
- Divert more funds to “capacity enhancement” process to ensure that adequate and sufficient road engineering expertise is available in the country.
- Expand the Road Maintenance Trust Funds to regional level by road user charges such as Regional Infrastructure Development Levy.
- Associate with the private sector to bridge the resource gap, especially in expressway projects.
- Continue construction of road and expressways, while integrated planning of the road network with the railway infrastructure in selected corridors.

Traffic congestion and Road Safety – The traffic flow grows around 6 to 7 percent annually in Sri Lanka. But the increase in road capacity is only 3 percent per annum.



Safety on roads has become a major area of concern. Although the number of accidents has decreased during the period from 2003 to 2007 by 55 percent, it is revealed that a number of persons killed by accidents has increased from 2,060 in 2003 to 2,334 in 2007.

Expanded Water Supply and Sanitation Facilities

The cost on water and sanitation improvement was Rs 19,961 million in 2007. This included Rs. 10,926 million on large scale water supply projects, Rs 1,679 million for community water supply schemes, Rs. 1,293 million on small and medium scale water supply schemes, while tsunami affected area water supply schemes were carried out at a further cost of Rs. 1,704 million.

In 2007 around 90,000 new connections were provided through major water supply schemes. The Kaluganga water supply scheme with a capacity of 13.2 million gallons per day with 194 km new distribution lines was completed providing 24 hour supply to Moratuwa, Panadura, Bandaragama, Horana and Kalutara areas. The total cost of the project was around Rs. 12 billion. The Greater Kandy Water Supply Scheme was commissioned fulfilling the pipe borne water needs of the Kandy town, Pathadumbara, Gangawata Korale, Harispattuwa, Akurana, Pujapitiya and higher elevation locations like Heerassagala and Elhena. Under the Galle water supply scheme 5,000 new connection have been provided through 150 km of new distribution lines benefiting Akmeemana, Bope - Poddala, Habaraduwa and Hikkaduwa Pradeshiya Saba areas. In Eastern towns of Ampara, Pottuvil, Kalmunai and Samanturai around 9,500 pipe borne water connections were provided in 2007 benefiting over 350,000 people.

The work on a water treatment plant with a capacity of 7 million gallons per day in Peradeniya commenced, while the construction of connected 6 reservoirs was completed.

Water supply schemes in the tsunami affected areas such as Pottuvil, Kalutara, Tangalle, Matara, Hambantota, Kirinda, Ambalantota and Thrikkovil were carried out at a cost of Rs. 1,704 million in 2007.

The Government embarked on projects to improve the sewerage system in Colombo, Kandy, Moratuwa, Ratmalana, Ja-Ela and Ekela, for which Rs. 4,135 million was spent in 2007.

Community water supply schemes offering villages with wells, tube wells and pipe borne gravity schemes continued in 2007. Schemes in 240 Grama Niladhari divisions in Hambantota, Matara, Anuradhapura, Rathnapura, Colombo, Gampaha and Badulla districts have been completed in 2007, while projects in the Central and Northern provinces covering around 280 Grama Niladhari divisions, benefiting over 250,000 people are nearing completion. In total the Government has spent over Rs. 3,500 million for community water supply schemes over the past 3 years, providing water supply and sanitation facilities for 859 Grama Niladhari Divisions all over the country.

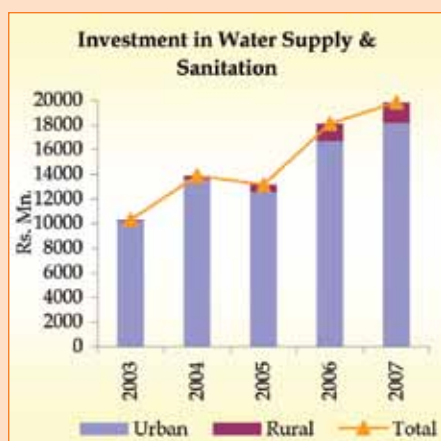
The Government has succeeded in securing funds by signing agreements with the Government of Spain to design and setup water treatment plants at Galle and Negombo and with the Government of Austria to fund the Southern Catchments of the Colombo Sewerage Rehabilitation Project. Further funds have been secured for the Greater Galle Water Supply Project phase II from the Government of Korea.

The Government has also earmarked major investments in providing drinking water and sanitation projects in Kurunegala, Nuwara Eliya, Batticaloa, Muttur, Negambo and Hambantota.

Box 2.11
Water Supply & Sanitation

Investment

Investments in water supply and sanitation have been increased, recognizing its importance in the overall development strategy to provide a reliable supply of water in all cities and villages in the country.



The major share of investment has been made in urban townships considering the population density. This involves high cost constructions such as treatment plants, storage tanks, reservoirs, and transmission & distribution networks. On average, the Government incurs a capital cost of Rs. 200,000 per pipe-water connection. The Water Board charges the consumer only Rs. 18,000 per connection.

Investments have also been targeted at rural communities. In a rural water supply scheme, the Government spends about Rs. 12,600 per household to build a well, Rs. 10,640 for a tube well and about Rs. 19,000 for a pipe borne water connection. The community share is limited only to 20 - 50 percent of the cost, depending on the facility obtained. Cost per household is about Rs. 12,600 for a private well, Rs. 2,600 for a common tube well and about Rs. 4,000 for a pipe borne water connection.

Operational Expenditure

Government contributes to improve the water supply & sewerage infrastructure and related assets to cater to the long-term demand. Production - operation & maintenance of pipe borne water supply is mainly through the water tariff. However, the annual costs, especially the personnel costs have been on the rise. The Water Board incurred an operational cost of Rs. 22 to produce one unit of water delivered. However, 45 percent of domestic consumers consume less than 15 units per month, for which the Water Board charges only Rs.2.50 per unit.

Operational Cost of Pipe Water Supply

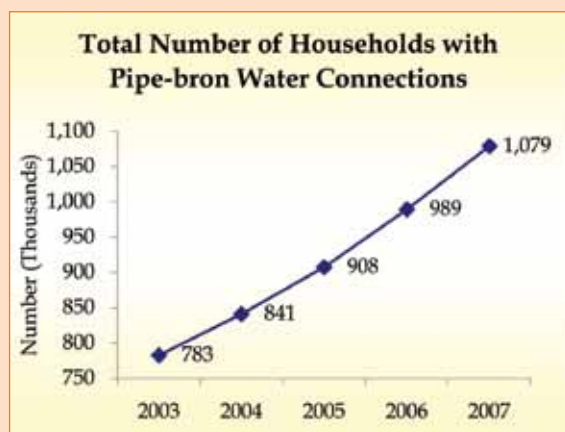
Type	(Rs.mn.)			
	2004	2005	2006	2007
Personnel	1,919	2,541	2,922	3,733
Establishment	451	610	615	683
Pumping & Chemical	1,297	1,459	1,636	1,906
Repairs & Maintenance	224	308	362	372
Other	316	355	402	492
Total	4,207	5,273	5,937	7,186

Management & operations of rural community water schemes are done through a tariff collected by the respective Community Based Organizations.

Urban Water Supply

Several mega water supply schemes have been implemented in various townships resulting in a great expansion of services. During 2004-2007, the number of pipe borne water connections has increased adding more than 75,000 new connections every year.

Box 2.11
Water Supply & Sanitation Contd.



However, there is an increased concentration in the service availability in the Western Province with more than 50 percent connections. The population in the Western Province accounts for 28 percent of the total population, in addition to daily commuters to the Province which is in excess of 1.5 million.

Regional Comparison

Province-wise Distribution of Water Board Pipe-Water Connections

Province	2004	2007	% Increase in 2007 over 2004	% Households have Access*
Central	87,625	128,029	46%	21%
Eastern	37,899	54,997	45%	16%
North Central	28,573	39,851	39%	14%
North Western	21,639	28,470	32%	5%
Northern	3,016	5,083	69%	2%
Sabaragamuwa	44,048	57,363	30%	13%
Southern	116,852	153,549	31%	24%
Uva	31,777	44,178	39%	15%
Western	469,786	569,872	21%	43%
Total	841,215	1,081,392	29%	24%

* Excluding the pipe water schemes run by local authorities/ CBO

The Government has also increased its attention to regional towns. As a result, there are significant increases in the number of new connections given in areas of Central, Eastern Northern, Uva and North Central Provinces. However, pipe borne water availability in several Provinces remains inadequate.

Pipe-borne water production also shows an increasing trend. There is about 5% annual increase in the production. Water production in 2004 was 367 million cubic meters (Mn. cum), whereas it increased to 424 Mn.cum in 2007. But, 57 percent of the total water production is from the three plants in Greater Colombo area.

The following are few of the mega schemes implemented contributing to the above developments;

Major Schemes Completed in 2006 & 2007

Greater Kandy Scheme (Total cost - Rs.4.8 bn) – Scheme designed to cover 84,000 households addressing the long waited demand in Kandy town, Pathadumbara, Gangawata Korale, Harispattuwa, Akurana, Pujapitiya and several unserved remote places.

Water Supply to Galle Scheme (Total cost - Rs. 2.7 bn) - 35000 households can be covered through 261 km of new distribution lines in Akmeemana, Bope-Poddala, Habaraduwa and Hikkaduwa.

Water Supply to Eastern Coastal Towns of Ampara (Total cost of Rs. 11 bn.) About 360,000 people & 9500 new connections. Ampara Municipal Council gets 24 hours supply/ a day, including. Ampara, Pottuvil, Kalmunai & Samanturai.

Kekirawa, Kegalle, Wellawaya, Kakkapalliya and Ranna, Kalutara at a cost of Rs. 6 bn. Through this 75,000 families have been covered.

Box 2.11
Water Supply & Sanitation Contd.

Rural Water Supply

A massive programme is being implemented in 13 districts to capture the un-served villages. From 2005 to 2007 the Government has spent Rs. 3,513 million for this task.

Community Water Supply Progress**During 2004-2007**

District	No. of GNDs Covered	No. of Families (Water Supplied)	No. of Latrines Provided
Matale	116	31052	8601
Nuwara Eliya	63	9146	7966
Nuwara Eliya - Estates	28	1154	975
Kurunegala	153	36176	6987
Kandy	115	29489	8137
Badulla	44	8964	1824
Matara	56	10770	962
Ratnapura	52	13713	1270
Colombo	57	15340	1098
Gampaha	72	20665	744
Anuradhapura	64	14176	2336
Hambantota	64	15370	2337
Total	884	206,015	43,237

A total of 1,435 Grama Niladari Divisions (GND) are to be covered during the medium term. Out of that 884 GNDs have been covered and provided with water supply & sanitation facilities, during 2005-2007.

Flagship Projects

- Udunuwara, Yatinuwara, parts of GangawathaKorale, Udahapalatha and Ganga Ihala area Towns South of Kandy Water Supply Scheme, 2006-2009, total cost of Rs. 7,250 mn.
- Water Supply to Ginigathhena, Hatton, Maskeliya, Ragala, Rikillagaskada and Walapane Towns in Nuwara Eliya District – 2006-2009, total cost- Rs. 3,310mn.
- Trincomalee, Pulmoddai and Echchilampattu Water Supply including augmentation of Kantale Treatment Plant – Total Cost Rs.2,900 mn.
- Batticaloa, Muttur, Anuradhapura, Hambantota & Polonnaruwa Secondary Towns & Rural Water & Sanitation – Rs. 19,272 mn, 2006-2010
- Kurunegala Water Supply- Total Cost- Rs. 3,479 mn.
- Ampara Water Supply to serve Dammana Addalachchenai DS Divisions through 138km Distribution network–Rs. 14,000mn.
- Puttalam, Anuradhapura, Chilaw, Mannar & Vavunia Small Towns & Rural Arid Area Water Supply, Rs.6,300mn., 2008-2011
- Augmentation of Negombo Water Supply, Total Cost – Rs. 5,424mn.
- Kelani Right Bank Water Treatment Plant of 40 million gallons/day
- Community Water Supply & sanitation - Rs. 1,735 mn in 2008 to cover another 573 GNDs in 13 districts.
- Water Supply to Jaffna Peninsula – Rs. 12,000 mn.

Enhanced Irrigation Facilities for Agriculture

Welioya irrigation project designed to irrigate over 1,700 acres of new land and 3,700 underutilized farm lands in the Monaragala District was commissioned in October 2007 at a total cost of Rs. 843 million.

Work on the Menik Ganga – Weheragala irrigation project to divert water to Lunugamwehera reservoirs and designed to address water shortages in the Kirindi Oya Scheme benefiting around 20,000 families is in progress and will be completed in 2008. Around Rs. 650 million has been spent in 2007 and so far the total expenditure of this project is around Rs. 1,386 million.

Work on Moragahakanda and Kaluganga reservoirs project designed to benefit around 86,000 hectares of land within 9 Mahaveli Systems in Anuradhapura, Polonaruwa and Trincomalee Districts has commenced. Initial work in the Deduru Oya irrigation project also commenced. Expenditure on the projects in 2007 amounted to Rs. 630 million in comparison to Rs. 15 million in 2006.

Another notable development in this sector is the Dam Safety and Water Resources Planning Project initiated to ensure the safety and the operational efficiency of the existing major dams in the country. This project with a 4 year duration, cost Rs. 63 million in 2007. Construction work is in progress on 15 medium irrigation schemes, which are planned to be completed in 2008 benefiting more than 15,000 farmer families.

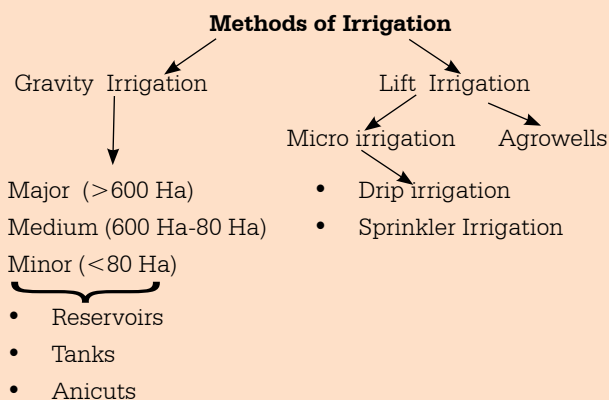
Box 2.12
Resource Mobilization - Irrigation

Implementation of multipurpose irrigation schemes targeting irrigated water for agriculture & hydro power generation, is one of the main priorities of the Mahinda Chintana: Ten year horizon Development Framework.

Expenditure on irrigation considerably increased from Rs. 5.4 bn. in 2004 to Rs. 11 bn. in 2007. Meanwhile, Rs.17 bn. has been provided in the 2008 Budget.



Expenditure on irrigation covers construction & management of schemes under gravity irrigation, lift irrigation, hydropower generation, drainage, flood control, carrying out of research & feasibility studies etc.



Major Initiatives

Irrigation Schemes	Expenditure Rs.Mn.			Benefits
	2005	2006	2007	
Moragahakanda and Kaluganga Reservoirs Project	-	-	463	Extent 86,000 ha. of lands within 9 Mahaweli systems. Generating 20 MW hydro Power
Deduru Oya Reservoir	7.3	15.0	166.9	Extent 11,000 ha. of farm lands, 11000 families, 1.5 MW hydro power
Menik Ganga Reservoir	32.3	636.3	717.9	Solve water shortages in the Kirindi Oya Scheme, Yala National Park & Kataragama domestic water, environment.
Rambukkan Oya Reservoir	-	2.6	59.9	Extent is 2000 ha. Benefited 2000 families, with drinking water
Heda Oya Reservoir	-	-	1.7	Extent is 5000 ha. Benefited 2000 families
Yan Oya	-	-	-	Extent 5590 ha. Benefited 6000 families
Uma Oya Diversion	-	-	-	Extent 5000 ha., benefited 12000 families, 100 MW Hydro power
Drip irrigation systems	-	655.7	385.7	5000 in Auradhapura, Polonnaruwa, Kurunegala, Hambantota, Monaragala etc.
Dam Safety & Water Resources Planning Project	-	21.6	63.4	Ensure the safety & operational efficiency of major dams, establish a modern Hydro-Meteorological information system etc.

Box 2.12
Resource Mobilization in Irrigation Contd.



Menik Ganga (Weheragala) Reservoir Project

About 95 percent of the recurrent expenditure is spent on personal emolument, of 9,400 employees ie. engineers, technical officers, engineering assistants, supporting staff, administrators etc. of the Ministry of Irrigation, Dept. of Irrigation, Mahaweli Authority and Water Resource Board. Since adequate new recruitments have not been done during the last few years, more funds have been allocated in 2008, mainly for recruitment of engineers, targeting acceleration of the work of irrigation development programmes.

Increased capital investment during the period of 2004 – 2007 was provided for rehabilitation, improvement & new construction of irrigation schemes under gravity irrigation.

Major Investments 2004-2008

Investment Area	2004	2005	2006	2007	Rs.Mn 2008
Gravity Irrigation	3,726	4,171	5,538	6,809	11,776
Rehabilitation, reconstruction & improvement	2,535	2,442	3,151	3,081	5,695
New Construction	1,138	1,642	2,240	3,538	5,878
Water Management	54	87	147	191	204
Lift Irrigation	6	745	655	20	60
New Construction	6	89	33	13	8
Water Management	-	656	623	7	52
Other	40	66	58	85	106
Total	3,772	4,982	6,251	6,914	11,942

Source : National Budget Department

The provincial capital expenditure in 2007, amounting to Rs.166 Mn., provided under the Provincial Specific Development Grant, was utilized for the development of minor provincial irrigation schemes such as anicuts & small tanks.

Under the island wide minor tank rehabilitation programme, 1895 minor tanks have been rehabilitated by the Department of Agrarian Services, utilizing Rs. 967 mn. during 2004 – 2007. Rs. 599 mn. has been provided in 2008 Budget, targeting rehabilitation of 633 minor tanks located in the provinces.



Box 2.12
Resource Mobilization in Irrigation Contd.

The Foreign aid component of the capital expenditure in 2007 is Rs. 3. bn. which is 39 percent of the total capital. Sustainable Water Assistance Management Project implemented with Australian funding arrangements, distributed 5000 solar power Drip irrigation systems among farmers, to cultivate crops in water deficit areas investing Rs. 1143 mn. during 2006 -2007. Loan agreement of Phase II of this project amounting to US \$ 16.1 mn, has been signed in March 2008, targeting distribution of another set of 5000 Drip irrigation systems among farmers on interest free loan basis in the districts of Anuradhapura, Polonnaruwa, Kurunegala, Hambantota, Monaragala etc. and the areas covered under the Neganahira Navodaya programme. Since the duration of this project is 2 years, Rs. 1325 mn. has been provided in the 2008 Budget to commence this project through Govi Jana Bank, Samurdhi Bank & State Banks.

Mahaweli Irrigation Development Projects such as System B left Bank (Saudi), Udawalawa Left Bank (JBIC), Dam Safety & Water Resources Planning project (WB) etc. are also mainly financed through the foreign assistance. However, foreign fund utilization is low in 2007 due to procedural delays such as delay in signing agreements, surveys & investigations, delays in awarding contracts etc.

Institutional Support for Irrigation

Several agencies are involved in construction & management of irrigation schemes.

Institution	Main Responsible Area
Irrigation Department	Major & Medium irrigation schemes
Irrigation Management Division	-do-
Mahaweli Authority	-do-
Department of Agrarian Services	Minor Irrigation schemes Eg: Minor tank rehabilitation programme
Provincial councils	-do-
Water Resources Board	Ground water resources eg. Agro wells

Irrigated lands under major & medium schemes are administered by the Mahaweli Authority of Sri Lanka and

Department of Irrigation, while the lands under minor schemes (below 80 ha.) are administered by the Department of Agrarian Services.

Basic information in Irrigation

No. of	Extent Schemes	(Ha.)
Major and medium gravity irrigation schemes	297	230,000
Lift Irrigation Schemes	9	2,328
Drainage & Flood Protection Schemes	44	34,234
Multipurpose Reservoirs under Mahaweli Authority	10	-
Extent of land cultivated & maintained by the Mahaweli Authority	-	137,040

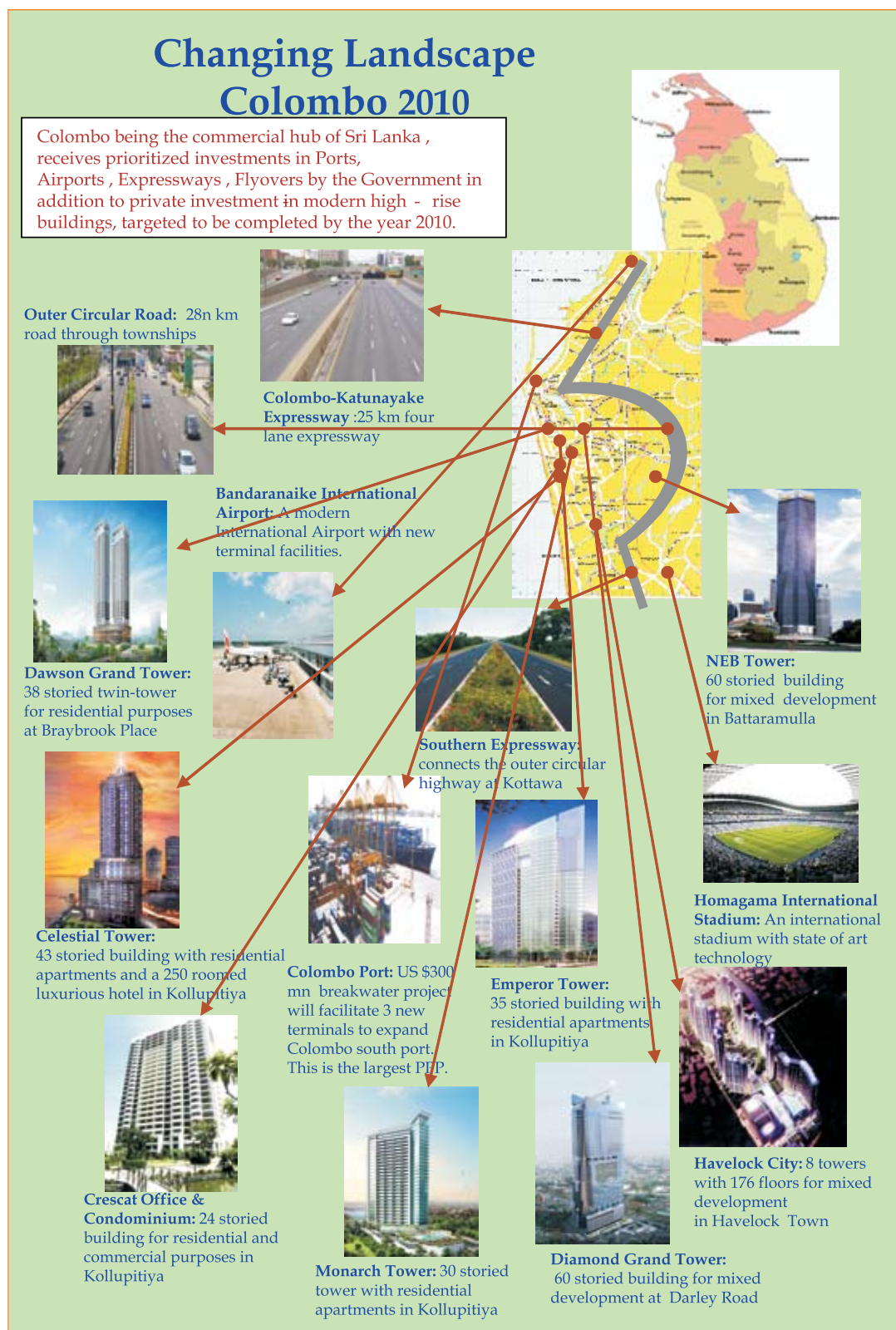
(Source : Ministries of Irrigation & water Management, Agric. Development & Agrarian Services)

Medium Term Targets

- Increase average paddy yield from 4Mt/ha to 6.5Mt/ha in high potential paddy producing areas by 2010.
- Increase the cropping intensity from 1.51% to 1.81% particularly in Mahaweli System H and D (Kalawewa and Medirigiriya area) during the medium term.
- Increase the number of minor irrigation schemes rehabilitated from 1895 in 2007 up to 6000 during the medium term, through minor irrigation rehabilitation programme.

Way Forward : Productivity Improvements

- Divert more funds for watershed development & water management through farmer participation - Strengthening of farmer organizations.
- Funding for operations & maintenance of existing irrigation schemes, by Government & farmers. particularly through farmer organizations.(Public – Private participation)
- Prevent overlapping & duplication of operation & maintenance activities, when implementing the activities through several Ministries – Better co-ordination among & within implementing agencies.
- Direct more funds to develop new multipurpose irrigation schemes & minor tank rehabilitation work.



Ports

Funds required for the Colombo South Harbour Development Project of US \$ 300 million have been secured from ADB to promote private public partnership investments in the development of the Colombo Port. Loan agreement for US \$ 307 million was signed with Exim Bank of China in October 2007 to fund the Hambantota Sea Port Development Project. The first phase of this project designed to develop a service and industrial port includes the construction of two general purpose berths, oil terminals, two breakwaters and an approach channel, while phase II is expected to improve it as a transshipment port. The initial work has commenced in both these projects. Detail design of the Galle Port Development Project and Oluvil Port have also been completed.

Electricity

The construction work of the First Phase of Norochcholai Coal Power Project with a capacity of 300mw, with Coal terminal, Jetty and transmission lines was accelerated having addressed issues such as resettlement of affected families. Notable progress was made in relation to the Upper Kothmale Hydro Power Project with a capacity of 150 mw. The work on the combined Cycle Power Plant at Kerawalapitiya is expected to be completed in September 2008.

In addition 5,981 rural electrification schemes were also completed during this period at a cost of around Rs. 2,000 million providing electricity for rural masses.

Table 2.31
Rural Electrification Schemes

Province	No. of Schemes
Southern	1,131
North Central	589
Central	1,143
Uva	295
Western	600
Eastern	407
Sabaragamuwa	601
North Western	1,186
Northern	29
Total	5,981

Source: National Budget Department

Uplifting Public Transport Facilities.

Government invested Rs. 8,838 million for the betterment of the Public transport facilities in 2007. Under these initiatives 75 new railway carriages were imported from China at a cost of around Rs. 3 billion to strengthen the railway network. 635 new buses were purchased in 2007. Thus the total new buses added to the fleet exceeded over 1,500 in the past 2 years, while 200 new bus engine kits were imported to rehabilitate the existing bus fleet.

Tax exemptions were granted on the importation of private buses to replace the existing buses with a view to providing a better service to the commuters.

Performance of Provincial Councils (PCs)

The revenue collection of PCs increased by 33 percent to Rs. 23.8 billion. As a percentage of GDP the revenue was 0.7 percent, the same level as in 2006. This performance should be viewed in the context of the Government allowing an increase in the turnover tax rates applicable on cigarettes and liquor from 1 to 5 percent. A coordinated effort was taken to raise the devolved taxes and duties at provincial level in order to reach at least 1 percent of GDP revenue at provincial level.

Out of the total recurrent expenditure of Rs. 92.7 billion, 80 percent was on account of personnel emoluments. Major share was absorbed by the education and health sectors. The investment expenditure of PCs increased by 13 percent to Rs. 20.3 billion in 2007 mainly through Province Specific Development grants and foreign financing arrangements.

The transfers to PCs from the National Budget increased to Rs. 88 billion from Rs. 79 billion in 2006. However, the release of funds for capital expenditure was affected due to revenue shortfall and higher recurrent outlays.

Table 2.32
Consolidated Budget

	2006 Rs. Bn	2007 Rs. Bn	2006 as % of GDP	2007 as % of GDP
Total Revenue	497.3	591.0	17.0	16.5
Central Government	477.8	865.1	16.3	15.8
Tax	428.4	508.9	14.6	14.2
Non Tax	49.5	56.1	1.9	1.6
Provincial Councils	19.5	25.9	0.7	0.7
Tax	16.6	21.5	0.6	0.6
Non Tax	2.9	4.4	0.1	0.1
Total expenditure	729.0	866.4	24.8	24.2
Central Government				
(including transfers to provincial councils)	713.6	841.6	24.3	23.5
Current	547.9	622.8	18.7	17.4
Capital	165.7	218.8	5.6	6.1
Provincial Councils (using own resources)	15.4	24.8	0.5	0.7
Current	14.1	22.0	0.5	0.6
Capital	1.3	2.8	0.1	0.1
Budget Deficit	231.7	275.4	7.9	7.7

Source: Fiscal Policy Department

Debt Management

The Appropriation Act passed by the Parliament for the financial year 2007 authorized a gross borrowing limit of Rs. 655 billion. The Government managed its fiscal operations within this borrowing limits during the year by limiting its gross borrowings at Rs. 604 billion.

The Government total debt amounted to Rs. 3,013 billion in 2007 in comparison to Rs.2,591 billion in 2006. This was an increase of 10 percent in comparison to a similar increase in 2006. However, in relation to GDP, it declined from 89 percent to 86 percent.

The total debt consists of Rs. 1,354 billion of foreign debt and Rs. 1,659 billion of domestic debt reflecting 55 percent of debt was on account of domestic debt, the composition almost similar to 2006. Within domestic debt, short term market debt (Treasury bills) increased from Rs. 258 billion to Rs. 307 billion an increased of 19 percent.

Medium Term debt with maturities ranging in the range of Rs. 1,142 billion in 2006 to Rs. 1,287 billion a moderate increase of 13 percent. This is largely on account of Treasury bonds. The gross domestic borrowings during the year amounted to Rs.604 billion in comparison to Rs.549 billion in 2006. However, total repayment amounted to Rs. 318 billion. The domestic debt increased only by Rs. 207 billion.

Table 2.33
Outstanding Government Debt

Item	2005	2006	Rs. Bn. 2007
Total Domestic Debt	1,276.8	1,451.9	1,658.6
-Short-term	277.8	309.9	371.5
- Treasury bills	234.2	257.7	307.0
- Provisional advances from the Central Bank	39.7	49.0	60.7
- Other	3.9	3.2	3.8
-Medium and Long-term	999.0	1,142.0	1,287.1
- Rupee Securities (b)	140.6	116.7	131.5
- Treasury bonds (c)	751.6	886.0	1,018.8
- Sri Lanka Development Bonds	25.5	60.1	83.5
- Other (d)	81.3	79.2	53.3
Total Foreign Debt	956.6	1,139.0	1,354.8
- Concessionary Loans	919.0	1,057.1	1,128.3
- Multilateral	486.5	530.2	565.3
- Bilateral	432.6	527.8	562.9
-Non - concessionary Loans	37.6	85.5	226.6
- Multilateral	0.3	4.2	15.4
-Bilateral	0.8	27.7	29.9
- Commercial Loans (e)	36.0	48.4	181.3
Total Outstanding Government Debt	2,233.4	2,590.9	3,013.4

Source: Treasury Operations Department

- (a) Values are calculated on the face value of the domestic debt instruments and on the disbursement date rate of exchange in relations to foreign currency loans. (FCBU and Development Bonds)
- (b) Include long-term bonds of Rs. 24, 088 million issued in 1993 to BOC and PB
- (c) Shows the borrowings from the domestic market.
- (d) Inclusive of outstanding balances to FCBU, Ampara Water Supply and C.W.E. Bond – 2003.
- (e) Inclusive of Foreign Treasury Bonds amounting to Rs. 49.6 billion.

Total Foreign debt increased to Rs. 1,355 billion in 2007 as against Rs. 1,139 billion in 2006. Concessionary debt increased from Rs. 1,057 billion to Rs. 1,128 billion, while non concessionary debt increased to Rs. 227 billion from Rs. 86 billion. Total foreign debt repayment in 2007 amounted to Rs. 64 billion in comparison to Rs. 46 billion in 2006.

Continuous Decline in Debt Ratios

The sustained economic growth coupled with the fiscal consolidation effort contributed to this noteworthy decline of debt ratios.

Chart 2.19

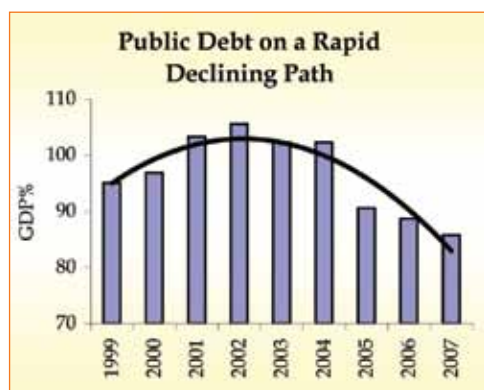


Chart 2.21

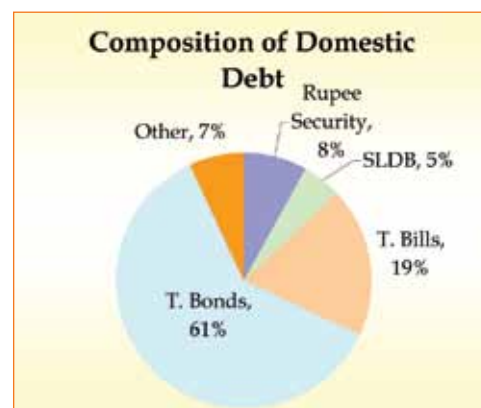
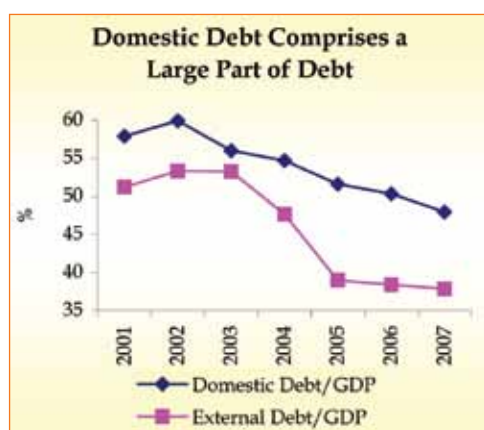


Chart 2.20

Table 2.34
Debt Indicators

Indicator	2005	2006	2007
Public Debt/GDP	90.6	88.7	85.8
Domestic Debt/GDP	51.6	50.3	47.9
Foreign Debt /GDP	39.0	38.4	37.8
Debt Service /GDP	14.1	15.1	14.0
Total Debt Service /Revenue	90.8	93.0	88.6
Foreign Debt Service/Export Earnings and Foreign Remittances	2.9*	7.3	7.5
Domestic Interest /Current Expenditure	25.5	24.4	25.9
Interest/ Government Revenue	31.5	31.7	32.3

* Tsunami Debt Relief

Source: Fiscal Policy Department

Table 2.35
Debt Service Payments

	2005	2006	Rs. bn 2007
Interest	120.2	150.8	182.6
Domestic	113.2	133.8	161.4
Foreign	7.5	17.0	21.3
Debt Repayment	224.7	293.5	317.8
Domestic	203.3	247.5	253.7
Foreign	21.4	46.0	64.1

Source: National Budget Department

Chart 2.22

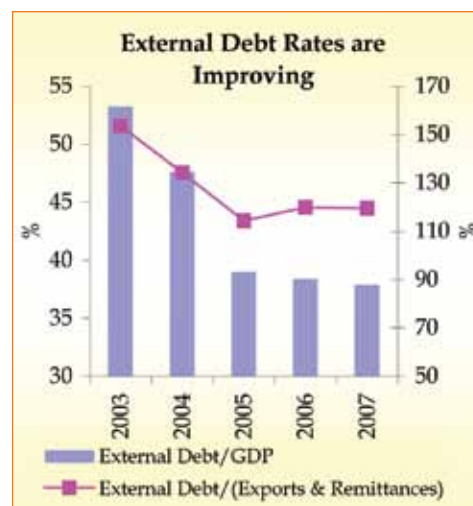
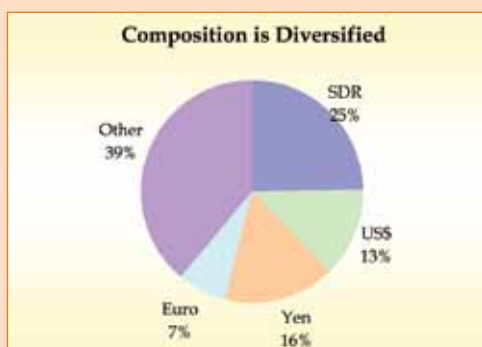
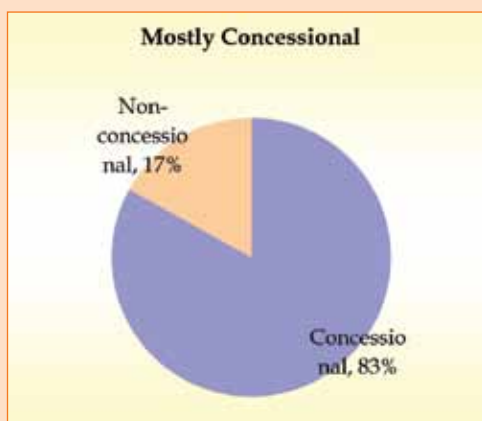


Chart 2.23
Composition of External Debt



Box 2.13 International Bond Issue

The Government successfully launched its debut international bond issue in 2007. This helped to raise US\$ 500 million through sale of bonds in the international capital markets on October 17, 2007.

Objectives

- **Diversified sources of funding**
 - To provide access to alternative sources of funding in the backdrop of Sri Lanka emerging as a middle income country.
- **Establish a pricing benchmark**
 - Facilitating the Sri Lankan corporate field to top international capital markets.
 - Establish a benchmark for future borrowings.

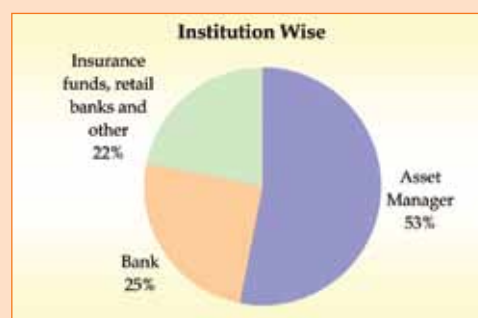
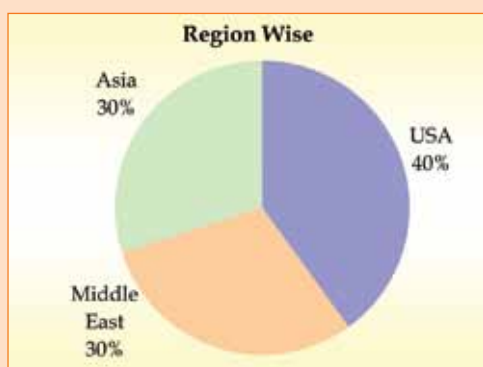
- **Funds for infrastructure development**
 - Supplement available domestic and other foreign resources to scale up investment in infrastructure.
- **Improved Debt Management**
 - Extend average debt maturing in line with the Government's debt management strategy.

The notable feature of this exercise was that the order book was oversubscribed more than three times. The bonds were sold on par with a coupon of 8.25 percent and a maturity date of October 24, 2012.

The Composition of Investors

136 investors participated in the transaction covering all the regions and diversified groups such as asset managers, banks insurance, fund retail bank etc.

The Composition of Investors were Diverse



Public Enterprises

**Public Enterprises require
management reforms to
improve performance**

Performance of State Owned Enterprises

Overview

The Mahinda Chinthana 10 year horizon development framework has given priority for the development of Public Enterprises in the national development effort. The policy on State Owned Enterprises commonly known as Public Enterprises (PEs) has been articulated in the Budget Speech 2006 -

“...Government does not believe that privatization is the only strategy for economic reforms. In fact we will not privatize State Owned Enterprises (SOEs) but will improve their performance through management reforms. Our enterprise reform will be ownership neutral. All SOEs should bring in dividend income. At the least they should not rely on the Treasury for funding. Therefore, all SOEs will be required to enter in to performance contracts with the Treasury...”

The Government's development strategy therefore focuses on increasing productivity and efficiency of PEs. As such, PEs should become viable entities and provide competition to their counterparts in the private sector, while safeguarding national interest as well as consumer welfare. In line with this policy, the Department of Public Enterprises (PED) of the Treasury facilitates the performance improvement of PEs.

As a step in this direction, the Department of Public Enterprises issued circular instructions to all PEs requiring them to improve their performance through management reforms by concentrating on their core business activities to become commercially viable entities. They are required to give emphasis to procurement efficiency, while ensuring transparency, and accountability as well as implementing required pricing reforms and management improvements in this transformation. The commercial PEs need to be able to contribute to the Consolidated Fund on account of the capital contribution made by the Government, to these enterprises.

The role of the Public Enterprises Department has been strengthened to improve the performance of PEs:

- Performance review of PEs to ensure efficiency and the effective utilization of resources towards achieving their goals and objectives.
- Provide guidelines to PEs on matters relating to financial management, accounting, financial reporting, human resource management, operational aspects and government policy, with a view to enforce financial discipline and compliance .
- Enforce the provisions of Part II of the Finance Act No 38 of 1971 containing provisions applicable to PEs and the Public Enterprises guidelines for good governance.
- Facilitate the Committee on Public Enterprises (COPE) to carry out their oversight functions, to improve the performance of PEs by submitting related performance review reports, Enterprises and attending review meetings.
- Assist in the reform process of to improve the performance of PEs .

A Financial Sector Monitoring Committee (FSMC) and a Financial Management Cell (FMC) were set up to strengthen monitoring of state banks and financial institutions, by the Ministry of Finance and Planning. Issues raised at the review meetings of the COPE and by the Auditor General are inter alia discussed at these forums.

In line with the Government's declared policy to move away from privatization, the Cabinet of Ministers in July 2007 decided to repeal the Public Enterprises Reform Act No 1 of 1996 and assign all work handled by the Public Enterprise Reform Commission (PERC) including post privatization monitoring, to the Department of Public Enterprises of the Treasury.

Recognizing public needs, the Government also proceeded to establish new Public Enterprises such as the State Trading (Co-operative Wholesale) Company Limited, Paddy Marketing Board, Sri Lanka Savings Bank, Lankaputhra

Development Bank, National Insurance Trust Fund and Mihini Lanka (Pvt) Limited, to meet specific gaps in the economy.

Facilitating and Monitoring Measures

During the year 2007, the Department attended and provided related information at 20 meetings conducted by the Committee of Public Enterprises (COPE). Further, 17 meetings were held by the Financial Management Cell to review the performance of state owned financial institutions. A series of meetings were also held for Chief Executive

Officers and Chief Financial Officers of public enterprises to make them aware of Government direction and policy, to be able to enhance their effectiveness. Under the Fiscal Management Reform Programme, the PED organized several seminars to educate officers of public enterprises on the implications of the new Companies Act No 7 of 2007 and other new trends in Financial Management through a process of continuous dialogue. The department continued to facilitate Treasury representatives in the Boards of PEs to perform their role more effectively.

Box 3.1

Financial Sector Monitoring Committee (FSMC) and Financial Management Cell (FMC)

Public sector financial institutions have become increasingly important in the management of the macro-economic environment and for the overall performance of the economy. Therefore, the Ministry of Finance and Planning felt the need for a strong monitoring mechanism to facilitate this sector. The Financial Sector Monitoring Committee (FSMC) was established with a view to closely monitor and supervise Financial Institutions coming under the purview of the Ministry of Finance and Planning.

This committee aims at engaging in the overall reviewing and monitoring of the performance of each state financial institution facilitating early identification of problems and possible solutions. It is envisaged that this proactive approach will enhance the performance of the financial sector.

The FSMC consists of representatives from the Ministry of Finance and Planning, Central Bank of Sri Lanka, Strategic Enterprises Management Agency (SEMA), Chairmen and Chief Executive Officers and the senior management team of the respective financial institutions including banks. This is chaired by the Secretary to the Treasury. There are 22 institutions coming under the purview of FSMC including People's Bank, Bank of Ceylon, Housing Development Finance Corporation Bank, State Mortgage and Investment Bank, Lankaputhra Development Bank, National Insurance

Trust Fund, National Development Trust Fund, National Lotteries Board, Development Lotteries Board and the six Regional Development Banks.

Further, a Financial Management Cell (FMC) has been established in the Public Enterprises Department to function as the secretariat of the Financial Sector Monitoring Committee. The FMC is being supported by experienced officers in the field, drawn from the PED and officers from the Central Bank of Sri Lanka. The FMC is responsible to review the performance and any issues warranting consideration associated with financial sector institutions and report to the FSMC, for appropriate action. The FMC reviews quarterly performance reports, audit findings, Annual Reports & Accounts and COPE Reports pertaining to these institutions. During the year 2007, seventeen (17) meetings of the FSMC were held towards taking necessary corrective measures. Considering the success of this initiative, it has been decided to have monthly meetings of Chairmen and Chief Executive Officers in 2008, aimed at reviewing the financial sector. In this effort, respective institutions were required to update their Corporate Plans, Action Plans and the Budgets, to ensure submission of annual accounts in a timely manner. These review meetings have helped to address concerns raised by the Auditor General and the COPE.

Committee on Public Enterprises (COPE)

During the year 2007, the COPE examined more than 50 Public Enterprises. The PED assisted in this process by providing background information to the COPE, on the performance of these institutions. The PED also assisted state institutions to comply with Government regulations and to take follow-up action on the observations/recommendations made by the COPE. Special attention was given to encourage PEs to update their Corporate Plans and Action Plans in order to be able to drive performance based on clearly defined objectives and strategies. Issues identified in the related Auditor General's reports were also frequently reviewed to assist them towards taking corrective measures.

Policy on Profits and Dividend Income to the Government

The profits and dividend income from PEs in 2007, was Rs. 4,696 million, reflecting a marginal decline from Rs. 4,769 million in 2006. This is due to several enterprises not being able to sustain surplus profits in their operations. Dividend transfers from SriLankan Airlines were not regular. There were also no profits transfers from Sri Lanka Port Authority, in view of their large investments.

Although the Government owns a large number of commercial public enterprises, such as Ceylon Electricity Board, Ceylon Petroleum Corporation, National Water Supplies and Drainage Board etc, each one commanding a high turnover and net worth, they were not in a position to contribute to the Government by way of profits and dividend owing to their operational losses and commitments towards large investments. In fact, many of them are assisted by the National Budget.

The Return on Investment for the equity shareholding of the Government in Public Enterprises is determined either in terms of the Finance Act No 38 of 1971 or the Companies Act, based on how the concerned public enterprise is established or incorporated.

Section 9(2) of the Finance Act No 38 of 1971 specifies that a levy may be imposed based on the surplus/profit after tax, while the Companies Act entails that dividend be based on the estimated profit before tax.

The level of estimated dividend/levy is set by the Treasury after an assessment of the business plan of the public enterprise, the cash flow projections, debt service capacity and the reinvestment plan. In determining the levy/dividend, the Treasury also takes into account the profitability as well as the liquidity of the public enterprise. Special consideration is given if the concerned public enterprise has made any commitment to invest in a development project in line with their Corporate Plan and Government's public investment strategy.

The optimum capital structure and the debt/capital ratios are deemed to be important in determining the dividend/levy policy for each Public Enterprise in the long-run. On average, the Government expects the Debt/Equity ratio of a PE as 1.5:1. The estimated dividend/levy is reflected in the annual Budget estimates of the Government and the Business Plans of PEs.

The Government also encourages commercial PEs to raise funds on the strength of their own balance sheet with Government guarantees for infrastructure development.

Table 3.1
Levy/Dividend Income from Public Enterprises

Institute	2004	2005	2006	(Rs mn) 2007
Levy				
National Savings Bank	1,060	1,310	810	1,060
Bank of Ceylon	763	1,150	1,173	847
People's Bank	755	818	668	816
State Mortgage & Investment Bank	50	135	116	25
State Timber Corporation	37	50	75	150
State Pharmaceuticals Corporation	-	74	20	10
SL Export Credit Insurance Corporation	-	-	-	16
Sri Lanka Rupavahini Corporation.	20	-	15	5
State Pharmaceutical Manu. Corporation	10	5	5	5
National Lotteries Board	127	-	-	-
National Institute of Business Mgt	-	10	10	-
Sri Lanka Ports Authority	95	50	115	-
Dividend				
Milco Private Ltd	-	-	10	-
Local Loans & Development Fund	2	1	3	3
Ceylon Petroleum Storage Terminal Ltd.	-	-	-	438
De La Rue Lanka Pvt Ltd		152		100
Sri Lanka Telecom	402	449	670	893
Airport & Aviation Sri Lanka Ltd	-	280	-	100
SriLankan Airlines	656	-	788	-
Lanka Electricity Company	-	75	100	75
Lanka Mineral Sands Ltd	9	132	98	50
Lanka Industrial Estates	37	20	20	45
Others	25	69	73	67
Total	4,048	4,780	4,769	4,705

Source: Public Enterprises Department

Financial Sector

The state banks operate 1,444 banking outlets or 41.1 percent of the banking branch network, providing banking services to a broader geographical clientele. This was undertaken with a staff strength of 22,261 in 2007.

The total asset base of State Owned Banks was valued at Rs. 1,149 billion at the end of 2007, indicating an increase of 14.7

percent over the previous year. The asset base of State Banks includes loans and advances (54.1 percent) and investments (29.3 percent). Total loans and advances of State Banks was Rs. 622 billion as at end 2007. This indicates a growth of 23.5 percent over 2006. The two state Commercial Banks i.e. Bank of Ceylon (BOC) and People's Bank (PB) contributed to 83.7 percent of total loans and advances of state banks.

3. Public Enterprises

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Table 3.2
Financial Performance of the State Banks

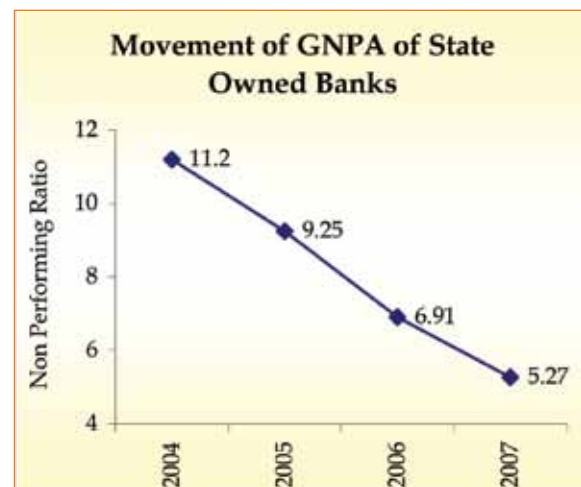
	2006				2007			
	Deposits	Net	NPL	Profit	Deposits	Net	NPL	Profit
	Rs. mn	Advances	%	After Tax	Rs. mn	Advances	%	After Tax
	Rs. mn	Rs. mn		Rs. mn.	Rs. mn	Rs. mn		Rs. mn.
Bank of Ceylon	262,676	223,236	5.8	2,627	308,667	282,445	3.9	2,843
Peoples' Bank	269,947	207,136	7.2	3,157	300,956	238,293	5.9	2,374
National Savings Bank	212,233	33,790	1.5	1,885	235,304	54,238	1.4	1,573
State Mortgage & Investment Bank	5,663	9,488	35.8	213	7,517	10,995	34.1	83
Housing Development								
Finance Corporation	2,501	10,133	18.6	172	4,959	11,869	17.6	21
Lanka Puthra Development Bank	259	427	-	23	1,994	1,644	5.0	23
Rajarata Development Bank	1,636	1,627	6.6	18	1,755	2,018	5.3	26
Kandurata Development Bank	2,168	2,500	6.3	26	2,715	2,949	5.8	29
Sabaragamuwa Development Bank	4,280	4,158	5.5	52	4,968	4,607	6.1	86
Ruhunu Development Bank	3,176	4,137	6.2	80	3,742	4,645	6.1	136
Uva Development Bank*	1,646	1,869	7.5	42	2,419	2,187	7.7	12
Wayamba Development Bank	5,845	5,492	3.8	92	6,379	6,110	3.2	127

*Unaudited

Source: Public Enterprises Department

Total Non-performing Loans (NPLs) recorded was Rs. 34 billion in 2007 in comparison to Rs 36 billion. The improvements in the assets quality of state owned banks together with focused recovery effort made by state banks contributed towards the reduction of NPL's by 2,388 million, a 6.53 percent decline over 2006. The Gross Non Performing Ratio (GNPA) also declined from 6.9 percent in 2006 to 5.3 percent by the end of 2007.

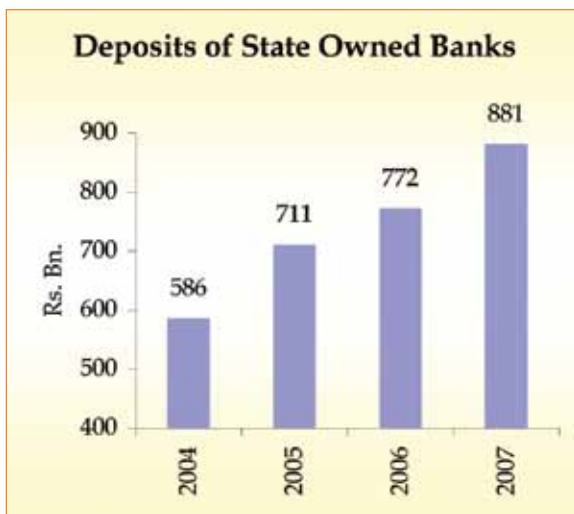
Chart 3.1



Source: Annual Accounts of Banks

Total deposits mobilized by state banks amounted to Rs. 881.4 billion registering a growth of 14.2 percent over the previous year. This was in response to high interest rates as well as due to new services mobilization efforts by the state banks.

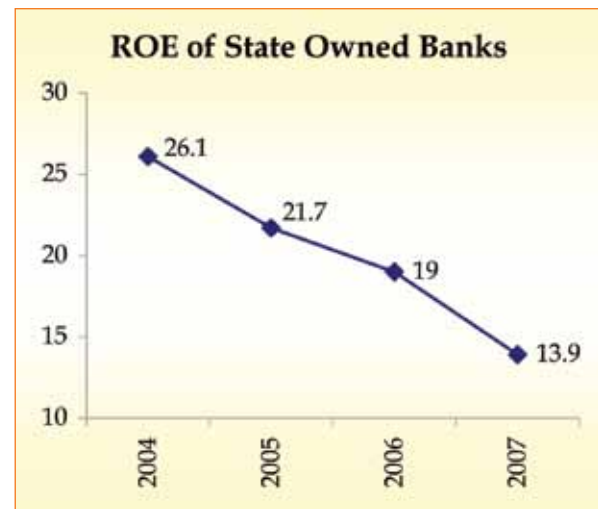
Chart 3.2



Source Annual Accounts of Banks

The Return on Assets (ROA) and Return on Equity (ROE) ratios reported as 1.3 percent and 13.7 percent respectively.

Chart 3.4



Source Annual Accounts of Banks

The profitability of state banks continued to improve in 2007. They made a profit before tax of Rs. 13.8 billion in 2007 registering a growth of 7.0 percent over 2006. Net Interest Income as a percentage of average assets was 3.8 percent.

Chart 3.3



Source: Annual Accounts of Banks

Chart 3.5



Source: Annual Accounts of Banks

State Owned Banks were rated by Fitch Rating (Sri Lanka). All State banks continue to sustain this rating through improved performance.

Table 3.3
Ratings of State Banks

Bank	Rating
National Savings Bank	AAA
Bank of Ceylon	AA
People's Bank	A-
HDFC Bank	A-
SMIB Bank	A-
Rajarata Dev. Bank	BBB+
Ruhuna Dev. Bank	BBB+
Wayamba Dev. Bank	BBB+
Uva Dev. Bank	BBB
Kandurata Dev. Bank	BBB
Sabaragamuwa Dev. Bank	BBB-

Source: - Fitch Rating Sri Lanka

State Banks play a key role in supplementing Government policies and development initiatives, while competing in the market by extending property and housing loans to public servants at concessionary rates, providing free banking services to Government institutions, and extending various development loans for agriculture and SMEs. The commercial profitability of most of the state banks are grossly underestimated due to their contribution in implementing development lending schemes.

In 2007, several important developments took place in the state banking sector. Completion of the amalgamation of the SME Bank with Lankaputra Development Bank (LDB) and the transfer of Assets and Liabilities of Private Sector Infrastructure Development Company (PSIDC) to LDB in an effort to make LDB a premier development bank, incorporation of Sri Lanka Savings Bank to provide relief to depositors of the failed Pramuka bank, initiation of preliminary steps towards the amalgamation of the 6 RDBs

into one bank to form a strong regional development bank, are some of the key institutional developments in this sector.

Bank of Ceylon (BOC)

The BOC recorded the highest asset base of Rs. 437.9 billion, a deposit base of Rs. 308 billion and a customer base of over 6.2 million. It also demonstrated leadership in offshore banking with 38 percent of all off shore banking business and has the largest corporate and retail lending portfolio of Rs 299 billion in 2007.

Table 3.4
Performance of BOC

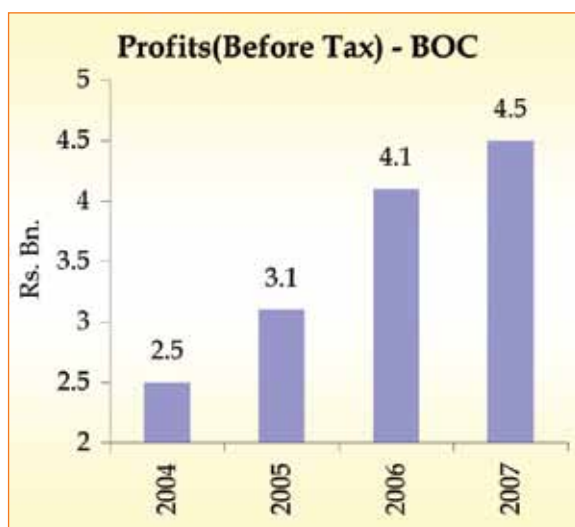
	2005	2006	2007
Number of Branches	304	305	307
Number of Employees	8891	8363	8253
Assets (Rs.bn)	319.5	378.3	437.9
Deposits (Rs.bn)	232.5	262.6	308.6
Number of Deposit			
Accounts (Rs. mn)	5.8	6.2	7.0
Foreign Currency			
Deposits (Rs. bn)	91.6	90.3	106.3
Corporate and Retail			
Lending (Rs. bn)	165.7	223.2	282.4
Profit Before Tax (Rs. mn)	3,120	4,137	4,518
Profit After Tax (Rs. mn)	1,894	2,627	2,843
Capital Adequacy Ratio (i)	12.7	11.9	12.1
Capital Adequacy Ratio (ii)	13.2	12.3	13.2
Non Performing Loans (Rs mn)	12,495	13,602	11,334
Non Performing Loan Ratio	7.2	5.8	3.9
Rating	AA	AA	AA

Source: Public Enterprises Department / Bank of Ceylon

BOC's deposits also recorded a growth of 17.5 percent in 2007 compared to the growth of 13 percent in 2006. BOC deposits accounts base is around 18 percent of the total deposits of the banking industry. The decline of the NPL Ratio from 5.8 percent in 2006 to 3.9 percent in 2007 is a reflection of the continued improvement in asset quality of the bank and the loan recovery process. The bank maintained its AA rating in 2007.

In 2007, the BOC's profits before tax improved marginally to Rs 4.5 billion from Rs 4.1 billion in 2006.

Chart 3.6



Source:- Annual Accounts of Bank of Ceylon

BOC's assets grew by 21 percent in 2007 mainly due to growth of advances. The loan growth amounted to 26.2 per cent in 2007. The bank has granted Rs. 9.5 billion of housing loans to Government employees under the Government Employees' Housing Loan Scheme on a security backed basis. Further, BOC has approved over 5,000 loans amounting to Rs. 328 million under the Krushi Navodaya Credit Programme.

Peoples Bank (PB)

People's Bank operates with the largest network of 639 banking outlets catering to clientele across the country. The Bank holds 15.6 percent of the total asset base of the banking industry. Maintaining the momentum of profitability recorded by the PB in the last few years, the bank increased its profits before tax to Rs.5 billion in 2007 from Rs 4 billion reported in 2006. Its total assets and total deposits recorded a growth of 13 percent and 11.5 percent respectively during the year 2007.

Table 3.5
Performance of People's Bank

	2005	2006	2007
Number of Branches/ outlets	624	630	639
Number of Employees	9,531	9,516	8,416
Assets (Rs.bn)	275.3	338.5	380.9
Deposits (Rs.bn)	255.6	269.9	300.9
Number of Deposit Accounts (Rs.mn)	10.0	10.5	11.0
Foreign Currency Deposits (Rs. bn)	23.9	26.9	34.3
Corporate and Retail Lending (Rs bn)	142.5	207.1	238.3
Profit Before Tax (Rs.mn)	4,035	4,079	5,002
Profit After Tax (Rs.mn)	2,771	3,157	2,374
Capital Adequacy Ratio (i)	1.5	3.7	5.3
Capital Adequacy Ratio (ii)	1.9	5.6	6.9
Non Performing Loans (Rs.mn)	16,796	15,951	14,865
Non Performing Loan Ratio	10.7	7.2	5.9
Rating	BBB+	A-	AA

Source: Public Enterprises Department/ Peoples Bank

The PB also provided Rs. 9.6 billion of housing loans to 12,060 government employees under the Government Employees Housing Loan Scheme, on a security backed basis. The number of loans granted under *Kurshi Navodaya* scheme was 3,975 to the value of Rs. 296.8 million.

The bank's Capital Adequacy Ratio (CAR) stood below the required minimum level of 10 percent during the past few years. The Government infused Rs. 1.5 billion of fresh equity into the bank during 2007.

This along with retained profits helped the bank to improve its Tier II CAR from 5.6 percent as at end 2006 to 6.5 percent at the end of 2007. The Bank won the people's award as the banking and financial brand for the year 2007.

National Savings Bank (NSB)

The NSB by its statute is required to invest not less than 60 percent of its deposits in Government securities. As such, 65.5 percent of the bank's assets was in Government securities as at end 2007, while only 20 percent was in the form of advances. This helped the bank to maintain a very low ratio of non-performing advances at 1.4 percent as at end 2007. The bank has successfully ventured into housing finance and investing in corporate debt instruments.

Table 3.6
Performance of NSB

	2005	2006	2007
Number of Branches	114	114	117
Number of Employees	2,890	2,900	2,867
Assets (Rs.bn)	222.1	235.5	270.5
Deposits (Rs.bn)	202.4	212.2	235.3
Number of Deposit			
Accounts (Mn.)	14.6	15.1	15.4
Foreign Currency			
Deposits (Rs. bn)	30.2	460.7	1,342.8
Corporate and Retail			
Lending (Rs. bn)	25.4	33.8	54.2
Profit Before Tax (Rs.mn)	3,457	3,501	3,301
Profit After Tax (Rs.mn)	2,106	1,885	1,573
Capital Adequacy Ratio (i)	44.9	40.7	33.3
Capital Adequacy Ratio (ii)	21.82	11.7	12.2
Non Performing			
Loans (Rs.mn)	700	521	740
Non Performing Loan			
Ratio (%)	2.7	1.5	1.4
Rating	AAA	AAA	AAA

Source: Public Enterprises Department/National Savings Bank

However, declining profits and a reducing market share of deposits are key areas of concern relating to NSB. The bank's profits after tax which decreased from Rs 2.1 billion in 2005 to Rs 1.8 billion in 2006, further declined to Rs 1.5 billion in 2007. The bank's market share of deposits viz a viz all Licensed Specialized Banks, which stood close to 89 percent in 2004, declined to 87 percent in 2006 and 82 percent in 2007.

Severe competition for mobilization of deposits from other banks and financial institutions in the private sector, is the main reason for the reduction in the market share of deposits while the thinning of margins due to escalation of market interest rates is the main reason for the low level of profits. The bank provided 3,277 loans to Government employees to the value of Rs. 3,610 million under the **Government guaranteed subsidized housing loan scheme** for public servants. The bank also ventured into mobilizing overseas remittances as part of its promotion of savings.

State Mortgage & Investment Bank (SMIB)

The SMIB predominantly concentrates on business of housing finance. Although the assets base of this bank expanded, performance was not conducive to maintain the overall rating in 2007.

Table 3.7
Performance of SMIB

	2005	2006	2007
Number of Branches	5	7	12
Number of Employees	304	349	339
Assets (Rs.bn)	9.1	10.2	12.1
Deposits (Rs.bn)	4.7	5.7	7.5
Number of Customers	76,273	79,789	85,206
Corporate and Retail			
Lending (Rs.bn)	8.4	9.5	11.0
Profit Before Tax (Rs.mn)	415	318	124
Profit After Tax (Rs.mn)	312	213	83
Capital Adequacy Ratio (i)	87.3	81.2	56.9
Capital Adequacy Ratio (ii)	88.6	82.5	57.9
Non Performing Loans (Rs.mn)	3,492	3,431	3,773
Non Performing Loan Ratio	40.6	35.8	34.1
Rating	A	A	A-

Source: Public Enterprises Department/State Mortgage & Investment Bank

The bank witnessed an increase in its advances and deposits growth in 2007. The growth of advances which stood at 5 percent and 11 percent in 2005 and 2006 respectively, rose to 15 percent in 2007, while deposits recorded a 36.3 percent growth in 2007, compared to 20 percent in 2006.

However, continuation of non-performing advances at a high level as indicated by the 36 percent non-performing ratio, is a reason for concern. High cost of funds also let the bank record lower after tax profits of Rs. 83 million in 2007 compared to Rs. 213 million in 2006.

HDFC Bank (HDFCB)

The HDFC Bank, which is a public listed state bank operates predominantly as a housing finance bank.

Table 3.8
Performance of HDFCB

	2005	2006	2007
Number of Branches	20	20	20
Number of Employees	290	205	289
Assets (Rs.bn)	8.8	10.7	13.4
Deposits (Rs.bn)	1.5	2.5	4.9
Number of Deposit			
Accounts (Mn.)	62,407	71,538	74,637
Corporate and Retail			
Lending (Rs. bn)	8.1	10.1	11.9
Profit Before Tax (Rs.mn)	162	239	47
Profit After Tax (Rs.mn)	117	172	21
Capital Adequacy Ratio (i)	42.1	37.6	31.0
Capital Adequacy Ratio (ii)	42.4	37.8	31.8
Non Performing			
Loans (Rs.mn)	1,465	1,892	2,099
Non Performing Loan			
Ratio (%)	18.0	18.6	17.6
Rating	A	A	A

Source: Public Enterprise Department/HDFCB

The bank's assets grew by 25 percent in 2007 mainly due to the increased advances of 17 percent. 90 percent of loans are for small and medium housing units.

During the year, the bank extended 9,562 housing loans to the value of Rs. 2,623 million, out of which the bank extended housing loans to public servants amounting to Rs. 1,075 million. The deposit base increased to Rs. 4.9 billion in 2007 from Rs 2.5 billion in 2006. However, profits before

tax declined to Rs. 47 million in 2007 from Rs. 239 million in 2006 due to the reduction in net interest income and the high level of non-performing advances. The bank's non-performing loans ratio as at end 2007 stood at 19 percent.

Lankaputhra Development Bank (LDB)

The LDB, which started its operations in February 2006, indicated a growth in its operations during the short time span that passed. While focusing on development oriented lending, the bank has adopted a selective approach in expanding its loan portfolio.

The bank recorded a moderate profit of Rs. 23.3 million in 2006 being the first year of its operations, which decreased marginally to Rs 22.8 million in 2007. The LDB's presence is still limited to a few districts. While having its head office in Colombo, the bank has one branch each in the Hambantota and Polonnaruwa districts and an extension office in Kegalle.

The bank's asset base amounted to Rs. 4 billion in 2007. Total advances portfolio amounted to Rs. 1.6 billion while mobilizing deposits amounted to Rs.1.9 billion at a growth rate of 20 percent over the previous year. Amidst this performance, the bank's non-performing loans remained at 5.3 percent in 2007.

With a view to making LDB a premier development bank, the Government towards the end of 2007 took steps to merge the SME Bank with the LDB and also transferred the assets and liabilities of the Private Sector Infrastructure Development Company to the LDB.

Regional Development Banks (RDBs)

Six Regional Development Banks (RDBs) i.e. Wayamba (WDB), Ruhuna (RDB), Kanduarata (KDB), Uva (UDB), Sabaragamuwa (SDB) and Rajarata (RaDB), which were established with view to develop the rural economy are operating with a network of 211 branches in the provinces.

Table 3.9
Performance of RDBs

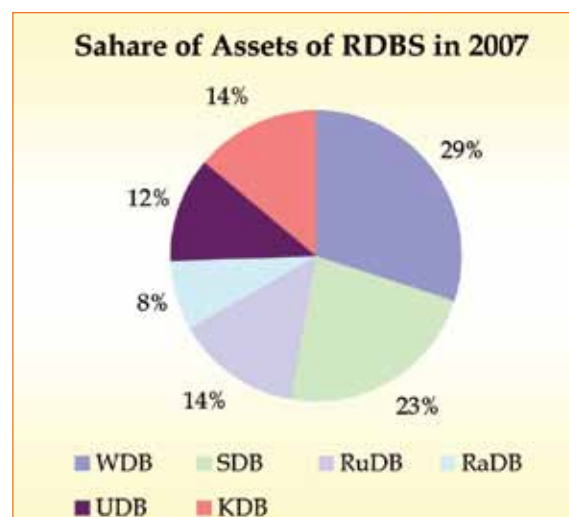
	2005	2006	2007
Number of Branches	203	209	211
Number of Employees	1,717	1,908	1,986
Assets (Rs.bn)	20.7	26.1	31.0
Deposits (Rs.bn)	14.2	18.7	21.9
Number of Deposit Accounts (Mn.)	2.4	2.7	2.9
Corporate and Retail Lending (Rs. bn)	15.7	19.3	23.0
Profit Before Tax (Rs.mn)	658	633	814
Profit After Tax (Rs.mn)	381	299	416
Capital Adequacy Ratio (i) (%)	8.7 – 15.4	9.0 – 14.4	8.2 – 15.1
Capital Adequacy Ratio (ii) (%)	11.5 - 17	11.4 – 18.1	9.8 – 15.7
Non Performing Loans(Rs.mn)	1,140	1,161	1,252
Non Performing Loan Ratio (%)	6.8	5.6	5.3
Rating	BBB+	BBB+	BBB+

Source: Public Enterprises Department/HDFCB

RDBs maintain 1.8 percent of total assets of the banking industry. Its share in the sector of Licensed Specialized Banks amounts to 7.9 per cent. The total asset base of all RDBs was valued at Rs. 30,667 million at the end of 2007, indicating an increase of 17 percent over the previous year.

The majority of RDB's assets comprised of loans and advances at 77.6 percent and investments in Government securities at 17 percent. The UDB recorded the highest rate of growth of assets in 2007 of 37.6 percent due to increased loans and advances by 17 percent and investments by 152 percent. The WDB recorded the lowest asset growth of 7.7 percent in 2007.

Chart 3.7



Source: Annual Accounts of RDBs

Net loans and advances amounting to Rs. 23,006 million by the end of 2007 indicated an increase of 18.8 percent over the last year. Although net loans and advances of RDBs increased over the last few years, the growth momentum has registered a gradual moderation.

Pawning advances to the total loan portfolio of RDBs increased from 24.9 percent in 2006 to 29.6 percent in 2007. However, this ratio exceeded 40 percent in SDB and RaDB in 2007.

A significant portion of the 27 percent of RDB's loans has been channelled to housing loans, while 16.7 percent has been granted for agriculture related activities. The small industry sector has received 10 percent in 2007.

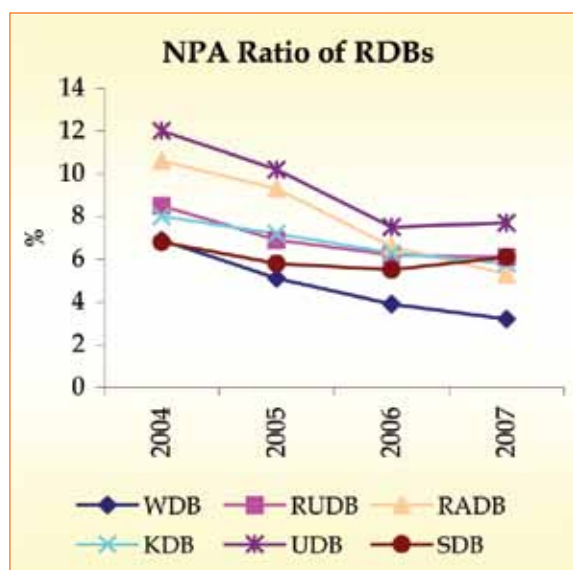
The improvement in the asset quality of RDBs has contributed towards the reduction of the non-performing ratio of many RDBs. The non-performing advances increased from Rs. 1,136 in 2006 to Rs. 1,252 million in 2007, indicating an increase of 10.2 percent. However, total advances increased from Rs. 19,354 million in 2006 to Rs. 23,006 million in 2007 recording an increase of 19 percent. Accordingly, the

gross Non-performing Loan Ratio (NPL) declined from 5.6 percent in 2006 to 5.3 percent by 2007 due to increased total advances over the period.

The highest NPL Ratio was reported at UDB amounting to 7.7 percent. Only WDB (3.2 percent) and RaDB (5.3 percent) maintained a NPL below the average of 5.3 percent.

All RDBs except UDB and SDB reported a declining trend in the NPL Ratio throughout the entire period. However, SDB and UDB reported a marginal increase in the NPA in 2007 due to increased non-performing advances in 2007. Even though, non-performing advances of Ruhuna and Kandurata increased in 2007, the NPA Ratio has declined due to the increase in loans and advances.

Chart 3.8

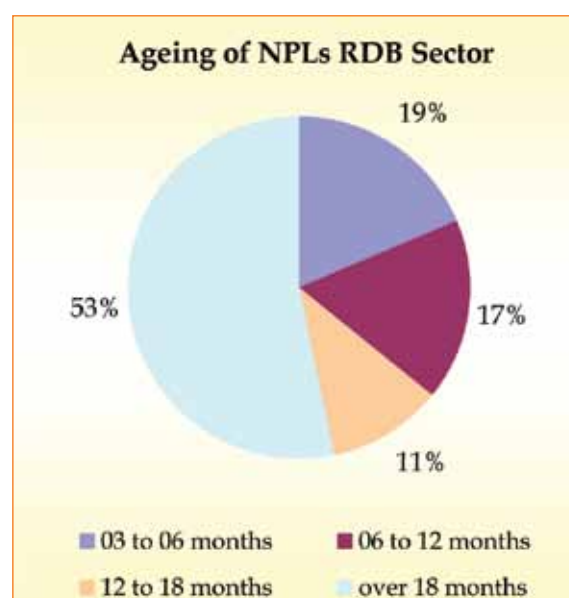


Source:- Bank's Annual Accounts

Age analysis of RDB's non-performing advances reveals that more than 54 percent of non-performing advances are over 18 months. This is mainly due to difficulties in realizing securities. However, adequate provisions have been made in 2007 covering 60.7 percent NPLs. Accordingly, the net exposure of banks (net non performing advances) declined to Rs. 394 million in 2007 from Rs. 463 million in 2006.

Total capital funds of RDBs amounted to Rs. 2,606 million by end 2007, indicating an increase of 17.2 percent over 2006. The highest capital growth was reported in KDB. The capital generation of UDB was marginal due to declined profitability of the bank in 2007. The Capital Adequacy Ratio (CAR) of RaDB was below the minimum requirement stipulated by the Central Bank, reported at 9.8 percent. Other RDBs maintained CAR through low risk weighted assets.

Chart 3.9



Source:- Bank's Annual Accounts

Table 3.10
Capital Funds of RDBs

	2006 (Rs. mn)	2007 (Rs. mn)	Change (%)
RuDB	596	717	20.3
WDB	612	709	15.8
SDB	303	368	21.4
UDB	223	228	2.2
RaDB	251	271	8.0
KDB	238	313	31.5
Total	2,223	2,606	17.2

Source:- Annual Accounts of RDBs

Liquidity

By December 2007, all RDBs except RaDB maintained the required Statutory Liquid Assets Ratio (SLAR) stipulated by the Central Bank. The consolidated Credit Deposit Ratio of RDBs amounting 108.24 percent, reveals that banks have granted loans more than deposits they have mobilized. The RDBs are also meeting higher demand for credit by borrowing from outside. The sector has borrowed Rs. 3,272 million by end of 2007 indicating a marginal reduction of 3.5 million over the previous year. RDBs face liquidity problems mainly due to funding loans with long – gestation periods such as housing loans (27 percent of total loans and advances), using short-term borrowings.

Total deposits mobilized by RDBs registered a growth of 17.2 percent over the previous year, amidst competition from other banks. WDB mobilized the highest deposits amounting to Rs 6,379 million or 29 percent of total deposits. 51.2 percent of total deposits mobilized by RDBs consist of fixed deposits, enabling the banks to forecast their funding capacity.

The entirety of RDB's income constituted of interest income from its loan portfolio and interest on investment in Treasury Bills. The net interest income of consolidated RDBs as a percentage of average assets (Interest Margin) amounted to 9.0 percent in 2007.

The operational cost of RDBs has increased by 10.7 percent in 2007 over 2006 and accounted to Rs. 1,479 million. The majority of operational costs constituted staff costs, as most RDBs have not automated their functions. As a result, the Cost Income Ratio of RDBs remained at 72.8 percent in 2007. The highest Cost/Income of 79.2 percent was reported at UDB while RuDB maintained the lowest of 67.7 per cent in 2007.

Staff cost of the sector as a percentage of total operating expenses amounted to 68.6 percent in 2007. KDB maintained the lowest staff cost/total operating expenses ratio of 65.4 percent.

The overall profitability of RDBs grew by 28.6 in 2007 due to increased interest income from loans and advances

followed by the growth of loan demand. The profit before tax amounted to Rs. 814 million in 2007. Out of this, 31.6 percent was contributed by WDB. However, profit of UDB was reported at Rs. 37 million in 2007, registering a decline of 47.1 percent.

The return on Average Assets Ratio of the sector improved from 2.7 percent in 2006 to 3.2 percent in 2007. Only RuDB and WDB reported a higher ROA than the average. Return on Equity Ratio also increased from 14.2 percent to 17.2 percent during this period. ROE of UDB registered a sharp decline from 22.9 percent to 5.3 percent in 2007, the lowest in the sector while other banks maintained an increased ratio in 2007.

Infrastructure Development

Public Enterprises play a significant role in providing both economic and social infrastructure facilities such as electricity, transport, port services, water supply and communications services. These enterprises command technical competence in each of these areas and public investments are undertaken by these enterprises.

The Government has mobilized foreign finance on-lend to PEs to undertake earmarked investment activities coming under their purview. **Outstanding on-lending to Public Enterprises by the Government amounted to Rs. 203 billion by the end of 2007, which is an increase of 27 percent.** During the year the total amount on-lend was around Rs. 50,875 million mainly to implement infrastructure projects of Ceylon Electricity Board and Sri Lanka Ports Authority.

Major infrastructure projects currently under the direct preview of public enterprises include Upper Kotmale hydro power project (US\$ 350 million), Puttalam coal power plant (US\$ 455millionn), Kerawalapitiya power plant (US\$ 300 million), Trincomalee coal power plant (US\$ 500 million), Hambantota Port Development project (US\$307 million), Colombo South breakwater project (US\$300 million), Ampara water supply (US\$ 163 million), Kandy water supply (US\$ 190 million), Colombo water supply (US\$ 187 million), Greater Galle water supply (US\$ 71 million), Nuwara Eliya

water supply (US\$ 33 million), Matara water supply (US\$ 18 million), and Kurunagala water supply (US\$ 36 million).

Table 3.11
On-lending to Public Enterprises by the Government

Name of the Institution	(Rs. Mn)		
	Outstanding at end 2006	On-lending during 2007	Outstanding at end 2007
National Water Supplies & Drainage Board	14,640	1,905	16,545
Ceylon Electricity Board	32,523	18,563	51,086
Ceylon Petroleum Corporation	6,530	(647)	5,883
Sri Lanka Ports Authority	41,409	1,087	42,496
Airport & Aviation Services Ltd	3,136	10,409	13,545
Others	25,085	2,463	27,548
Total	123,323	33,780	157,103

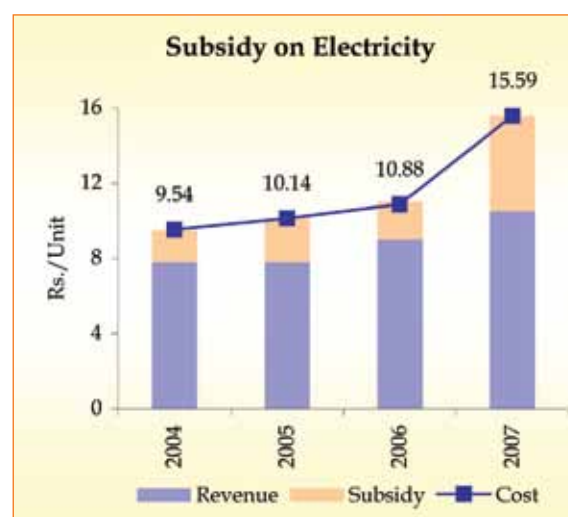
Source: Treasury Operations Department

Ceylon Electricity Board (CEB)

The installed capacity for power generation of the CEB registered a marginal increase in 2007. The gross electricity generation grew at a relatively lower rate of 4.5 percent during 2007, compared to the growth of 7.1 percent in 2006. The increase in electricity sales (gross units) in 2007 moderated by 5.7 percent, as the average price per unit increased by 1.57 Rs/kwh or by 17 percent. Revenue improved by 24 percent in 2007 consequent to an increase in the unit price as well as increased sales. The CEB expanded its domestic connections to 80 percent of total households in the country. As such, the average electricity consumption per capita increased to 414 - a 5.1 percent increase in 2007 in comparison to a 4.7 percent increase in 2006.

The cost of generating one unit of electricity was Rs.15.59 in 2007 while sales price was only Rs.10.53. This involved a higher unit subsidy to consumers in 2007.

Chart 3.10



Source: Ceylon Electricity Board

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The CEB faced difficult times concerning finances in 2007, due to increasing oil prices and tariff issues. Despite the subsidy provided by the Government amounting to Rs.5 billion, the CEB incurred a loss of Rs.14 billion in 2007. Outstanding loans to banks decreased to Rs.7075 million in 2007 from Rs.7669million in 2006. At the same time the Government has given a debt moratorium at a cost of Rs.7-10 billion per annum to the CEB until the commissioning

of the Norochchholoi coal power plant which is expected to replace high cost thermal power generation. During 2007, Rs.13.4 billion was released to CEB through budgetary allocations to meet investment expenditure. As at end 2007 the total accumulated debt of CEB stood at Rs. 54 billion exclusively due to the Government on account of past borrowings, largely consequent to capital expenditure projects undertaken.

Table 3.12
Ceylon Electricity Board

Category	Unit	2005	2006	2007(a)
Available Capacity	MW	2,411	2,434	2,443
Installed Capacity	"	2,411	2,434	2,443
CEB - Hydro	"	1,207	1,207	1,207
Thermal	"	548	548	548
Wind	"	3	3	3
Private - Hydro	"	84	107	116
Thermal	"	567	567	567
Electricity Generation	GWh	8,769	9,389	9,814
CEB - Hydro	"	3,173	4,290	3,603
Thermal	"	2,162	1,669	2,336
Wind	"	2	2	2
Private - Hydro	"	277	345	345
Thermal	"	3,152	3,082	3,528
Total Sales by CEB	"	7,255	7,832	8,276
Domestic and Religious	"	2,444	2,622	2,771
Industrial	"	2,446	2,605	2,627
General Purposes	"	1,254	1,395	1,626
Local Authorities/LECO	"	1,027	1,111	1,114
Street Lighting	"	83	98	108
Total Revenue	Rs.mn	55,977	69,941	87,575
Consumer	No. mn.	3,397	3,637	3,8667
Average unit cost	Rs.	10.14	10.88	15.59
Average unit Revenue	"	7.71	8.99	10.53
Operational losses	Rs.Mn.	1,218	14,176	22,314
Investments	"	2,897	3,152	3,882
Bank Borrowings	"	5,903	7,669	7,075

Source: Public Enterprises Department / Ceylon Electricity Board

Table 3.13
Number of Power Stations by Ownership

	2005		2006	
	CEB	PPP	CEB	PPP
Hydro	16	48	16	60
Thermal	6	10	6	10
Wind	1	0	1	0
Total	23	58	23	70

PPP-Private Power Purchase

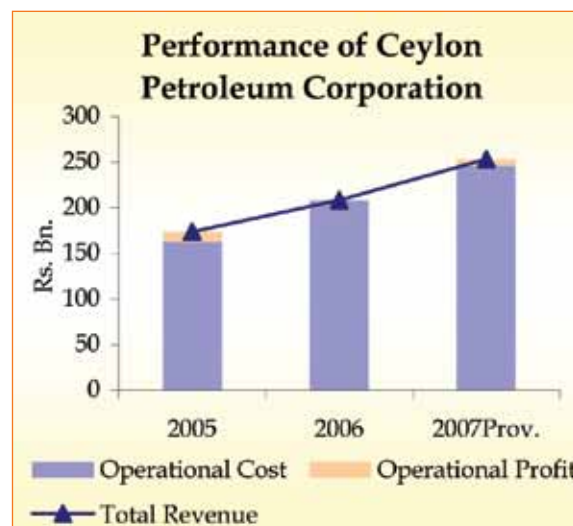
Source: Ceylon Electricity Board Statistical Digest 2006

Ceylon Petroleum Corporation (CPC)

The CPC faced severe challenges in 2007, primarily due to the unprecedented increase in world oil prices. The purchase price of crude oil increased to an average of US\$ 71.96 /bbl in 2007 from US\$ 65.11 /bbl in 2006. The import price of refined products increased from US\$ 82.19./bbl in 2006 to US\$ 87.03/bbl in 2007. The CPC raised prices of petroleum products in an endeavour to cope with the rising oil prices.

The CPC also hedged part of its procurements to contain cost. The Government successfully negotiated with the Government of Iran to supply oil on interest free basis for a period of 4 months with a provision to increase by a further 8 months on an interest basis. The CPC benefited significantly from these arrangements in 2007.

Chart 3.11



Source: Ceylon Petroleum Corporation

CPC's performance in 2007 witnessed a significant improvement, earning a profit after tax of Rs.2,645 million against the loss of Rs.946 million in 2006. Foreign bills payable as at end 2007 was Rs.61,378 million, which is an increase of 70 percent indicating the increase in the cost of imports during 2007. The loans repayable by CPC within the next 5 years has decreased to Rs.13,727 million in 2007 from Rs.16,704 million in 2006. The administrative costs have decreased by 37 percent to Rs.1,289 million from Rs.2,069 million in 2006.

Taking into account the fluctuation of oil prices and the limited refinery capacity, CPC initiated action to revamp its refinery and storage capacity. Action has commenced to increase the Sapugaskanda refinery capacity to 100,000 MT/day from the present level of 50,000 MT/day and with the assistance of the Government of Iran, action is underway to modernize the existing refinery. This expansion and modernization project is expected to improve the commercial viability of the CPC as well as the energy security in the country.

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Table 3.14
Performance of Ceylon Petroleum Corporation

Category	Unit	2005	2006	2007(a)
Quantity Imported				
Crude Oil	MT '000	2,008	2,146	1,931
Refined Products (b)	"	1,823	1,926	2,200
Value of Imports (C & F)				
Crude oil	Rs.Mn	77,686	107,160	114,150
	US \$ Mn	773	1,028	1,011
Refined Products	Rs.Mn	88,767	114,822	151,141
	US \$ Mn	882	1,078	1,351
Average price of crude oil (C & F)	Rs/Barrel	5,241	6,748	7,988
	US \$ /Barrel	52.14	65.11	71.96
Quantity of Exports (c)	MT '000	164	162	102
Value of Export	US \$ Mn	71	85	75
Total Revenue		173,854	208,583	253,345
Domestic sales	Rs. Mn.	167,396	199,869	245,080
Exports	"	6,458	8,714	8,265
Direct Production cost	"	2,217	1,872	1,445
Overheads	"	9,018	10,360	11,342
Operational Profit / (Loss)	"	11,100	466	7,078
Local Sales	MT '000	4,243	3,553	3,802
Petrol (90 octane)	"	526	454	487
Petrol (95 octane)	"	23	24	31
Auto Diesel	"	1,862	1,633	1,752
Super Diesel	"	17	9	14
Kerosene	"	252	206	168
Furnace oil	"	1,026	912	986
Avtur	"	216	255	267
Naptha	"	181	60	97
L.PGas	"	165	170	180
Local Price (End Period)	"			
Petrol (90 octane)	Rs/ Litre	80 - 82.00	92. - 95.00	117.00
Petrol (95 octane)	"	83.00	95.00	120.00
Auto Diesel	"	50.00	60.00	75.00
Super Diesel	"	55.30	65.30	80.30
Kerosene	"	30.50	48.00	68.00
Furnace oil		28 -33.30	41 - 46.30	
Refinery capacity	'000 MT	2,300	2,300	2,300
Storage capacity	'000 MT	439	439	439
Refinery output	'000 MT	1,876	2,048	1,800
Value of production	Rs. Mn	77,088	110,639	117,425

Source: Ceylon Petroleum Corporation

(a) Provisional

(b) Imports by Ceylon Petroleum Corporation, Lanka IOC and Lanka Marine Services (Pvt) Limited

As reported by Ceylon Petroleum Corporation

National Water Supply & Drainage Board (NWS&DB)

The National Water Supply & Drainage Board operates 308 water supply schemes that reach 32 percent of the total population. During 2007, total water connections increased to 1,078,892 from 989,395 in 2006.

Chart 3.12



Source: Water Supply and Drainage Board

In 2007, the NWS&DB incurred a cost of Rs.34.80 per unit of water produced, which is a significant increase from Rs.27.28 in 2006. However the Board recovered only Rs. 22.82 per unit. The number of employees per 1000 connections has decreased to 8.2 in 2007 from 8.4 in 2006.

The total assets of the NWS & DB has been valued at Rs. 1 billion as at end 2007 compared to Rs. 90 billion in 2006. The total billing income in 2007 amounted to Rs. 7,424 million which is an increase of 4.8 percent over the previous year. However, the Board incurred a loss of Rs.1,278 million in 2007 as against the loss of Rs.214 million in 2006. The NWS & DB also incurred an operating loss of Rs.575 million in 2007 as against an operating profit of Rs.255 million earned in 2006, attracting concerns on the rising operational cost in the context of rising energy costs, which have increased

from Rs. 1,218 million in 2005 to Rs. 1,588 million in 2007. The Board employed 8,768 employees at a cost of Rs.3,471 million in 2007 in comparison to 8,255 at a cost of Rs. 2,922 million in 2006. Administration overheads increased from Rs. 1,349 million in 2006 to Rs. 1,763 million in 2007- an increase of 30 percent. This is attributable to salary increases as well as higher recruitment at management and skilled worker grades.

With regard to the use of foreign aid, the NWS&DB utilized 96.4 percent of the total amount allocated to the water supply & sanitation sector in 2007. In 2008, the NWS&DB is expected to supplement development projects by contributing at least Rs.500 million from internally generated funds.

As such, the NWS&DB should focus more on the timely completion of the development projects undertaken in a bid to overcome these issues. It is noted that the Board needs to prioritize utilization of capital funds effectively. Issue of free water supplied to tenement gardens needs to be looked at as it has a substantial impact on the total operational costs of the NWS&DB.

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Table 3.15
National Water Supply and Drainage Board

	Unit	2005	2006	2007
Asset value	Rs. bn.	77,435	89,991	100,813
Water connections	No.	907,622	989,395	1,078,892
Cost per unit sold	Rs. cbm	28.70	27.30	34.80
Water Production	Mn. cbm	383	398	424
Water supply schemes (Revenue units)	No.	291	295	308
Turnover (Sales of Water)	Rs. Mn.	5,447	5,869	6,482
Total Income	Rs. Mn.	6,261	6,944	7,611
Non-operating income		32.6	114.5	203.4
Investments		672.6	1,650	851
Cost of Production		5,825	6,689	8,186
O/w Direct Operating cost		3,604	4,081	4,903
Administration overheads		999	1,349	1,763
Finance Cost		492	512	852
Operation profit / (loss)		436	255	(575)
Net Profit / (loss)		(91.9)	(214)	(1,278)
Revenue per Employee / month	Rs.	57,348	59,251	61,606
Cost of employment / employee / month		26,756	29,497	35,479
Cost of Production / employee / month		37,950	41,192	46,595
Energy cost	Rs. Mn.	1,218	1,361	1,588
Employees	No.	7,914	8,255	8,768
Managerial		512	549	766
Other		7,402	7,706	8,002

Reasons for the increase of operational cost

- Increase of employees by 854 from 2005 to 2007 mainly in executive and technical / skilled categories
- 26 percent increase in salary
- Increase in energy cost

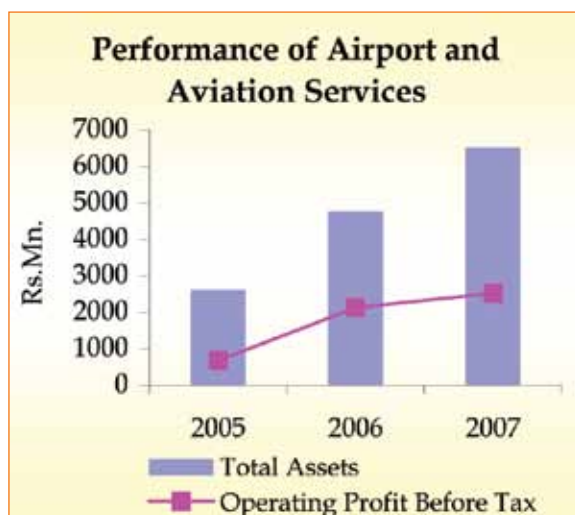
Source: National Water Supply & Drainage Board / National Budget Department / Public Enterprises Department

Airport and Aviation Services Ltd. (AASL)

The AASL continued to be a profit earning entity in 2007, generating an operating profit of Rs.2,014 million. It continued to earn more revenue from non-aeronautical avenues than from aeronautical avenues. The financial

expenses incurred in 2007 decreased significantly to Rs.70, 840 from Rs.208, 465 in 2006. Investments of AASL as at end 2007 were Rs.4069 million, which is a significant increase from 2006.

Chart 3.13



Source: Airport & Aviation Services (SL) Ltd

Table 3.16
Airport & Aviation Services Ltd.

	2005	2006	Rs. Mn 2007
Total Revenue	2,619	4,454	4,890
Total Expenditure	(1,950)	(2,334)	(2,876)
Staff cost	(1,325)	(1,576)	(1,984)
Other cost	(625)	(758)	(892)
Operating profit before tax	669	2,120	2,518
Profit /(loss) after tax	423	1,373	1,672
Total Assets	2,608	4,753	6,509
Total non current assets	128	477	625
Property, plant & equipment	128	109	160
Differed income tax assets	-	368	464
Total current assets	2,480	4,276	5,884
Short term investments	1,563	2,764	4,069
Cash & bank balances	121	530	548
Other receivables	796	982	1,266
Total shareholders equity	1,098	2,772	4,288
Earning per share (%)	39	50	39
Net profit ratio (%)	16	31	34

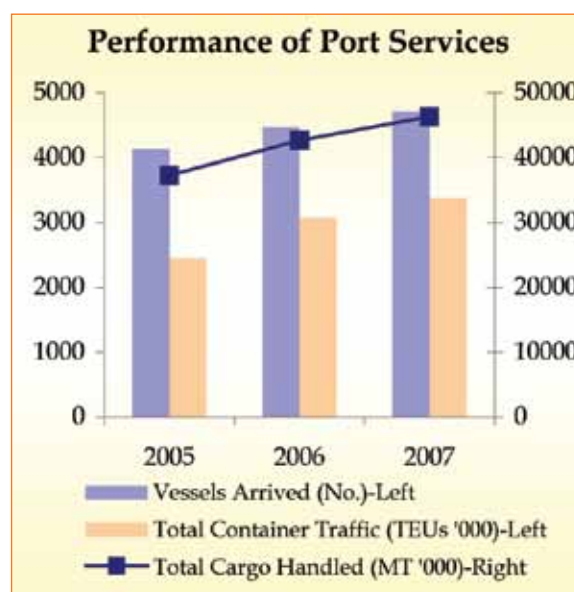
Source: Airport & Aviation Services (SL) Ltd

Sri Lanka Ports Authority (SLPA)

SLPA has been able to increase its total revenue by 13 percent in 2007, compared to 2006. However, the operating profits have reordered significantly. SLPA made a significant loss of Rs.2,765 million in 2007 due to exchange variations on the Japanese Yen Loans. The SLPA has also incurred an operational loss as productivity per tonnage has declined since the total expense per tonnage has exceeded the total revenue earned per tonnage.

The cost of wages, salaries and overtime has increased by 57 percent in 2007, resulting in an overall increase in cost of operations/administration to Rs. 6,849 million in 2007 from Rs. 5,254 million in 2006.

Chart 3.14



As at end of 2007, SLPA's total assets dropped by 2 percent, while total liabilities rose by 38 percent. Increase in total liabilities in 2007 was mainly due to increased non current liabilities incurred on account of deferred tax liabilities of Rs. 16,999 million.

Despite incurring a loss in 2007, SLPA's liquidity position recorded a surplus.

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The total foreign loans outstanding in 2007 amounted to Rs.78,649 million. The Treasury has arranged loan facilities to the SLPA to the sum of Rs.39,335 million for the Colombo South Port Extension Project, Hambantota Port Development Project, Galle Port Expansion Project and Galle and Olivil port development projects.

Contribution to the Government has decreased to Rs.61 million from Rs.153 million due to the declining of the profitability.

The Ceylon Transport Board (CTB)

Buses operated by the CTB in 2007 totaled 4,228 compared to 3,676 in 2006. The passenger operations/Km per day increased from 713,753 in 2006 to 851,119 in 2007. However what is still notable is that revenue was inadequate to meet operational expenditure of CTB.

Table 3.17
Sri Lanka Ports Authority

	Unit	2005	2006	2007
Vessels Arrived	Nos	5,092	5,117	5,366
Colombo	"	4,425	4,623	4,760
Galle		258	267	304
Trincomalee		409	267	302
Total cargo handled		27,663,247	30,817,953	31,826,571
Revenue	Rs. Mn.	20,550	23,004	25,913
Colombo		19,789	22,318	25,296
Galle		449	465	361
Tincomalee		312	221	256
Total expenditure	Rs.Mn.	14,370	18,216	23,562
Colombo		13,589	17,196	22,265
Galle		370	515	636
Tincomalee		411	506	661
Employment	Nos.	13,527	13,691	13,667
Colombo		12,217	12,383	12,470
Galle		622	689	577
Tincomalee		688	619	620
Revenue per Employee	Rs. Mn.	1.5	1.7	1.9
Cost per Employee		1.0	1.3	1.7
Total cost of employment	Rs./Ton	6,943	8,936	14,013
Net profit	Rs./Ton	223	155	74
Foreign loan	Rs. Mn	40,248	38,521	39,334
Interest on foreign loan	Rs. Mn.	1,186	1,115	1,147
Foreign Exchange gain/loss	"	7,058	(1,168)	(3,944)

Source: Public Enterprises Department/ Sri Lanka Ports Authority

Table 3.18
Sri Lanka Transport Board

Unit	2005	2006	2007	
No of Operated Buses	No	3,557	3,776	4,074
Operated Passenger Kilometerage Per day	Km/Day	663,340	713,753	851,119
Revenue Per Km	Rs/Km	40.37	46.56	50.60
Total Revenue	Rs.Mn	10,007	12,665	15,440
Way Bill	Rs.Mn	6,417	7,917	10,695
Season Tickets	Rs.Mn	285	199	359
Special Hires	Rs.Mn	137	150	233
Advertising	Rs.Mn	4	6	3
School Season Tickets	Rs.Mn	226	227	473
Uneconomic Route subsidy	Rs.Mn	175	197	281
Other Income	Rs.Mn	251	422	345
Salary Subsidy	Rs.Mn	2,512	3,547	3,051
Total Expenditure	Rs.Mn	11,147	13,653	15,807
Cost Fuel	Rs.Mn	3,632	4,696	6,228
Cost of Tyres, Tubes & other Parts	Rs.Mn	1,362	1,576	1,886
Government Contribution				
Recurrent	Rs.Mn	3,891	4,976	3,654
Capital	Rs.Mn	1,437	3,984	2,612
Net loss	Rs.Mn	(1,140)	(984)	(366)
Total number of Employees	No	41,944	38,952	37,149
Total Cost of Employment	Rs.Mn	3,872	4,745	4,781
Cost of Employment per Employee	Rs.'000	92,312	121,820	128,685
Revenue Per Employee	Rs.'000	238,580	325,144	415,624

Source: Sri Lanka Transport Board/Public Enterprises Department

The investment programme of the CTB is directed towards developing 25 bus depots as model depots, installation of new engines and improved maintenance for the existing bus fleet and addition of new buses. Measures are being taken to reduce operational expenditure of CTB to make it a commercially viable venture.

Other Public Enterprises

There are a large number of medium scale PEs consisting of enterprises set up under specific statutes and a number of enterprises set up under the Companies Act. While some of these enterprises have generated profits, a large number remains to be loss making. Most of the enterprises are saddled with a large number of employees and incur excessive overhead expenditure, lacks economies of scale, is unable to withstand competition from the private sector and experience management limitations. A large number of these enterprises rely on the National Budget to meet recurrent expenditure. The annual transfers to meet recurrent expenditure of these enterprises has averaged around Rs.5,000 million. These enterprises have also not been able to undertake required maintenance and investments, due to severe operational losses. Revitalizing business strategies of these enterprises is vital to be able to reduce the consequent burden on the National Budget and on the economy. Details of selected state owned enterprises are given in Table 3.19 to 3.21.

Challenges of Public Enterprises

One of the major challenges faced by Commercial Public Enterprises is the application of sound pricing policies that in turn ensures commercial viability. Pricing decisions are affected by social and welfare considerations. As a result, the prices of goods and services offered by the Public Enterprises remain below the cost of production, which leads to continuous losses and under investments in the enterprises. Such losses also affect the management of the National Budget, as it required to provide transfers to meet operational losses. Therefore, in order to make PEs profitable and encourage them to undertake investment on maintenance, expansion and modernization, the existing pricing and tariff strategy needs to be guided by cost recovery considerations.

Another main challenge is the need to improve productivity through better labour management and human resource planning and development, budget controls and cadre management.

Productivity improvements involve maximization of revenue per employee, use of energy efficiency technologies, resorting to efficient procurement practices, and better maintenance expenditure to contain operational inefficiencies.

PEs should have a strong Human Resource Management strategy. Most PEs demonstrate mismatching labour demand and labour supply. The Sri Lanka Transport Board has identified around 7,000 such employment positions. At the same time, most of these institutions do not have adequate professional staff to meet emerging management challenges requiring human resource contributions. This suggests that the entire human resource profile of these enterprises needs to be re-evaluated to improve the efficiency and productivity.

The common deficiencies observed in respect of the performance of public enterprises include, lack of guidance in choosing the investment portfolio to be able to meet emerging needs, over staffing and human resource issues, inadequate expertise to meet challenges in project, procurement and financial management, inadequate internal control systems, management review and supervision mechanisms, weak management audit committee and grievance committee arrangements, weak productivity management abilities and a weak labour relationship between employees and the management.

Table 3.19
State Owned Financial Enterprises

Name	Net Asset Value (Rs. Mn)	No. of Employees	Profit (Rs. Mn)
Bank of Ceylon	17,912	8,363	4,137
People' s Bank	10,456	9,645	4,078
National Savings Bank	12,978	2,900	3,501
State Mortgage & Investment Bank	2,530	349	317
Rajarata Development Bank	250	120	42
Ruhunu Development Bank	595	435	171
Sabaragamuwa Development Bank	303	387	80
Uva Development Bank	223	262	70
Wayamba Development Bank	621	386	199
Kandurata Development Bank	238	293	67
Lankaputhra Development Bank Ltd	1,523	120	51
Housing Dev. Finance Corp. Bank of SL	1,800	294	238
Sri Lanka Savings Bank*		32	
Agricultural and Agrarian Insurance Board	2,700	446	(11)
Sri Lanka Export Credit Insurance Corp.	800	55	115
National Insurance Trust Fund	13	44	13
National Lotteries Board	3,215	274	8
Development Lotteries Board	547	178	914
Employees Trust Fund Board	66,735	771	4,196

Source: Public Enterprises Department

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Table 3.20
State Owned (Medium) Enterprises / Companies

Name	Net Asset Value (Rs. Mn)	No. of Employees	Profit (Rs. Mn)
Sri Lanka Ayurvedic Drugs Corporation	135	255	0.8
Sri Lanka Cement Corporation	1,439	100	0.045
State Pharmaceuticals Corp. of Sri Lanka	1,744	734	514
State Pharmaceuticals Manufacturing Corp.	1,040	603	18
Sri Jayawardanapura General Hospital	468	1,574	(81)
State Printing Corporation	113	603	11
State Timber Corporation	1,725	2,710	409
Central Engineering Consultancy Bureau	348	1,007	23
Sri Lanka Rupavahini Corporation	1,830	1,100	206
Sri Lanka Broadcasting Corporation	345	1,099	(87)
Information and Communication Technology Agency of SL (Pvt.) Ltd.	45	32	12
Independence Television Network Ltd	257	474	73
Sri Lanka Land Reclamation & Dev. Corp.	1,056	1,408	102
State Dev. and Construction Corp.	956	527	29
State Engineering Corporation of Sri Lanka	58	2,702	180
Lakdiva (Engineering) Co. Pvt. Ltd.	46	163	3
Ceylon Ceramics Corporation	(141)	849	(25)
Ceylon Fisheries Corporation	911	800	(23)
Ceylon Fishery Harbours Corporation	2,551	691	(35)
National Livestock Development Board	486	2,800	(11)
Milk Industries of Lanka (Pvt.) Ltd. (MILCO)	840	1,489	95
B.C.C. Lanka Ltd	100	90	10
Cey-Nor Foundation Ltd	49	459	9
Lanka Mineral Sands Ltd	1,555	834	126
Lanka Phosphate Ltd	286	302	42
Mantai Salt Ltd.	66	834	2
North Sea Ltd	(0.198)	90	12
Paranthan Chemicals Co. Ltd	11	40	13
Ceylon Fertilizer Company Ltd	2,255	327	59
Colombo Commercial Co. (Fertilizers) Ltd.	435	105	93
Thamankaduwa Agro Fertilizer Co. Ltd	65	35	3

Source; Public Enterprises Department

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Table 3.20
State Owned (Medium) Enterprises / Companies Contd.

Name	Net Asset Value (Rs. Mn)	No. of Employees	Profit (Rs. Mn)
Chilaw Plantations Ltd.	530	769	49
Janatha Estates Development Board	230	8,090	(153)
Sri Lanka State Plantations Corporation	(311)	6,630	(84)
Elkaduwa Plantations Ltd.	295	2,433	(40)
Kalubovitiyana Tea Factory Ltd	205	52	25
Kurunegala Plantations Ltd.	353	1,095	43
Sri Lanka Cashew Corporation	154	186	1
Building Materials Corporation Ltd	(442)	334	(47)
Ceylon Shipping Corporation Ltd	575	140	(3)
National Paper Co. Ltd	146	648	(175)
Lanka Fabrics Ltd.	19	10	9
Co-operative Wholesale Establishment	(6889)	242	(557)
STC General Trading Company Ltd	324	241	35
Lanka Sathosa Limited	169	580	(21)
Mihin Lanka (Private) Ltd.	102	223	(1571)

Source: Public Enterprises Department

Table 3.21
State Owned (Large) Enterprises / Companies

Name	Net Asset Value (Rs. Mn)	No. of Employees	Turnover (Rs. Mn)
Sri Lanka Port Authority	134,444	13,667	25,913
Ceylon Electricity Board	365,443	14,230	87,575
National Water Supply & Drainage Board	111,054	8,768	6,482
Sri Lanka Central Transport Board	6,668	37,149	15,441
Airport and Aviation Services (Pvt.) Ltd	5,472	4,890	4,890
Ceylon Petroleum Corporation	27,620	2,930	253,345

Source: Public Enterprises Department

Reform Initiatives

**Reform efforts deepened to
consolidate the economic
transformation**

An Overview

Reform initiatives were further consolidated in 2007. Human resource development initiatives, technology enhancement measures, streamlining systems and procedures, promoting governance and accountability and pricing reforms received priority.

In addition to the several reform measures introduced by individual institutions, the Fiscal Management Reform Program and the Legal and Judicial Reforms Project being the two dedicated reform programs of the Government, continued to make progress. The reform initiatives of the Ministry of Finance and Planning, the Excise, Customs and the Inland Revenue Departments and the Finance Commission were coordinated through the Fiscal Management Reform Program facilitated by the Asian Development Bank, while reforms of the Legal and Judicial sectors were coordinated through the Legal and Judicial Reforms Project facilitated by the World Bank.

Having introduced separate codes of Conduct and Ethics for the revenue departments in 2005 and 2006, the Ministry of Finance and Planning published a Code of Conduct and Ethics in 2007, setting out broadly the duties, rights and obligations of employees, as public officers. The Corporate Governance Code for Banking Institutions issued by the Central Bank of Sri Lanka in 2007 is a notable step taken towards promoting good governance in the financial sector. To strengthen banking regulation and supervision necessary for promoting the safety and soundness of the banking sector and thereby strengthen financial stability, the Central Bank of Sri Lanka took steps to adopt Basel II, which addresses some of the deficiencies in the previously adopted capital adequacy standard, Basel I, which aims at strengthening minimum capital requirements, supervisory review process and market discipline.

As part of reform initiatives taken towards addressing weaknesses and shortcomings of the revenue administration, a comprehensive study was undertaken by the Inland Revenue Department and the Ministry of Finance and Planning in relation to observations made by the Auditor General in the report pertaining to a Special Study of

Weaknesses in the Revenue Administration. Three reports were prepared, on Value Added Tax fraud and related issues, likely collectible taxes in default/ arrears up to end March 2007 and the recovery action relating to tax immunity/ amnesty granted in relation to 26 statutes in 2002, the applicable period of which was thereafter extended till August 2003 by the connected repeal act introduced in 2004. These reports were submitted to the Committee on Public Accounts of the Parliament in May 2007.

In terms of an undertaking given in the 2007 Budget Speech, a draft bill was prepared aimed at making legislative provisions *inter alia* to enable the speedy collection of tax arrears due as of 31.3.2007 with enabling provisions to write off seemingly non recoverable taxes due from identified categories of state institutions in a transparent manner and to provide a further opportunity for tax payers to finalize their tax liability following a consultative process. These are aimed at cleaning -up records of the Inland Revenue Department and making an effort to ensure that future tax arrears will not surpass manageable levels and to cast greater accountability on officers who are administering the tax system. The Legal Draftsman is in the process of finalizing the draft bill to be submitted to Parliament.

Further, the Financial Regulations of the Government were updated to cater to the changing needs of the public service and also to accommodate the impact of technological advancements. The amended Financial Regulations are due to be made operative shortly. Establishment of a Public Asset Management database was concluded in 2007 in an endeavour to facilitate a streamlined allocation of budgetary provisions for the acquisition of assets by ministries, department and divisional secretariats and also with a view to having accurate information on asset availability. A Treasury Single Account was introduced to improve Treasury cash management and superior budget execution aimed at creating stability in Money and Capital Markets operations through reduced Government borrowings. Continued reforms took place in the public service to bring about a sound national and regional administrative system with competent human resources.

Several initiatives were taken in the area of pricing reforms in the backdrop of escalating global prices of oil and essential commodities, important for sustained economic development. Bilateral and multilateral trade arrangements were strengthened with increased integration with South Asia region partners to reap maximum benefits from the country's external trade policy.

The Bim Saviya initiative of the Government streamlined land titling efforts, while the Mathata Thitha initiative attracted wide acceptance and praise from the clergy and masses as a measure that would promote inherent religious and cultural values in the country.

In the legal and Judicial sectors, having enacted High Court of the Provinces (Special Provisions) (Amendment) Act in 2006, the Government in 2007 established island-wide, 14 High Courts with civil appellate jurisdiction providing the public greater access to justice at provincial level. The appeals which hitherto were confined to the Courts of Appeal located in Colombo, with a backlog of around 15,000 cases, were distributed among these courts, aimed at early dispensation. The Judicial Infrastructure Trust Fund was put into operation with the opening of a dedicated account and the appointment of zonal level committees to facilitate the maintenance process. Several important statutes were enacted including the Companies Act No. 7 of 2007, Special Commodity Levy Act No 48 of 2007 and Strategic Development Projects Act No. 14 of 2008.

The Regional and Bilateral Free Trade Agreements were taken forward by effecting timely tariff adjustments as envisaged in the agreements, strengthening economic corporation. Negotiations were conducted towards agreeing on Comprehensive Economic Partnership Agreements (CEPA) between Sri Lanka and India as well as Sri Lanka and Pakistan. Continued negotiations took place to reach agreement under the Bay of Bengal Initiative for Multisectoral Trade and Economic Corporation (BIMSTEC) arrangements among member countries in the region.

Notable Achievements under the Fiscal Management Reforms Program

The Fiscal Management Reform Program (FMRP) which is facilitated by the Asian Development Bank, to carry out the Government's fiscal reforms, concluded its implementation activities under the program loan in 2007. Out of the total loan amount, which was US \$ 70 Mn., a sum of US\$ 45 Mn. was a Program Loan in three tranches of US\$ 15 each, while the balance consisted of two project loans for capacity development and technology enhancement.

FMRP's focus was on the restructuring and modernization of the Inland Revenue, Customs and Excise Departments and the Ministry of Finance and Planning. The overall implementation which was spearheaded by a Steering Committee chaired by the Secretary to the Treasury, was assisted by heads and other representatives of the connected institutions. Key reforms were aimed at improving systems and processes, enhancing human resource capabilities and complementing Information Technology improvements. Having substantially achieved reforms targets, the first and second tranches of the program loan have already been released and the third tranche is due to be released shortly. Notable achievements under the FMRP so far, are the following;

Box 4.1

Achievements under the Fiscal Management Reforms Program

Enhance Capacity Building/Human Resource Development

Foreign training opportunities were given to a total of around 1,200 officers from the Ministry of Finance and Planning, Inland Revenue, Sri Lanka Customs, Excise Departments, the Finance Commission and the Provincial Councils at the following institutions, on different subject areas of relevance, .

Inland Revenue Authority, Singapore - 60 participants
 IBFD International Tax Academy, Netherlands - 03 participants
 Sixteenth Tax Conference Tokyo, Japan- 01 participant
 National Institute of Public Finance and Policy, India - 761 participants
 National Institute of Public Finance and Policy, India – 79 participants
 National Academy of Direct Taxes, Nagpur, India - 88 participants
 Asian Institute of Technology, Bangkok - 28 participants
 Duke University, USA – 04 participants
 China Association for International Exchange of Personnel, Beijing - 27 participants
 Association of Government Accounting Organization of South Asia, India - 04 participants
 National Institute of Financial Management - 106 participants
 Revenue Department, Thailand – 15 participants

A specially designed program was conducted with the assistance of the British Council on effective speech and interpersonal skills for the benefit of around 150 officers of the Inland Revenue Department.

Programs to create awareness on taxation laws, orientation for new recruits and computer skills training were conducted locally.

Since the last recruitment made in 2001, the Inland Revenue Department recruited 1083 new entrants in 2007 on the basis of a competitive examination held by the Examinations Department, to strengthen its Assessor and Tax Officer Cadre.

Awareness programmes on the salient features of the new Companies Act were held with the assistance of eminent personnel in the Judiciary and the legal profession, for the benefit of officers of the Ministry of Finance and Planning, who are serving as Government nominee Directors of Companies in which the Government holds shares.

A seminar on Fiscal Decentralization was conducted with expertise provided by the National Institute of Public Finance and Policy in India for the benefit of over 100 participants from the Ministry of Finance and Planning, Finance Commission and the Provincial Councils.

With the Randora Auditorium being declared opened in January 2008, a modern, state of the art auditorium was availed to the MOFP to facilitate inter alia capacity building

Improved Systems and Processes

New organizational structures are being adopted and job descriptions were documented identifying contributions expected from officers in the different grades.

Tax holidays were rationalized and legal measures were taken to improve the tax policy regime, particularly to improve governance and also address issues relating to tax avoidance/evasions and possible malpractices in the refund mechanism.

The sectoral results/output oriented budgetary framework that was introduced is being improved

Box 4.1

Achievements under the Fiscal Management Reforms Program Contd.

A Single Account Treasury Management System was introduced to improve Treasury cash management.

Strategic Plans and Annual Action Plans were prepared for the Departments

New organisational structures were introduced

Action being taken to move towards a Performance Based Evaluation System

Auditing capacity and procedures being streamlined, the most recent step being the establishment of a Management Audit Department for the MOFP.

A Separate Code of Conduct for each, was introduced to the Inland Revenue, Customs and Excise Departments and the Ministry of Finance and Planning

IT Improvements

After making an expert assessment, the introduction of a comprehensive Revenue Administration Management IT System to the IRD was commenced. This is to be done in a phased out manner and as the first stage the process is under way to introduce a Wide Area Network and a comprehensive control room to IT enable the Inland Revenue Department. An International Competitive Bidding Process was followed in calling for bids which are being evaluated.

Since the present IT hierarchy is unable to accommodate the proposed scale of expansion in IT operations, a new IT cadre was developed identifying hierarchy, positions, responsibilities, qualifications and experience necessary. An implementation plan was also developed identifying key stages of recruitment as a part of this new cadre proposal. The proposal for the new IT cadre was approved by the Management Services Department and is due to be implemented. A Head of IT was recruited in 2007 to spearhead this process, assisted by other technically competent persons.

The e-Tax filing system was improved to enable tax payers to access required VAT forms online using a secured individual user ID and a password permitting declarations to be made online with the facility that information so collected can be directly fed into the main VAT processing system.

A software application system was developed and implemented in the Ministry of Finance and Planning enabling the collection, storage and updating of information pertaining to fixed and movable assets of government ministries and departments, in electronic form..

Around 2,350 out of a of total 3,300 persons from the revenue departments were given basic computer training.

Two fully equipped IT labs were set up with 35 computers each to facilitate computer training for employees of the revenue departments.

Separate Electronic Databases containing personal data of employees were set up for the IRD, Customs and Excise Departments to facilitate objective placements and promotions with easy access to such data.

High-tech container security X-ray machines were installed at Sri Lanka Customs with funds provided by the Treasury enabling non-intrusive inspection of goods, avoiding delays and improving security standards.

The metropolitan branches of Inland Revenue were opened at Jawatte Road with modern IT and other facilities for the convenience of tax payers.



Randora Auditorium of the Ministry of Finance and Planning

Box 4.2

FMRP - 2007 Training Opportunities at a Glance

Foreign

- 514 officers of the Inland Revenue Department to the National Institute of Public Finance & Policy, New Delhi, India - *'Practical Issues of Tax Policy & Tax Administration in Developing Countries.'*
- 88 Commissioners and Deputy Commissioners of the Inland Revenue Department to the National Academy of Direct Taxes, Nagpur - *'Investigation and Management.'*
- 35 officers of the Ministry of Finance and Planning to the National Institute of Financial Management, Faridabad, India - *'Accounting and Auditing in Government.'*
- 35 officers of the Ministry of Finance and Planning to the National Institute of Financial Management, Faridabad, India - *'Fiscal Planning, Management and Reforms.'*
- 79 officials from the Ministry of Finance and Planning, Finance Commission and Provincial Councils to the National Institute of Public Finance & Policy, New Delhi, India - *'Fiscal Decentralization.'*
- 4 officers from the Ministry of Finance and Planning to the Association of Government Accounting Organization of South Asia, India - *'Knowledge Sharing Sessions.'*

Local

- Over 100 officers of the Ministry of Finance and Planning /Treasury, serving as Government nominee Directors in companies – *Salient Features of the New Companies Act* lectured by Justice Saleem Marsoof P.C. Judge of the Supreme Court, Mr. Kanag Iswaran P.C. and Dr. Harsha Cabral P.C.
- Over 100 participants from the Ministry of Finance and Planning, Finance Commission and Provincial Councils - *Fiscal Decentralization* conducted by resource persons of the National Institute of Public Finance and Policy, India.

Around 1500 officers of the Inland Revenue Department representing Deputy Commissioner, Assessor and Tax Officer - *Effective Speech and Interpersonal Skills* conducted by resource persons of the British Council.

Continued Redress through the 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. From 2005 to 2007 performance of Tax Ombudsman is as follows:

Table 4.1
Redress through the Tax Ombudsman

	2005	2006	2007
Complaints received	28	75	67
Deerminations made	15	49	35
Complaints rejected(Clause – 17)	02	08	13
Where CGIR failed to send timely observations	02	Nil	05
Where recommendations were not complied	Nil	Nil	Nil

Source : Tax Ombudsman's Office

The general nature of complaints received in 2007 reflects grievances with regard to the following;

- Delay/Failure to make tax refunds
- Failure of IRD officers to take decisions within the prescribed time allocated in the Inland Revenue Act, causing frustration to tax payers and loss of revenue to the state
- Reluctance of IRD Officers to take decisions where a fault could be attributable to them or their predecessors in office
- Discrimination in dealing with tax payers, as a result of allocating work to inexperienced officers, due to constraints in staff availability
- Demanding particulars from tax payers, which are practically impossible to obtain or requesting information from systems which the tax payers have no control over
- Requesting to exempt tax payers from having to make penalty payments, on reasonable grounds

Public awareness is being enhanced on the free services rendered by the Tax Ombudsman. A poster campaign was launched at all branches and regional offices of the Inland Revenue Department, and at Banks, Financial Institutions etc.

Most cases referred to the Tax Ombudsman have been resolved at the initial stages itself, having called for observations from the relevant IRD officers. In other instances, inquiries have been held after having obtained observations. A favourable feature that is notable is the fact that complainants as well as IRD officers come prepared having studied the case thereby facilitating settlement of complaints. What is encouraging to note is that the existence of an independent Tax Ombudsman to whom the public are able to bring their grievances to, has facilitated the building up of a healthier relationship between the tax administration and the tax paying community.

Legal and Judicial Reforms Project Successfully Concluded

Activities of the Legal and Judicial Reforms Project (LJRP) of the Government of Sri Lanka, which operated under the Ministry of Justice and Judicial Reform, was concluded in February 2007. This project which was launched in 2000, was facilitated by the World Bank. The project operations was led by a Steering Committee, chaired by the Hon. Chief Justice, and assisted by the Hon. Attorney General, Secretary to the Treasury, Secretary – Justice Ministry, Secretary- Trade Ministry, Secretary- Judicial Services Commission and the Legal Draftsman. At the time of closure LJRP noted a substantial completion of the activities undertaken and also registered virtually total disbursements of allocated project funds. Salient reforms implemented through the LJRP are the following;

4. Reform Initiatives

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Box 4.3

Key Achievements under the Legal and Judicial Reforms Project

Enactment of new legislation and amendment of existing legislation were facilitated in emerging areas of Commercial Law. Related landmark achievement is the passage of the new Companies Act No.7 of 2007. The Anti Money Laundering Act No.5 of 2006 is another important legislation that was enacted. In addition, the Fines and Penalties structures in over 75 statutes were revised and updated with the passage of a consolidated statute, Increase of Fines Act No. 12 of 2005. Further, High Court of the Provinces (Special Provisions) (Amendment) Act No. 54 of 2006 was introduced to expand the appellate jurisdiction to regional level through High Courts of the provinces. This will expedite the dispensation of over 15,000 appeals backlog in the country, towards reducing laws delays.

Human resource development and knowledge enhancement was given priority through foreign training of members of the judiciary, the Attorney General's and Legal Draftsman's Departments and the staff of law schools. 175 members of the judiciary, 120 members of the AG's Department, 21 members of the LD's Department benefited from foreign training. 12 members of the judiciary, 8 members of the AG's Department, 18 members of the academic staff of law schools and 4 members from the Bar Association of Sri Lanka were sponsored for foreign scholarships to follow LLM and PhD programmes to gain specialized knowledge. Local training included 40 Scholarships to follow the Masters Program conducted by Sri Lanka Law College in affiliation with University of Wales, U.K. (15 Judges participated in a training program in Hong Kong and 15 part funded scholarships were sponsored for the local LLM program in 2006)

Law books were provided to libraries of the judiciary, the AG's and LD's Departments and the law schools. New course manuals were developed for Law schools and the Sri Lanka Judges Training Institute through local and foreign consultancies.

Emphasis was placed on the key need to improve infrastructure. In this effort, 2 new Court Complexes were built in the north and east and 25 existing court houses spread island wide were refurbished / renovated to be able to give a better service to the public and to make the judiciary more efficient. The Judicial Services Commission Building was renovated and refurbished to provide up- to- date facilities. The Office of the Registrar of Companies Building was also renovated. Refurbishments/ Renovations are being done to setup High Court of the Provinces in Matara, Kalutara and Ratnapura.

Alternate Dispute Resolution was promoted with the setting up of a Commercial Mediation Center. 35 mediators were given the first ever foreign training in India with the aim of facilitating a reduction in law delays.

8 selected courthouses in Colombo and Kandy were automated, aimed at avoiding laws delays and reducing possible human intervention to make the judicial system more efficient, through the use of facilities such as integrated audio and video recording of court proceedings and a centralized record tracking system. Test running and training is being conducted.

LawNet Phase II, Sri Lanka's up-to-date and modern legal database was launched, through which all laws, by- laws, important reported judgments, day's list of Superior Courts and information on reforms and judicial history are available to the public through the World Wide Web.

A Local Area Network was introduced to the Attorney General's Department, improving efficiency and the quality of work.

The multifaceted reforms implemented through the LJRP assisted in creating a positive impact in many areas as can be seen from the following analysis.

Trend of Cases Filed and Disposed

Data analysis of court cases filed and cases disposed etc. is a credible yardstick to measure the impact of reform initiatives.

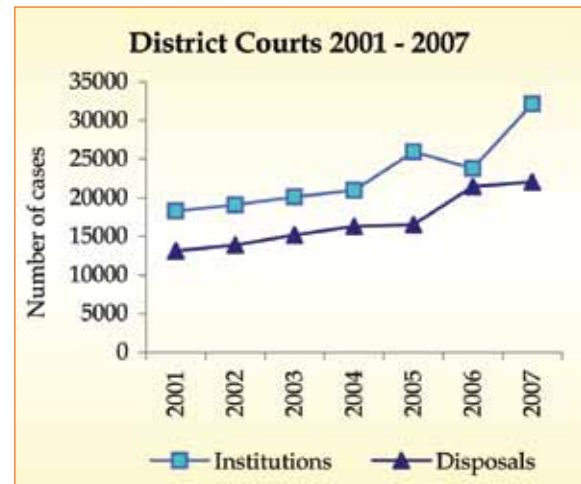
Chart 4.1



Source: Judicial Services Commission

There are 2 Commercial High Courts, both located in Colombo, dealing with commercial disputes, the value of which is over Rs. 3 Mn. and therefore most of the large commercial matters are filed in these Courts. What is notable is that the number of such cases dispensed against the number of cases instituted in the Commercial High Courts is on an increasing trend since 2004. Further, in 2007 such dispensations are substantially higher than in previous years which can be directly attributable to the automation of, inter alia, the Commercial High Courts in 2006. It is amply evident that the positive effects of automation are being demonstrated through greater dispensations. The increasing number of cases dispensed is bound to boost investor confidence in the court system for dispute resolution and would also facilitate the decrease of hidden costs associated with doing business.

Chart 4.2



Source: Judicial Services Commission

There are around 100 District Courts spread island wide and a large volume of cases filed in these courts represent cases involving disputes relating to land, money recovery, family matters such as divorce and custody of children and testamentary cases, which are time consuming by nature due to procedural aspects laid down in the relevant legislation. The number of cases filed in District Courts island wide shows a substantial increase which also demonstrates greater reliance of the public on the judiciary. The dispensations show only a marginal increase in 2007. Only 3 District Courts were automated in 2006 by the Legal and Judicial Reforms Project, under a Pilot Project. The accuracy of recorded evidence and facts and the confidentiality of the information are ensured by the audio/video recording facilities installed in court rooms. Further the electronic tracking system has helped to trace files and court records, in a timely manner.

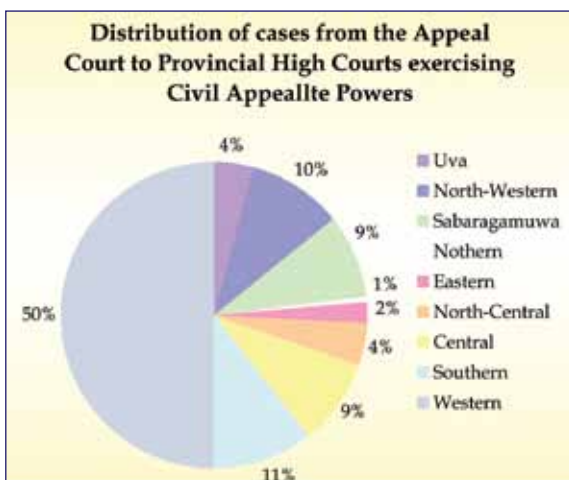
Judicial Infrastructure Maintenance Trust Fund Becomes Operative

Demonstrating Government's firm commitment to facilitate and sustain the reform process, the 2007 Budget provided funds to set up the Judicial Infrastructure Maintenance Trust Fund. Having set up the Trust Fund where the Secretary to the Treasury is the Settlor, the Board of Trustee have met on several occasions at the office set up in the Judicial Services Commission Premises. Having appointed the core support staff, a dedicated account has been opened at an identified state bank branch and the zonal development committees through whose facilitation the maintenance work at zonal level are to be carried out, are being set up.

Setting up of High Courts of the Provinces

In 2006, there were around 15,000 cases as a backlog, awaiting dispensation by the Courts of Appeal which were confined to Colombo. Resolving a long felt need, the High Courts of the Provinces were set up in terms of High Court of the Provinces (Special Provisions) (Amendment) Act No. 54 of 2006. Part of this backlog was distributed among 15 High Courts vested with this Civil Appellate jurisdiction in 2007, in the following manne,r aimed at early dispensation of such cases.

Chart 4.3



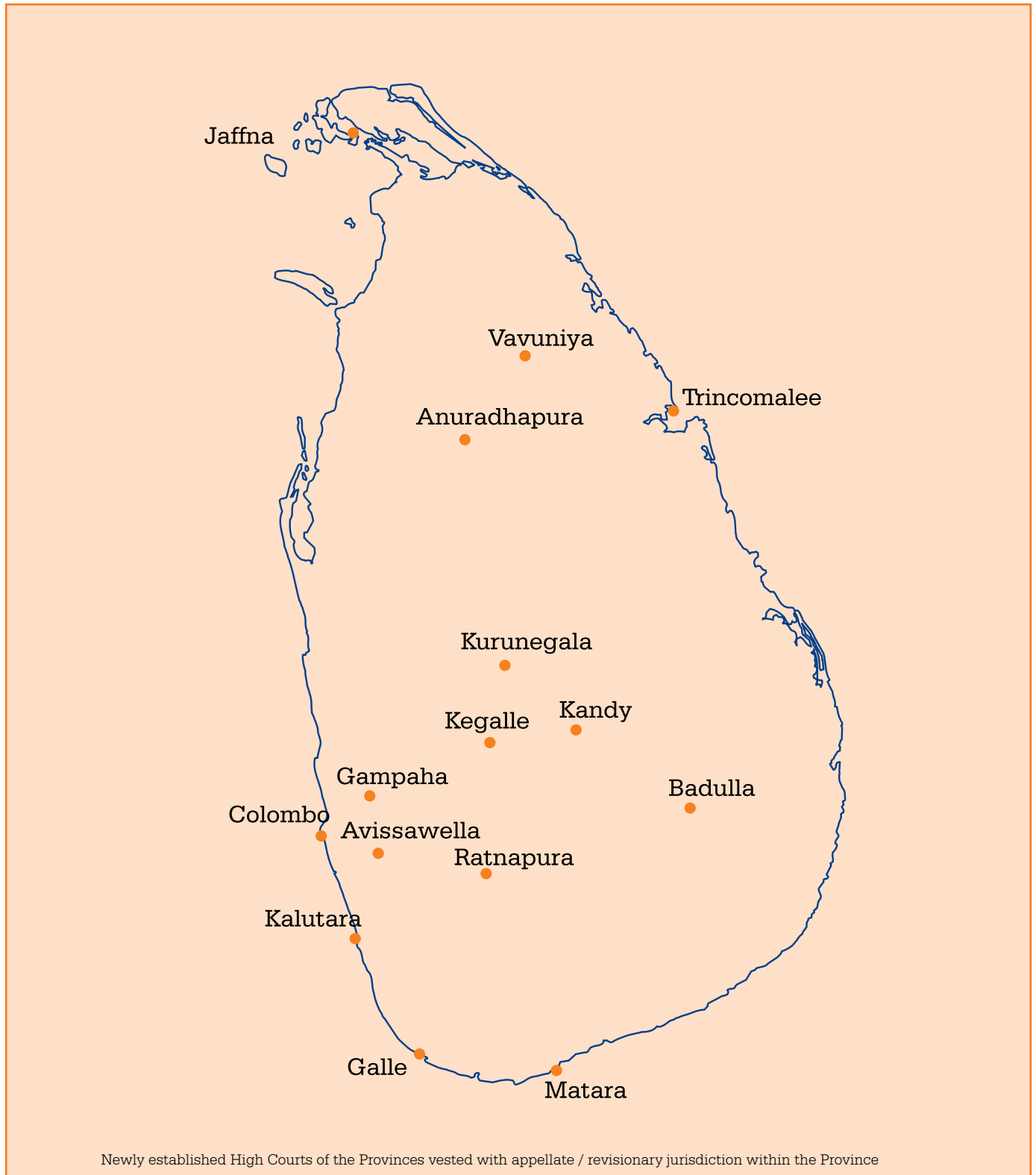
Source: Judicial Services Commission



Newly Renovated Kalutara High Court with Appellate Jurisdiction



Jaffna Court Complex opened in October 2007



Notable Advancements through Legislation - January 2007 to April 2008

A New Corporate Regime for Sri Lanka

The long awaited corporate law statute of Sri Lanka, the Companies Act No. 07 of 2007 came into operation in May 2007.

A host of benefits are seen in the new Companies Act, some of the important areas being the following;

- Incorporation made easier and simpler.
- Single shareholder companies, removal of the doctrine of ultra vires and the Memorandum
- Solvency Test, stated capital and capital maintenance, major transactions
- Minority buy-out and exit options, statutory Director's duties
- Statement by person ceasing to hold office as Auditor
- Statutory derivative action
- Company Disputes Boards,
- Easier provisions for resolutions etc
- Appointment of an Administrator.
- Special provisions for Secretary Treasury holdings(details are given later on in the Chapter)
- Provisions pertaining to electronically stored documents
- Realistic penalties for offences, a new process for re-registration and numbering of companies
- Clearer procedure for company litigation, dedicated Courts for company cases

COMPANIES ACT, No. 07 OF 2007

The new Companies Act is a user friendly statute which follows the provisions and principles of innovative corporate law of developed jurisdictions. It is a graduation of the Sri Lankan company law to a corporate law status, to be on par with trends in the global context. What is essential is for Company Directors and Company Secretaries to have a clear understanding on the new provisions of the law, to ensure that the companies Articles are amended accordingly. It is also important for the Company Secretaries to familiarise themselves with the new Forms, Notices etc. The Website of the Registrar of Companies Sri Lanka, provides further details of Forms, Fees etc.

A committee has been formed to formulate amendments (if any) to the Companies Act and the transitional issues are being looked at for possible amendments including, Section 271(a), definition of inability to pay debts – in the English Act it is Rs. 50,000/- and in the Sinhala Act it is Rs. 5,000/-Section 4(2), Single shareholder company - the wording of the section is being debated, Section 57, Solvency Test - this has been debated by many as certain companies in the field of Tourism etc. are faced with hardships, Certificate of solvency from the auditors – corporate community has raised concerns over this inclusion as it creates an additional cost to a company although this provision was introduced to the new Act on a suggestion made by the accountancy profession. Relating to Part XII - Winding Up, a new law dealing with restructuring sick companies is being looked at by drafters to further complement the provisions of the Companies Act in relation to winding up.

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The Registrar General of Companies is in the process of re-registering companies and issuing new company numbers. Although there is a substantial backlog, the process is being streamlined to ensure quicker registration. Rules of Practice for cases instituted under the provisions of the new Companies Act have been adopted, which would complement the forms and procedural aspects of company litigation.

Special Commodity Levy Act to Simplify the Taxing of Essential Commodities

Several measures were introduced by the Government in 2007 with a view to controlling continuous increases in prices of essential food commodities. A duty waiver on the importation of identified essential commodities was introduced in December 2006 which continued throughout 2007.

Apart from this duty waiver, Government also introduced a new composite tax in place of several taxes that were applicable on 10 identified commodities, in mid 2007. As approved by the Cabinet of Ministers in June 2007, this composite tax was made applicable to selected essential commodities i.e. to sprats, potatoes B-onions, peas, chickpeas, green gram, dhal, white sugar and canned fish and continued till 31.12.2007.

This arrangement was consolidated through the introduction of the Special Commodity Levy Act No, 48 of 2007, enacted in October 2007. As per the Special Commodity Levy Act No. 48 of 2007, the special commodity levy can be levied on an identified essential commodity effective for a period of more than 30 days, in lieu of other taxes, duties, levies, a cess or any other charge applicable to such items under any other law. The application of the levy comes into operation immediately upon the Minister affixing his signature to such order which thereafter is required to be gazetted as soon as possible and thereafter be approved by a Resolution of the Parliament. Director General of Customs is empowered to collect, administer, and recover this levy and the sums so collected should be remitted to the Consolidated Fund. In terms of the order published under the provisions of the Special Commodity Levy Act, the composite levy is applicable in the following manner;

SPECIAL COMMODITY LEVY ACT, No. 48 OF 2007

Table 4.2

Composite Levy on Essential Commodities

Commodity	Composite Levy / kg
Sugar	[Certified on 15th October, 2007] Rs. 14
Potatoes	Rs. 15
Sprats	Rs. 20
Peas	Rs. 15
B'Onions	Rs. 20
Chickpeas	Rs. 15
Green Gram	Rs. 13
Dhal	Rs. 6
Chillies	Rs. 30
Canned Fish	Rs. 25

Source; Fiscal Policy Department

Price : Rs. 7.00

Postage : Rs. 5.00

The rationale of the Government in introducing this Act was twofold. One was to simplify the tax administration with the imposition of a single levy since the usual taxes, charges or levies chargeable on such commodity items would cease to operate with the coming into operation of this composite levy. The other was to be able to ease the burden of the cost of living, by being able to influence the prices of such selected commodity items, by determining a composite levy that can be determined by order published in the gazette.

Promoting Local Reinsurance Capacity

The National Insurance Trust Fund Board (NITFB) was established by the National Insurance Trust Fund Act No. 28 of 2006, the primary objective of which is to provide benefits and safeguards to officers in the public service and the provincial public service, the more vulnerable segments and needy groups of the society, against unforeseeable risks related to health, personal accident and damage to properties, through a contributory insurance scheme. It envisaged promoting acquisition of equity interests in any company whose primary objective is to build dedicated medical wards and develop a public hospital system in the country to provide best medical assistance to those who are covered by this Act. The Trust Fund has in terms of the Act, absorbed inter alia funds lying to the credit of Samurdhi Social Development Trust Fund, Strike and Riot, Civil Commotion and Terrorism Fund and monies in relation to the Agrahara Insurance Scheme.

In view of the capacity that the National Insurance Trust Fund has to develop a reinsurance market, the 2007 Budget proposed that 50 percent of liability arising from contracts and policies of insurance, be reinsured with the NITFB, on a mandatory basis. However, as an initial measure the mandatory reinsurance requirement was set at 25 percent of the liability arising from contracts and policies of insurance. As such, amendments were made through Regulation of Insurance Industry (Amendment) Act No. 27 of 2007, to enable NITFB to engage in reinsurance as well as to accept reinsurance.

Like in the case of Sri Lanka Export Credit Insurance Corporation and Agrarian Insurance Board etc., NITFB was exempt from the application of the Regulation of Insurance Industry Act No.43 of 2000, through appropriate legal amendments *inter alia* considering the fact that the Regulation of Insurance Industry Act provides for registration as insurers, only public companies incorporated under the Companies Act No. 17 of 1982, to which NITFB does not belong and also acknowledging the fact that instead the insurers who are required to reinsure with the NITFB on a mandatory basis, are anyway governed by the Regulation of Insurance Industry Act. This ensures that copies of all their policies of reinsurance have to be forwarded to the Insurance Regulator for purposes of review so 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 the Director General of the Insurance Board of Sri Lanka was made an ex-officio member of the NITFB. Certain consequential amendments were also made to the Regulation of Insurance Industry Act No. 43 of 2000.

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Price : Rs. 6.00

Postage : Rs. 5.00

Encouraging Strategic Development Projects

The objective of this Act is to provide a tax free period to identified development projects of strategic importance with exemption from the applicability of the provisions of the enactments set out in the schedule thereto i.e.

- Inland Revenue Act No. 10 of 2006
- Value Added Tax Act No. 14 of 2002
- Finance Act No. 11 of 2002
- Finance Act No. 5 of 2005
- Excise (Special Provisions) Act No. 13 of 1989
- Economic Service Charge Act No. 13 of 2006
- Debit Tax Act No. 16 of 2002
- Customs Ordinance (Chapter 235 of the CLE)



Identification process of a strategic development project and the notification procedure in the gazette is laid down in the Act. Upon the expiry of a period of 30 days from such initial gazetting, the Minister in Charge of Investments, in consultation with the Minister in charge of Finance is required to inform the Cabinet of Ministers the rationale for considering such project as a Strategic Development Project and the period of exemption proposed to be granted, cannot exceed 25 years.

If approved by the Cabinet of Ministers, the Minister in charge of the subject of Investment is required to gazette within 6 weeks from the date of the Cabinet approval the name of such project, the period within which the exemption from tax is operative. Such order is required to be placed before Parliament within 3 months of gazetting and such order becomes operative only when approved by Parliament.

A Strategic Development Project means a project which is important in the national interest/ which is likely to change the landscape of the country consequent to its strategic importance in view of the proposed provision of goods/ services for the benefit of the public/ a project that would results in attracting a substantial inflow of foreign exchange to the country/ that would generate substantial employment or income earning opportunities/ envisages transformation of technology.

[Certified on 29th February, 2008]

This can be viewed as a step forward towards rationalizing the tax structure available under the present Board of Investment regime.

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Price : Rs. 4.00

Postage : Rs. 5.00

Establishment of the Sri Lanka Sustainable Energy Authority

In view of the many challenges faced by Sri Lanka in the energy sector, it is appropriate to think of long-term sustainability of energy in the country. The task is to ensure a continuous supply of electricity and petroleum products while managing the strategic balance between indigenous energy resources and imported fossil fuels, in the interest of the growing economy.

In order to conserve energy and develop renewable energy resources in Sri Lanka, an enabling legal framework was put in place through the enactment of Sri Lanka Sustainable Energy Authority Act No.35 of 2007 to transform the existing Energy Conservation Fund as Sri Lanka Sustainable Energy Authority, with wider objectives, powers etc.

The objectives of Sri Lanka Sustainable Energy Authority are to;

- Identify, assess and develop renewable energy resources with a view to enhancing energy security and thereby derive economic and social benefits to the country.
- Identify, promote, facilitate, implement and manage energy efficiency improvement and energy conservation programs for use of energy in domestic, commercial, agricultural, transport, industrial and any other relevant sector.
- Promote security, reliability and cost-effectiveness of energy delivery to the country, by policy development and analysis and related information management.
- Ensure that adequate funds are available for the Authority to implement its objects, consistent with minimum economic cost of energy and energy security for the nation.

[Certified on 18th September, 2007]

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Published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka of September 21, 2007

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TO BE PURCHASED AT THE GOVERNMENT PUBLICATIONS BUREAU, COLOMBO 5

Price : Rs. 24.00

Postage : Rs. 12.50

Box 4.4
Salient Provisions of the Companies Act No. 7 of 2007

- **Re Registration**

Under section 485 of the Act, an existing company is deemed to be incorporated under the new Act through re registration within 12 months from the 03rd of May 2007, which is the date on which the new act came into operation, and obtaining a new number. The company number is required to be used in all documents of the company.

- **Articles of Association**

The new Act did away with the Memorandum of Association and retained only the Articles of Association. In the case of existing companies, the old memorandum would be deemed to form part of the Articles with effect from 03rd May 2007. Further, the Act provides for the establishment of general business purpose companies, which would have no restrictions on the types of business it could carry out. However, there is no prohibition on the inclusion of objects in the Articles.

- **Capital**

Under the new Act, there is no concept of a par value of a share. The total amount received or due and payable to the Company in respect of the issue of shares, forms the stated capital of the company. Section 52 of the Act requires the Board of Directors to resolve that in its opinion the consideration on an issue of shares is fair and reasonable to the company and to all existing shareholders. Section 64 of the Act provides that a company could buy- back its shares with board consent at a fair and reasonable value to both parties.

- **Distribution and Solvency Test**

A distribution is the transfer of money or property of a company other than shares, for the benefit of a shareholder. This includes the payment of dividends, any repurchase or redemption of shares and any reduction of the Stated Capital involving the return of money to share holders. A distribution must be authorized by the Board, and unless the Company's Articles provide otherwise, must be approved by the shareholders by Ordinary Resolution. The Board must also be satisfied that after the proposed 'Distribution' the company will satisfy the Solvency Test.

A company is deemed to have satisfied the Solvency Test if, a) it is able to pay its debts as they become due in the normal course of business, and b) the value of the Company's assets is greater than the value of its liabilities and its stated capital.

- **Potential Insolvency and Serious Loss of Capital**

Section 219 of the Act requires any Director who believes that the company is not able to pay off its debts as they fall due, to immediately call a Board meeting to decide whether the company should continue or be wound up. This section imposes a serious responsibility on Directors as far as creditors are concerned, and it is important that the procedural requirements as well as the assessment of the company's ability to pay debt is done correctly and in a timely manner.

Section 220 of the Act provides that if it appears to any Director that the net assets of the Company are less than half its stated capital, the Board should convene an Extraordinary General Meeting of the shareholders to do the needful.

- **Directors Duties**

The new Act has given new powers to Directors. Similarly, it has also imposed additional obligations specifically setting out certain duties, which were hitherto part of the Common Law and not specifically set out in the Act. The general duties of a director may be briefly listed as follows:

Box 4.4

Salient Provisions of the Companies Act No. 7 of 2007 Contd.

- To act in good faith and in the best interests of the Company (section 187)
- To comply with the Act and the Company's Articles of Association (section 188)
- Not to act in a manner which is reckless or grossly negligent but to exercise a degree of skill and care that may be reasonably expected of a person of his knowledge and experience.
- To make any disclosure of interests (section 192)
- Not to make use of company information other than for the purposes of the Company (section 197)
- To disclose any share dealings he has had with the company (section 200)
- To approve remuneration and other benefits for directors only as provided for in section 216
- Not to give loans or provide guarantee or security to a director unless permitted under section 217.
- To act as provided for in section 219 in a situation of potential insolvency.
- To call an Extraordinary General Meeting (EGM) if it appears that there is a serious loss of capital.

• Major Transactions

Section 186 of the Act provides that the Company shall not enter into a major transaction unless approval has been obtained by way of a special resolution for such transaction or the transaction is subject to such approval or it is expressly provided for in the Articles. A 'major transaction' is defined as: a) an acquisition or disposal involving more than half the value of the assets of the company or b) the acquisition of rights or obligations amounting to more than half the value of its assets or c) transactions which have the purpose or effect of substantially altering the nature of the business carried on by the company.

• Special Rights of the Government

The new Act has introduced the concept of single shareholder companies. The Secretary to the Treasury is empowered to incorporate a single shareholder company, to be owned by the Government.

Section 139 provides for the Secretary to the Treasury to appoint another person, as his proxy for every 10 percent or part thereof, of a shareholding of a company held by the Secretary to the Treasury on behalf of the Government, and to appoint 3 persons, as his proxies, when the Secretary on behalf of the Government is a holder of a 'Golden Share' in a company and to attend shareholder meetings.

Under section 144, subject to the Company's Articles, a Resolution signed by not less than 85 percent of the Shareholders entitled to vote, enables the company to pass Resolutions in writing on a matter that is required by the Act or by the Articles to be decided at a meeting of the Company. However, where the Secretary to the Treasury is a holder of a share in a company, any such resolution referred to in section 144 is not valid unless the Secretary to the Treasury's consent has been obtained in favor of such Resolution.

• Minority Buy Out Rights

A minority shareholder who has voted against the resolution is entitled to use his minority buy out rights and require the company to buy out his shares. The company would be required to purchase his shares at an agreed price, failing which at a price considered fair and reasonable by the Auditors or failing which at a price determined by court.

• Accounts and Annual Return

Section 148 of the Act requires a company to keep accounting records, which will a) enable the financial position of the Company to be determined at any time; b) enable the Directors to prepare accounts in accordance with the Act and c) enable the financial statements to be readily and properly audited.

Box 4.4

Salient Provisions of the Companies Act No. 7 of 2007 Contd.

The accounts need to be prepared within 06 months of the Balance Sheet Date and they need to be certified by 2 Directors and the person responsible for its preparation. A private company need not file its accounts with the Registrar of Companies.

The Annual Report should be prepared within 06 months of the Balance Sheet Date and sent to the shareholders not less than 15 days before the AGM. This report would contain amongst other things the Financial Statements, the Auditor's Report, entries made in the Interest Register and the names of Directors.

- **Private Companies**

The Act has granted certain benefits and dispensations to Private Companies, which are of importance. These include a) by unanimous resolution of its shareholders such a Company may dispense with the requirement to keep an Interest Register b) by unanimous agreement of its shareholders the Company may authorize the taking of any action notwithstanding the fact that it may be contrary to any provision in the Articles and c) by unanimous agreement of its shareholders, the Company may dispense with certain requirement as provided for in the Act relating to procedures.

- **Single Shareholder Company**

As per Section 4 (2) a single shareholder company may be incorporated inter alia when the shares are held by the Secretary to the Treasury for and on behalf of the Government..

- **Board of Directors**

As per Section 184/ 185 , subject to the Articles of Association, the business and the affairs of a company is managed by the board of the company with powers necessary for managing, directing and supervising the business and affairs of the company. Major transactions have to be approved by a special resolution and consent is required in writing from all shareholders of the company.

- **Inspection of Records**

Under Section 118, Directors are entitled to inspect written records of the company without a charge, after giving reasonable notice. If the Court considers it is in the best interest of the company or properly connected with Director's duties, it can make an order to make records available.

- **Preparation of Financial Statements**

As per Section 170, the board has an obligation to prepare financial statements, in compliance with the provisions of the new Act. These statements should reflect the state of affairs of the company as at the balance sheet date and the profit or loss or income and expenditure, as the case may be, of the company for the accounting period ending on that balance sheet date. Copies of these statements together with a copy of the Auditor's Report on those statements should be registered with the Registrar as per Section 170.

- **Appointment of Directors**

Section 203 of the Act requires that a person proposed to be appointed as a director should give his consent thereto and also provide a certification that he is not disqualified from being appointed or holding office as a director . Subsequent directors of a company should be appointed by ordinary resolution unless the articles of the company otherwise provided. The removal of a director is required to be done by a ordinary resolution passed at a meeting called for the purpose or for purposes that include the removal of the director.

- **Age of Retirement of a Director**

As per Section 210/211, the retiring age of a director is 70. However, a director upon reaching the age of 70 years can be re-appointed on a resolution approved at a general meeting of the company and` such appointment is valid only for one year from his date of appointment.

Box 4.5**Proposed New Statutes/Amendments to Existing Statutes**

Drafting of the following new statutes /amendments to existing statutes are in progress with the assistance of the Legal Draftsman's Department, to further facilitate reform initiatives undertaken by the Government.

Thoroughfares Act
 Securitization Act
 RDB Bank Act
 Micro Finance Institutions Act
 Recovery of Tax Arrears (Special Provisions) Act
 Motor Traffic (Amendment) Act
 Credit Information Bureau (Amendment) Act
 Forest Ordinance (Amendment) Act
 Regulation of Insurance Industry (Amendment) Act

Setting up of Sri Lanka Savings Bank

Sri Lanka Savings Bank was opened in March 2008 having obtained a licence from Central Bank in late 2006 and all deposits of the failed Pramuka Bank were transferred to the new Bank to be treated as deposits of Sri Lanka Savings Bank, having made the required legislative changes. During the year 2007 preliminary action essential to commence operations were taken, including the recruitment of staff, product development, schemes on withdrawals and setting up of a recoveries unit.

The closure of Pramuka Savings Bank in October 2002 led to an erosion of confidence of small time depositors in the country. A large number of small time depositors who maintained deposits with Pramuka Bank were put into severe economic hardships due to this bank's failure in meeting its obligations. In desperation, depositors even filed action against the Central Bank to recover their losses and the Central Bank's initial proposal was to liquidate Pramuka Bank.

Having examined financial and economic hardships to the people as well as the imminent implications on banking and financial sector development, the Government decided

to provide the required safety to these aggrieved depositors and restore confidence in the banking and financial sector, which had suffered consequent to the closure of Pramuka Bank. In this backdrop, it was deemed prudent to set up a special savings bank to which deposits of the Pramuka Bank could be transferred along with the asset base of Pramuka Bank.

However, since Pramuka Bank has not maintained a proper asset portfolio, it was decided that depositors of Pramuka Bank would be able to withdraw their deposits transferred to the new savings bank only after 3rd June 2008 as per a scheme approved by the Central Bank of Sri Lanka. This was decided having consulted the depositors with a view to ensure that the new savings bank will be able to consolidate its future development plan. As a stability measure, the investments of the new savings bank were confined to Government bonds and securities.

Revision of Financial Regulations

Financial regulations which Sri Lanka inherited from the British rule were revised from time to time to accommodate the changes in the administrative structure of the Government. Financial Regulations deal with Estimates of Expenditure and Revenue, Authorization for Expenditure, Refunds and Write-Offs etc., Financial Management and Accountability, Receipts, Custody of Public Money etc., Imprests and Bank Accounts, Accounting procedures, Advance Accounts etc., Printing and Publication, Supplies, Works and Services and Miscellaneous Provisions. These regulations have been laid down by the Government to facilitate carrying out its financial transactions in an orderly and accountable manner and are not intended to be an obstruction to the execution of Government's program of work. These regulations were last revised in 1992, to update through the inclusion of amendment made up to 31.12.1991. Chapter XIII of the Financial Regulations have been replaced with Government Tender Procedures and Guidelines issued and supplementing Procurement Guidelines – 2006.

In order to meet the new demand of the era, it was deemed prudent that these financial regulations be further revised and the proposed changes aim at achieving the following;

- Remove obsolete/redundant provisions associated with activities/financial functions which are no longer in operation.
- Change the limits of financial authorities which are not adequate in the context of prevailing financial and economic considerations.
- Introduce new provisions to enable the utilization of modern technology.
- Delete rules that have been identified as involving repetitions, duplications and overlapping.
- Improving transparency and accountability with regard to financial operations.
- Enhance flexibility of the financial procedures.
- Minimize paper-work and bureaucratic procedures
- Introduce user-friendly documents.
- Strengthen the clarity pertaining to authority and responsibilities.

The new Financial Regulations have been now finalized and are due to be released shortly.

Centralized Public Asset Management

Having assessed the recent trends in budgetary provision allocations for the acquisition of assets for ministries and departments, the Ministry of Finance and Planning placed greater emphasis on the need to better manage government assets, for which maintenance of accurate updated information is crucial. Public Finance Department being in charge of associated matters took initiatives to collect all asset related information of Ministries and Departments.

As set out in Public Finance Circular No.422 which was issued on 30-07-2006, the primary objectives of this exercise are to;

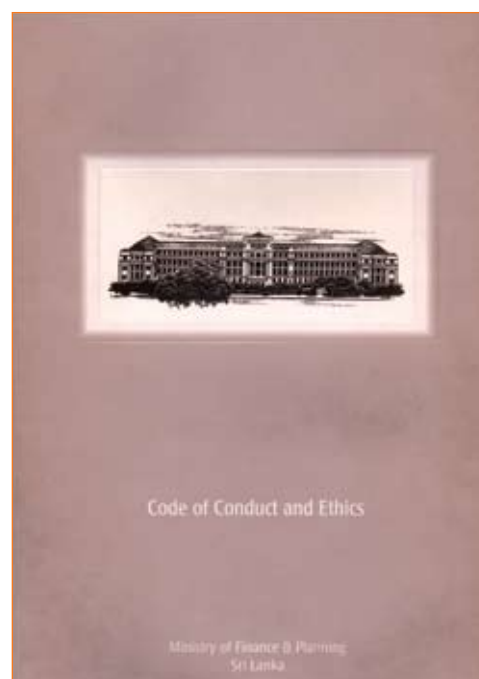
- Maximize usage of assets
- Avoid holding idling assets
- Ensure a rational resource allocation for the acquisition of assets
- Formulate strategies for proper utilization of assets
- Establish a proper mechanism for sharing of assets

Providing accurate, timely and up-to-date information is critical to enable effective decision making with regard to

asset management and considering the volume, locations etc. of government assets of around 170 government agencies, the manual data processing mechanism is no longer practical. The new computerized data base that was developed with technical assistance from the Fiscal Management Reforms Program has been fed with related data received from 54 Ministries, 83 Departments and 22 Divisional Secretariats, which would be updated on a continuous basis. This database facilitates the maintenance of accurate information, generation of management reports, analysis of such information and monitoring of idling assets.

Code of Conduct and Ethics for the Ministry of Finance and Planning

In the wake of increased demand for a quality Public Service with emphasis on governance and accountability in which public servants are expected to deliver maximum value to the public, out of limited resources, the MOFP being the Ministry responsible for the conduct of Public Finance and involved in planning, deemed it appropriate to publish a Code of Conduct and Ethics.



This Code places emphasis on best practices, superior systems, and effective processes and is intended to communicate in a nutshell the key aspects and norms which are considered important to public officials towards promoting self discipline. The Legal Framework of Public Finance as set out in the Constitution, Salient aspects of Financial Regulations, are explained briefly.

The following are the areas which have been given emphasis in the Code, while also cautioning on the associated statutory rights and obligations;

- The true spirit in which the public should served
- Financial regulations concerning governance and accountability and Administrative Regulations, Public Service Commission Rules, Procurement Guidelines - 2006 and such other relevant guidelines and circulars on administrative aspects
- The importance of maintaining secrecy /confidentiality, where necessary
- Importance of avoiding situations that may give rise to a Conflict of Interest
- Transparency and accountability that is paramount when dealing with Public Property and Public Funds with emphasis on the statutory provisions contained in the Offences Against Public Property Act No.12. of 1982,
- The need to maintain a good working environment
- Importance of punctuality/availability
- Offences by/ or relating to public servants with emphasis on the provisions of the Penal Code
- Chapter IX- of Offences by/or Relating to Public and Bribery Act No. 11 of 1954 (as amended)
- Constitutional provisions on official languages and the link language and the need to respect language preferences of the public
- Declaration of Assets and Liabilities with emphasis on provisions contained in Declaration of Assets and Liabilities Law No. 1 of 1975
- Importance of payment of taxes in terms of the Inland Revenue Act No 10 of 2006,
- Human Resource Development
- Leave and the associated principle that leave may be refused or varied due to exigencies of services

Guidelines on the Use of Assistance from Non - Governmental Organizations (NGOs)

Non-Governmental Organizations are increasingly involved in the provision of financial assistance as well as in the implementation of development projects and programs at national and regional levels. The Ministry of Finance and Planning issued guidelines to ensure that such operations fall within the Government's development framework and to ensure that funds required for such development are channelled in a manner that protects the national interest of the country. The guidelines are as follows.

- The Secretary to the relevant line Ministry is required to ensure that NGOs that operate in national level projects and receive foreign funds are registered with the NGO Secretariat of the Ministry of Social Services and Social Welfare. This requires that the prior clearance for registration be obtained from the Center for Non Governmental Sector (CNGs) of the Ministry of Finance and Planning, at which stage the source of funding will be verified.
- The Secretary of the relevant line Ministry is required to ensure that projects assisted by NGOs receives his concurrence for such activity. The NGO projects which operate at District Level or in such other smaller areas within a district should have concurrence of the District Secretary for each activity.
- The Secretary of the relevant line Ministry or the District Secretary as may be relevant, is required to ensure that NGO funded projects are integrated into the ongoing development activities in the relevant sector.
- A Memorandum Of Understanding (MOU) setting out the framework for the implementation of each specific NGO funded project is required to be entered into between the relevant line Ministry Secretary or the District Secretary and the NGO. The MOUs for foreign funded NGO assisted projects should be cleared by the Department of External Resources of the Ministry of Finance and Planning.

- The Secretary to the relevant line Ministry/District Secretary should establish a proper mechanism to regularly monitor/review the progress of NGO funded projects.
- The NGO should open and maintain a bank account with a reputed commercial bank and transfer of funds should be made through this account.
- If NGO assistance is provided in the form of cash grants for projects implemented by Government agencies, such funds should be channeled through the Treasury, following provisions in the Government Financial Regulations.
- As part of monitoring of NGO assisted activities at national or district level, the Secretary of the line Ministry or the Divisional Secretary as the case may be should request the NGO to submit Annual Accounts of the projects funded by the NGO and its tax status audited by a reputed audit firm.

This is in addition to instructions issued by the Governor of the Central Bank of Sri Lanka on 30th January 2007 on the “Proposals for Foreign Loans and Grants based on Government Guarantees” to prevent funds that may be channelled through illegal sources including funds connected to money laundering and/or terrorist financing and/or any other activity undermining the national interest.

A Mandatory Code of Corporate Governance for Banks

The need for a Mandatory Code of Corporate Governance was felt due to the significance of the business of banks in the economy in the backdrop of current global developments in corporate governance practices. It is important that investors as well as depositors have the comfort of safety of their investments, deposits and funds, ensured by the management of the financial organizations entrusted with soliciting such investments and deposits. In recent times in the global picture, different codes of corporate governance have been developed including the OECD Code of Corporate Governance, Common Wealth Association Code of Corporate

Governance and Basel Committee on Bank Supervision, BIS Corporate Governance Code for Banks.

Since the Central Bank of Sri Lanka has a statutory responsibility to ensure price and economic stability as well as financial system stability, it uses the regulatory and supervisory authority to ensure soundness and the stability of the banking system, which is a prerequisite for the financial system stability. In the exercise of powers conferred by the Banking Act No 30 of 1988 (as amended) and the Monetary Law Act No 58 of 1949 (as amended), the Monetary Board of Central Bank of Sri Lanka issues directions inter alia on corporate governance for licensed banks in Sri Lanka. The implementation of the new Mandatory Code of Corporate Governance issued in December 2007 is expected to improve the soundness of the banking system which is vital to safeguard the interests of stakeholders of the banking system such as shareholders, creditors, regulators, depositors and the public and to maintain financial system stability.

These rules of Corporate Governance are based on generally accepted principles. The key areas covered by the rules are the following;

- Responsibilities of the Board, Board Composition
- Criteria to assess the fitness and propriety of Directors
- Management functions delegated by the Board
- Chairman and the Chief Executive Officer
- Board appointed Committees
- Related party transactions, Disclosure Requirements

Mandatory Code was required to be complied with, with effect from 1st January 2008 subject to the transitional provisions. Total compliance is expected by 1st January 2009. Strengthening corporate governance in banks is also important in preparing for the implementation of the new Basel II Capital Adequacy Framework.

Two further directives were issued in April 2008 changing some of the provisions in the said code pertaining to incumbent Chairmen and Founder Directors relating to committed age to hold office, the number of companies in which they could serve and the maximum period of such service.

Adoption of Basel II Capital Adequacy Standard

In the backdrop of the Basel Committee on Banking Supervision (BCBS) releasing the document “International Convergence of Capital Measurement and Capital Standards: A Revised Framework” in June 2004 which is well known as Basel II, bankers and the regulators all over the world have endeavoured to adopt this revised framework. Marking an important milestone in banking regulation and supervision Basel II attempts to address some of the deficiencies in the previously adopted capital adequacy standard, Basel I. Basel II has three interlinked pillars, namely, minimum capital requirements, supervisory review process and market discipline.

In addition to the credit and market risks, capital charge for operation risks has also been introduced by Basel II and it seeks to balance the leveraging of internal risk systems with supervisory prudence. Countries are expected to adopt the options and approaches that are most appropriate for the state of their markets, their banking system and their supervisory structures. Central Bank of Sri Lanka has adopted the Basel II Capital Adequacy Standards for all licensed banks in Sri Lanka effective from January 2008. Accordingly, all banks are required to follow the standardized approach for credit risk, standardized measurement approach for market risks and basic indicator approach for operational risks, commencing from 1st January 2008. In the process of adoption of Basel II, the Central Bank of Sri Lanka has made certain modifications to suit local conditions.

Capital Market Improvements

The Securities and Exchange Commission (SEC) took the following measures during 2007 to encourage and promote the development of the Capital Market.

- A Program Management Office was established under the Capital Market Development (CMD) division to promote and support the development of the Sri Lankan capital market.
- A Corporate Bond Development Task Force with representations of all market stakeholders was set up to develop a vibrant corporate bond market.
- Jathika Isura was incorporated under the new

Companies Act to efficiently manage state assets and distribution of wealth amongst the rural masses through the conduct of unit trusts.

- A benchmark study of corporate filing systems in Hong Kong and Singapore was carried out and proposals were called to introduce the said system in Sri Lanka.
- The Rules on Corporate Governance for Listed Companies which were developed in association with the Institute of Chartered Accountants of Sri Lanka were incorporated in the Listing Rules of the Colombo Stock Exchange, enforced with effect from 01st April 2007.
- Three interactive seminars for the Chairmen and Board of Directors of all listed companies were conducted to highlight the salient features of the new rules on Corporate Governance.
- The Financial Services Academy (FSA) was launched in March 2007 with the primary focus of enhancing knowledge and skills of professionals in the Capital market and Insurance industry.
- The FSA conducted two insurance related courses, four Capital Market Development Programs and a public seminar. The FSA further prepared a self-study guide for capital market titled “Foundation Course in Capital Markets” and in consultation with ADB formulated the draft document with regard to the qualification framework for financial industry professionals in Sri Lanka.
- Seminars, workshops and awareness programs were conducted targeting undergraduates, commerce stream teachers and students, bank staff and staff of the Chamber of Commerce.
- A new surveillance system that is equipped with investigation tools, market reconstruction facilities and alert management tools etc., to detect market violations was identified.
- A Risk Based Supervision (RBS) methodology for brokers, dealers unit trust management companies and for other market intermediaries was developed.
- Industry Advisory Committee was set up to advise the SEC's derivatives initiative and the Securities and Exchange Commission Act was amended to provide for derivatives, derivatives exchanges, and clearing corporations.

- To reduce risks associated with the settlement cycle, Colombo Stock Exchange was directed to adopt a single tier settlement cycle of trade day + (T+3) from December 2007.
- A legal review was carried out on the proposed amalgamation of two broking firms licensed by the SEC and conditional approval granted.
- Guidelines to adhere with the Financial Transactions Reporting Act, Mandatory Know Your Customer and Customer Due Diligence were issued to Stock Brokers, Stock Dealers and Market Intermediaries as directed by the Financial Investigations Unit of the Central Bank of Sri Lanka.
- A preliminary review of the proposed amendments to the listing rules to be in line with the provisions of the Companies Act No.7 of 2007 was conducted and discussions in this regard held with the Colombo Stock Exchange.

A Treasury Single Account

A Treasury Single Account (TSA) enables there to be one master account for all receipts and payments, build linkage electronically with the branch network through advanced ICT providing instant receipts and payments and updating all ledger accounts and final accounts. This system provides ready access to information from the center, facilitating registration of both commitments and receivables.

Introduction of a modified Treasury Single Account that enabled Government transactions to be operated through a Main Bank Account (MBA) which is electronically linked to Subsidiary Bank Accounts (SBAs), Third Level Bank Accounts – Subordinate Bank Accounts was completed in 2007. This system provides facilities to rearrange all government bank accounts in a sequential manner with any required changes, enabling all bank accounts of government ministries and departments to act as sub accounts of the Main Bank Account.

The Government Account which is maintained in the name of Deputy Secretary to the Treasury is generally operated by the Treasury Operations Department in Bank of Ceylon(BOC) and Peoples' Bank (PB)- the two State Commercial Banks.

Once a Single Accounting System is fully operational, it will enable all receipts to any subsidiary or subordinate account located throughout the country to be credited to the DST Account or the main account, at the end of each day and all money released to such accounts will become debited to the DST Account only when the ultimate beneficiary gets the payment. Further, this will also enable strict cash management, superior budget execution,, production of timely and reliable information on operations of the public sector, a better expenditure control mechanism, a smoother cash and debt management, reduced expenditure on interest to the Government, ultimately creating stability in Money and Capital Markets operations due to reduced Government borrowings.

A circular was issued to all Heads of Departments and Secretaries to Ministries in September 2007, requesting them to stop operations of bank accounts which are being operated , on 31st October 2007 and to have alternate bank accounts newly opened before 31st October 2007 ensuring the transfer of cash balances in the closed accounts as of 31st October 2007 to the associated new bank accounts. Instructions were also given to the effect that any bank balance arising consequent to any un-presented cheques as at 31st December 2007 in any old bank account should be remitted to the Treasury Operations Department. Accordingly, all old bank accounts were then closed by end December 2007, with a grace period of 1 more month granted to help those who could not take action within the stipulated timeframe.

To facilitate this process, BoC and PB reserved 3000 bank account numbers as a lot from each bank and account numbers were allocated appropriately by the Treasury Operations Department. 100 percent of Agency Level Accounts (2nd Level) and 70 percent of Sub Level Accounts (3rd Level), were opened before the due date and the balance before 31st January 2008. BoC and PB were advised to start sweeping the balances of 2nd and 3rd level accounts to the DST's Account at the end of each day and to reverse the same , the following morning. While BoC achieved 100 percent success in implementing the process, PB achieved 70 percent success due to certain technical difficulties that were encountered.

A More Representative Price Index

A Consumers' Price Index serves a number of purposes. It is an indicator to measure the changes in the general level of consumer prices. It is used as one of the key indicators of inflation and used for socio-economic analyses and policy purposes mainly in the determination of monetary policy. It is also used in the indexation of wages. Consumers' price index is further used to deflate the current values in National Accounts to obtain real values. An obsolete and inappropriate index can produce misleading signals for economic analysis and policy formulation and decision making.

The Colombo Consumers' Price Index (CCPI)

The CCPI is the country's official price index and is computed monthly by the Department of Census and Statistics (DSC). The weighting pattern used in the CCPI is based on average household expenditure of a sample of 455 working class households selected from the Colombo Family of the Budget Survey of 1949-1950 and revalued at the base year's annual average price of 1952.

Significant changes have taken place in consumer habits, family incomes and expenditure patterns, in the range and the quality and availability of goods and services. Therefore, the CCPI is outdated and unrealistic to be applied in the present context. In this background the Census and Statistics Department published a new Colombo Consumers Price Index since December 2007 to give a more reliable Consumer Price Index to the public.

Main Features of the New Colombo Consumers' Price Index: (CCPI(N))

- A Recent Base Period: The 12 month period covering January-December 2002, for which comprehensive household expenditure survey data available was selected as the base period for CCPI(N). The total monthly value of the base period expenditure level on the basket of goods and services in the CCPI (N) is Rs 17,996.38. This expenditure level is about 88 times greater than the base period expenditure level of Rs. 202/- in the CCPI. This increase reflects the increased

expenditure due to higher incomes, prices and the changing composition of the consumption basket.

- A Wider Basket of Goods and Services: The CCPI (N) has a larger consumption basket than in the CCPI. It contains 83 sub-classes of goods and services further categorized into 10 groups, as against 38 sub-classes and 5 groups in the CCPI. The share of food category has decreased to 46.7 per cent in the CCPI (N) from 68.3 per cent in the CCPI, while the Non-food category has increased to 53.3 per cent from 31.7 per cent due to the current consumption being biased towards a wider consumption baskets.
- Full Year Coverage of Consumption Patterns: Expenditure weights were obtained using data on household expenditure in the survey during the 12 - month period, from January to December 2002. Therefore, it has captured the seasonal variations of consumption patterns as well.
- Wider coverage of consumers living in different areas in the Colombo District: The geographical coverage of the new index has been widened to cover the urban areas of the Colombo District, i.e. Sri Jayawardenapura Municipal Council, Dehiwela-Mt. Lavinia Municipal Council, Moratuwa Urban Council, Kolonnawa Urban Council, Seethawakapura Urban Council, Maharagama Urban Council, Kesbawa Urban Council and Borelasgamuwa Urban Council.
- Coverage of all socio-economic groups: The survey covered 1,300 households in the areas listed above and hence includes all socio-economic groups, in urban areas of the Colombo District. The average household size was 4.5 persons in the case of CCPI(N) compared to the household size of 5.9 persons in the CCPI. This together with the wider geographical coverage of urban locations in the Colombo District, make the new index more representative of consumer expenditure of different socio-economic groups.

- Twelve Price Collection Centres: The price collection for the new index has been widened to cover 12 price collection centers in Pettah, Maradana, Wellawatta, Dematagoda, Grandpass, Borella, Kirulapone, Dehiwala, Kotte, Nugegoda, Kolonnawa and Ratmalana compared with 7 markets used for the CCPI.
- Exclusion of Alcohol, Tobacco and Narcotics: The CCPI(N) does not include alcoholic beverages, tobacco and narcotics as an expenditure item in the consumption basket, consistent with government policy, discouraging their consumption.
- Laspeyres base Weighted Price Formula: The method for computing the CCPI(N) is same as that is used for the computation of CCPI. It uses the Laspeyres base weighted price index formula with fixed weights proportional to the expenditure pattern of the new base period.

Pricing Reforms

Wheat Flour

Subsidising the price of wheat flour can be traced back to the late 70s associated with the PL 480 grant. The pricing of flour was determined by the Government *inter alia* based on welfare considerations overlooking the impact on the producer price for paddy.

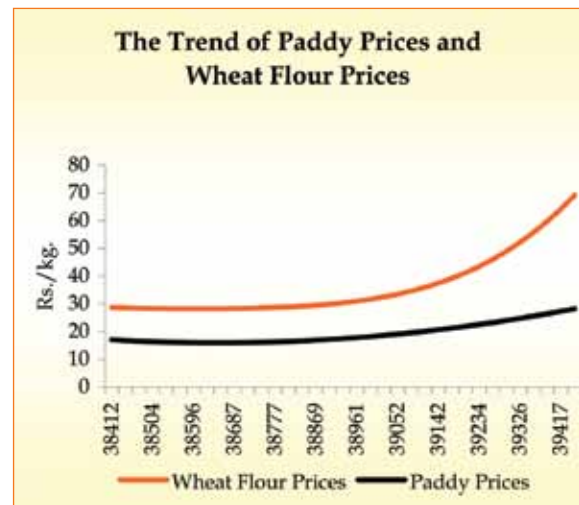
The Government took a bold decision to remove the subsidy from March 2005, in a bid to shift the consumption from wheat flour to rice / rice flour in the interest of domestic agriculture. In 2006 and 2007 flour prices were adjusted in the backdrop of increasing global prices. .

Chart 4.4



Source: Fiscal Policy Department

Chart 4.5



Source: Fiscal Policy Department

A noteworthy development in 2007 was the substantial shift of the consumption pattern from wheat flour to rice, with the average monthly wheat flour consumption declining by about 15 percent, to around 52,000 MT from 60,000 MT due to the removal of the flour subsidy. This also helped to improve the producer price of paddy in 2007 significantly, raising market paddy price excluding government guaranteed price.

Petroleum

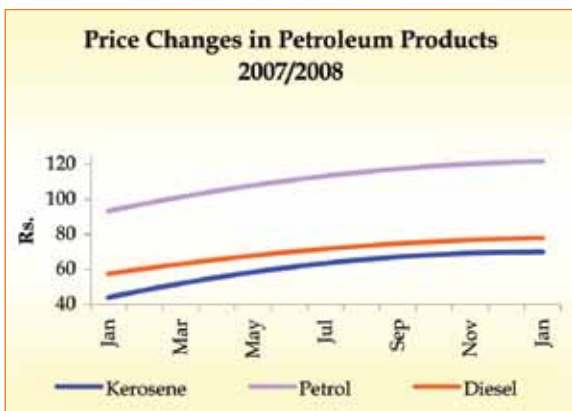
In 2003, petroleum prices were pegged to a pricing formula, on the basis that monthly adjustments were made internally based on price movements. However, due to unprecedented price hikes in global oil markets, the Government resorted to a subsidy mechanism in January 2004. The exceptionally high oil prices compelled the Government to resort to difficult price reforms to prevent accumulation of large budgetary losses. Considering the severe burden that the public are bound to encounter, the Government opted for gradual adjustments while maintaining the kerosene subsidy for the benefit of vulnerable groups. Domestic fuel prices were increased during 2007, with the price of petrol being increased to Rs. 117 per litre and diesel to Rs.75 per litre from Rs.60. Kerosene prices however were maintained below cost in the interests of the poor.

Fertilizer

In a bid to gradually move towards pricing reforms, the fertilizer subsidy was targeted at the less affluent farming community with a view to reducing the upfront costs towards promoting agriculture. The subsidy was made applicable to all varieties of fertilizer for paddy and was provided at Rs. 350/- per 50 kg bag. This was introduced when the paddy

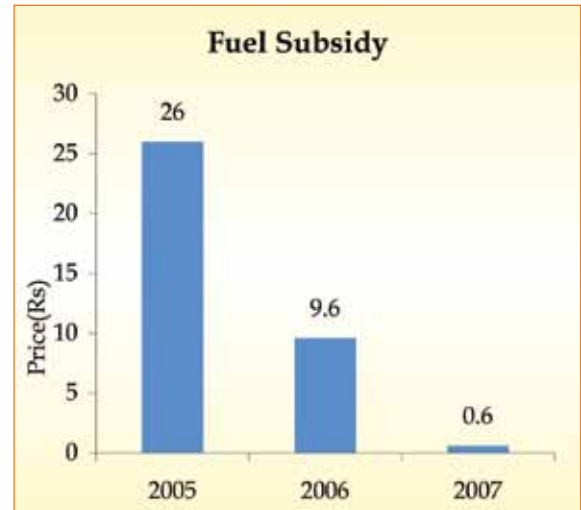
producer price was below Rs. 12-14 per kg bag. Further, the subsidy was also extended to small scale plantations of less than 5 acres, confined to urea at a concessionary price of Rs. 1,200/- per 50 kg bag. Alternative government prices will help farmers to meet their input costs and also ensure an attractive producer margin without resorting to subsidies.

Chart 4.6



Source; Fiscal Policy Department

Chart 4.7



Source; Fiscal Policy Department

Chart 4.8



Source; Fiscal Policy Department

Transport

Since 2001, the National Transport Commission has been using a formula based on prices of inputs and quality of output as an indicator for price revisions. Furthermore a plan was worked out to remedy the discrepancies that had crept in to the sector over the previous two decades. As a result, an index consisting of 12 input factors was computed in consultation with related government agencies as well as operators both public and private. This has been continuously used for annual fare revisions including one downward revision. The formula also includes provision for rapid increase in fuel prices within the year and this facility also has been used several times to revise fares. In the current context, the Fares Index and the Fares Policy have become useful instruments to ensure that costs that are passed on to the passenger are not inflated prices as was often the case in the past when operators made demands and the regulators did not have a measure of the increase. Fare revisions have been made in 2006 and 2007 in keeping with the formula arrangement.

Electricity

As of today, the installed capacity of the CEB consists of 1207 MW of hydro, 548 MW of thermal and 03 MW of wind power. The total number of consumers at present are 3,866,987 and the percentage of households using electricity has increased to 80 per cent.

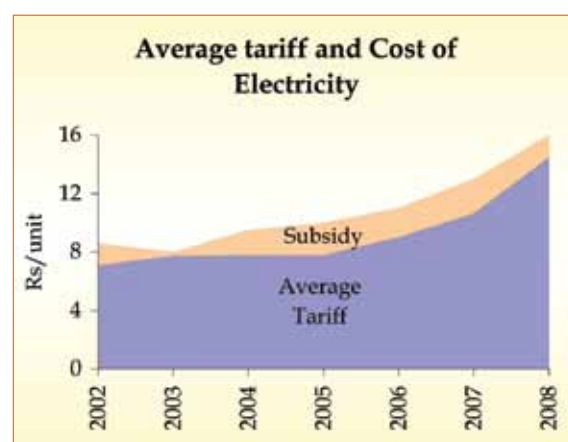
Electricity tariffs have been revised by the CEB from time to time, the last revision being in 2005, with a cross subsidy being availed most of the time. Due to the increase of fuel prices and the simultaneous removal of the cross subsidy by the Government on electricity, the CEB was compelled to proceed with pricing reforms by increasing electricity tariffs.

Table 4.3
Fuel Price Increases (per litre) - 2007

	Earlier (Rs)	Present (Rs)	Percentage Change
Diesel	55.00	86.00	56.3%
Naptha	40.00	73.00	82.5%
Heavy Furnace Oil	30.00	55.00	83.0%
		(For CEB plants)	
		60.00	100%
		(For IPP plants)	

Source; Ceylon Petroleum Corporation

Chart 4.9



Source; Ceylon Electricity Board

Table 4.4
Electricity Subsidy

Year	Average Cost	Average Tariff	Subsidy
2002	8.60	7.10	1.50
2003	8.00	7.75	0.25
2004	9.50	7.80	1.70
2005	10.00	7.80	2.20
2006	11.03	9.02	2.01
2007	13.00	10.63	2.37
2008	16.00	14.50	1.50

Source; Ceylon Electricity Board

In the process of tariff revisions, the general public was given an opportunity to make representations relating to the proposed tariffs and charges as required in terms of the Act, till end February 2008. A committee was also appointed to consider all such representations.

Salient features of the tariff revision:

- Domestic tariff structure was changed to a “flat tariff” moving away from the “strict block tariff” system. Under the proposed “flat tariff” structure, consumers falling into higher consumption blocks will no longer receive the benefit of subsidized tariff charged to lower income blocks. The introduction of “flat tariff” instead of “strict block tariff” is expected to act as a deterrent to excessive energy consumption.
- A three duration tariff (time of day tariff) has been introduced for Industrial and Hotel Categories.
- Segregation of the tariff structure viz: Fixed Charge (FC), Unit cost for kWh, maximum demand charge (KVA charge) and variable Fuel Adjustment Charge (FAC).
- Unit charge for all consumer categories was fixed while introducing the “flat tariff structure” for all domestic consumers, including religious purpose consumer category.
- A fixed charge for recovering of metering and billing charges of the CEB.
- A maximum demand charge (kVA charge) for all bulk purchases including LECO for the capacity burden imposed by such consumers on the system
- A variable Fuel adjustment charge (FAC) increased to 30 per cent while authorizing the General Manager to reduce such fuel adjustment charge in the event of an increased hydro generation or an oil price reduction in the future in the interest of consumers.
- The Fuel Adjustment Charge (FAC) was designed to recover additional expenditure on fuel that could not

have been foreseen at the time the budget was prepared such as increased fuel prices, less hydro generation or outage of a major power plant.

Consumer Protection

The regulatory arrangements pertaining to pricing is vested with the Consumer Affairs Authority established under the Consumer Affairs Authority Act No 9 of 2003 in March 2003, which was set up having repealed the Consumer Protection Act no 1 of 1979, the Fair Trading Commission Act No1 of 1987 and the Control of Prices Act (Chapter173).

The Consumer Protection Authority has taken the lead to safeguard consumer interest in the backdrop of steep escalation of global commodity prices. As such, in line with provisions on price surveillance/stability of goods and services contained in Section 18 of the Act, ten food items were declared as essential goods in 2007, consequent to which a manufacturer or a trader could increase the retail or wholesale price of such items only after an application to the authority and permission is granted after an inquiry having being satisfied that the increase sought is reasonable or where the authority has approved any other increase as the authority considers reasonable.

In line with provisions contained in Section 14 of the Act, the authority has entered into agreements to provide for maximum price of goods, above which the goods cannot be sold, with major importers and around 100 wholesale traders to stabilize related prices.

Tourism Sector Reforms

Recent administrative reforms in the tourism sector were affected with the promulgation of the tourism Act No. 38 of 2005 operative from 01st October 2007. This introduced a wave of reforms pertaining to the tourism industry. Reforms of this magnitude came into operation nearly after 40 years as a result of which the Tourism Act No. 10 of 1966 got repealed. One of the major reforms that came into operation was the setting up of the Tourism Development fund in terms of the Section 23 (1) of the Tourism Act. This independent development fund will address several key issues facing the industry, one of which is shortage of funds for tourism

promotion, product development and human resource development. The tourism sector hitherto dependent on the Treasury funding for the above key functions has now started enjoying substantially adequate finances through the development fund that was created. One percent charged from the Tourism Development Authority registered establishments and 1/3rd of the Airport tax collections are the two funding channels to the development fund.

The reforms resulted in administrative decentralization of tourism functions namely human resource development, marketing and promotion and product development from that of the Sri Lanka Tourist Board merging with them Tourism Promotion Bureau and the Sri Lanka Tourism and Hotel Management as independent functions. Accordingly Sri Lanka Tourism Development Authority is responsible for products development and setting up of standards, tourism infrastructure development. Tourism Promotion Bureau will exclusively handle tourism marketing and promotion. Sri Lanka Institute of Tourism & Hotel Management has been assigned human resources development functions while the Convention Bureau has been assigned Mice tourism.

In the whole process greater emphasis was laid on developing a healthy public /private partnership for gearing the tourism industry effectively. Equal emphasis was given for the SME's in tourism to make their representations in the Boards of Management of the four institutions that were set up with the least political interference. The Tourism Cluster of the National Council for Economic Development works with the Ministry of Tourism regularly along with the participation of all stakeholders to address industry concerns. An Ombudsman was appointed....

The establishment of the office of Commissioner for Tourism Administration took place in February 2008 to ensure the delivery of justice to any aggrieved party in the event of any injustice, unfair treatment or failure to perform any statutory obligations by any agencies in the tourism sector.

The new office came into operation with new institutional infrastructure implemented with the promulgation of the Tourism Act of 2005 and the appointment was made by His

Excellency the President.

The complaint forwarding procedure is to be announced in due course. Certain institutional reforms took place in 2007, laying the foundation to build a tourism industry fit for the future.

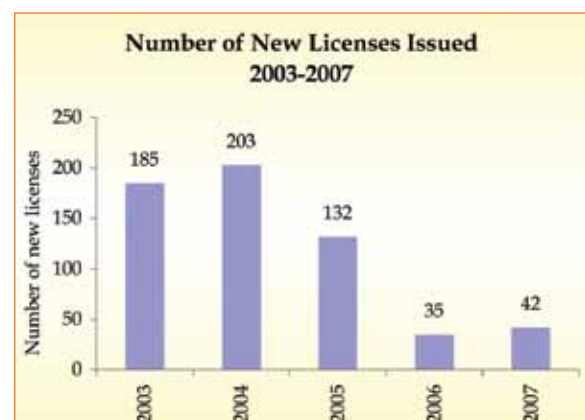
'Mathata Thitha'

The '*Mathata Thitha*' initiative, which was launched by the Government through a 2006 Budget proposal attracted wide acceptance and praise from the clergy and masses in 2007 as a measure that would promote inherent religious and cultural values of the country. Apart from the restrictions that were strictly imposed under this initiative on smoking and consumption of alcohol in public places and by the younger generation, the Government also took undertook the following steps to strengthen associated social protection.

Issuing of Excise Licenses

Issuing of new excise licenses was suspended from 2006, other than to hotel and restaurants approved by the Tourist Board. This has been further restricted since January 2008, confining the issuance of such licences to only hotels.

Chart 4.10



Source : Excise Department

In order to protect legitimate government revenue and also to combat the production and sale of illicit liquor, the Excise Department strengthened its detection procedure in a streamlined manner through 55 Excise Stations situated island wide, and 04 special units established for the purpose. The data demonstrate that this process has been carried out in full force which invariably should resulted in a decrease of consumption of illicit liquor in the country. Furthermore, the Department of Excise has recruited 86 excise officers to strengthen its institutional setup in the backdrop that Excise Officers are nominated as authorized officers in terms of the National Authority on Tobacco & Alcohol Act No.27 of 2006.

Data reveals that there have been 4397 detections carried out by the excise officers acting in terms of the provisions of the NATA Act, during the year 2007 and that the associated court fines total Rs 9 Mn. In addition, the Police Department has made 7,469 detections collecting a further amount of around Rs. 9 Mn as court fines. Thus the total number of detections has been 11,866 in 2007, collecting around Rs.18 Mn by way of court fines.

Chart 4.11



Source: Excise Department

Excise raids carried out by the Department during the 2006-March 2008 are given below.

Table 4.5
Monthly Figures (Number of Excise Detections)

Month	2006	2007	2008
January	3,294	3,245	3,122
February	4,157	4,674	4,347
March	5,801	5,446	4,566
April	3,140	4,583	
May	4,458	5,730	
June	5,414	5,472	
July	3,565	3,701	
August	4,508	4,232	
September	4,537	4,384	
October	4,695	4,777	
November	4,667	4,677	
December	4,408	5,553	
Total	52,644	56,474	12,035

Source: Excise Department

Detection Trend

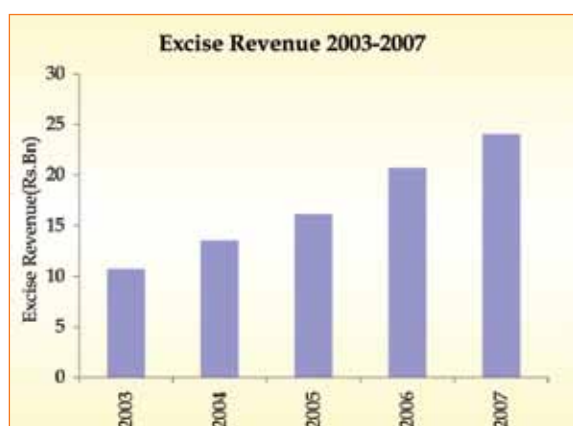
In order to discourage consumption, as a further step, in line with the Government policy initiated through Mathata Thitha, the Excise Duty rates on liquor have been substantially revised upwards on a consistent basis, as shown in Table 4.6.

Table 4.6
Revision of Excise Rates

	Nov. 2005	Dec. 2005	Oct. 2006	March 2007	Oct. 2007
Arrack per proof Ltr	381	396	421	446	510
Foreign Liquor per proof Ltr	510	525	550	575	640
Beer Alcohol Strength below 5% per Ltr	32/50	37/50	37/50	37/50	38
Beer Alcohol Strength above 5% per Ltr	48/50	53/50	53/50	53/50	54
Wine per proof Ltr	225	250	275	300	365

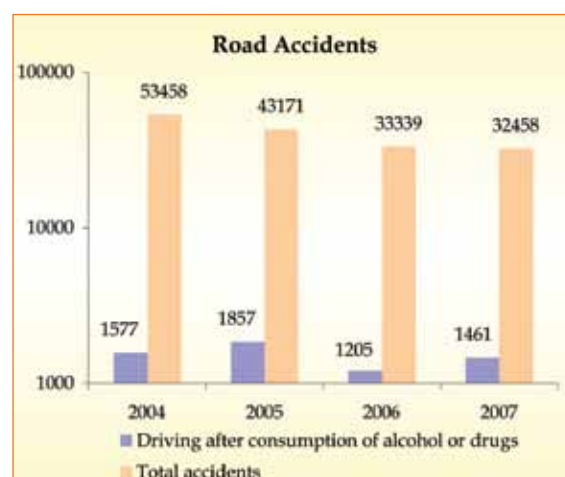
Source: Excise Department

Chart 4.12



Source: Excise Department

Chart 4.13



Source: Police Headquarters

The total road accidents which are in most instances associated with driving after consumption of liquor show a decrease.

'Bim Saviya'

The main objective of Bim Saviya, the land titling program of the Government, which is being administered by a council established under the Registration of Title Act No.21 of 1998, aims at paving the way for the public to elevate their living standards by gaining land ownership which is used at a suboptimal level due to title defects. This program is designed to overcome issues in relation to private land

involving disputes associated with determining ownership, attracting protected litigation at a substantial cost and aggravating law delays. Delays in obtaining state grants, non-availability of title documentation, issues arising from testamentary proceedings in the event of a death of a landowner, fraudulent transactions involving land, conflicting interests among the heirs continue to remain common problems associated with land ownership. The percentage of land involving disputes is said to be as high as thirty percent in certain areas, which results in grossly underutilized capital, hampering development

In 2007, Bim Saviya Program was used as a basic component of Gama Neguma, the rural development initiative of the Government. This is aimed at providing clear ownership to legitimate land owners, so as to empower them to develop such lands and promote income generation. Bim Saviya also proposes to develop a land database, to enable planners and decision makers, a structured land administration process.

The key initiatives under Bim Saviya are the following;

- Determination and confirmation of ownerships, which are not considered as clear at present.
- Carry out surveys and prepare plans for land parcels and register such land parcels along with the ownership and rights / encumbrances and issue Title Certificates.
- Conduct a survey aimed at problem solving associated with alienation of private and state lands through relevant agencies.
- Develop a digital land information system.

'Bim Saviya' was launched as a National Program in 2007. Necessary staff was recruited during the year and Title Registry activities with the aim of completing work in pilot areas ie. Udapatha, Daluwa, Balangoda, Divulapitiya, Tambuttegama, Homagama and Lunugamwehera Divisional Secretariat areas, also commenced during the year. 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 Bim Saviya initiatives. The Survey General's Department is expected to carry out the surveying of lands and the preparation of cadastral plans, while the Land Settlement Department is expected to commence determination of ownership. Once completed, related information will be availed to the Registrar General's Department, which would register the details and ultimately issue a Title Certificate.

Amendments to the Registration of Title Act No. 21 of 1998 are being finalized with the assistance of the Legal Draftsman, to facilitate related work. The proposed amendments inter alia aims at introducing a land disputes resolution mechanism which would be simpler, with the appointment of Land Tribunals by the Judicial Service Commission.

An Administration Closer to People

Janatha Sathkaraka Sewava program was introduced in mid 2007 at district level, to avail public administration in a closer and time effective manner, to the public. Around 3,000 decision makers in the public service representing more than 100 departments and ministries, have participated in this programme on a voluntary basis. The co-operation extended at provincial, district and local government levels is noteworthy.

A system of issuing copies of Birth, Marriage and Death Certificates were introduced at Divisional Secretariat level in 2007. A pilot project to introduce a computerized data base and software, was implemented involving Colombo, Thimbirigasyaya, Ratmalana, Dehiwala and Moratuwa Divisional Secretariats in the Colombo District, enabling the issuance of such certificates within a matter of less than 10 minutes.

Many ministries, departments and other institutions have been IT enabled through the Lanka Government Network, introduced in 18 District Secretariats and 267 Divisional Secretariats in five provinces. It is planned to connect all remaining Districts and Divisional Secretariats before the end of year 2008. This would provide a significant contribution to effective policy formulation and implementation and would also assist service providers as well as recipients to overcome obstacles associated with geographical barriers. Twenty-five web sites were launched in 25 District Secretariats in August 2007, to ensure transparency at every step in the Government service delivery process. Further, web based access was enabled in relation to 330 Divisional Secretariats at www.ds.gov.lk.

Citizen/Client Charter to further strengthen the administrative mechanism was introduced. ICT facilities are being introduced to enable Human Resource Management at Grama Niladhari Division level. A total of 6135 personnel were recruited in 2007 with a view to bringing about a public service with required skills and efficiency.

Trade Reforms

South Asian Integration Initiatives

Increased integration with South Asia has been a key segment of country's external trade policy. Accordingly, Sri Lanka, being a member of SAARC has been part of SAARC Preferential Trade Agreement (SAPTA) and South Asian Free Trade Area (SAFTA). Further, Sri Lanka has been engaged in developing bilateral preferential trading arrangements since the late 1990s with the two largest trading partners in South Asia- India and Pakistan.

South Asian Free Trade Area (SAFTA)

Given that the region was one with major conflicts in interstate relations, the initial integration programs in South Asia as part of SAARC were limited to areas of mutual confidence building, reduction of conflicts and information sharing. Economic integration was considered to be outside the agenda. Hence 12 areas have been selected for regional cooperation under the Integrated Program of Action (IPA) since 1985: (i) agriculture, (ii) communications, (iii) education, culture and sports, (iv) environment, (v) health and population activities, (vi) meteorology, (vii) prevention of drug trafficking and drug abuse, (viii) rural development, (ix) science and technology, (x) tourism, (xi) transport, and (xii) women and development. Several other areas were also added to the list subsequently. Various studies and exchanges on the IPA areas have been continuing under the aegis of SAARC. South Asian regionalism relating to economic integration began in 1993 with the signing of the Agreement on the SAARC Preferential Trading Arrangement (SAPTA) and it was implemented in 1995.

SAPTA initially selected only a small number of products for preferential treatment, aiming at reduction of trade barriers, (not their elimination) for the selected products and the product coverage was increased subsequently upon several rounds of discussions with SAARC members. As SAPTA was not a free trade area (FTA), the level of integration to be achieved from the arrangement was constrained by design. Besides, there are other difficulties in enhancing the level of regional integration through a preferential

trade area. Accordingly, South Asian countries engaged in negotiations with a view to transforming SAPTA into a higher level of integration in the form of South Asian Free Trade Area (SAFTA) since late 1990s. SAFTA was effective 1st of January 2006. Tariff reduction under SAFTA is effected on the basis of a phased out program. Approximately 24 percent of tariff lines under SAFTA have been put under the Negative List. As such 76 percent of the tariff lines are open for freer trade enhancing the prospect for increased trade interaction within region. Since then Sri Lanka, as agreed, has implemented a tariff reduction program aimed at increasing imports from the South Asian region. Accordingly, two phases of tariff reduction due in 2006 and 2007 were completed by Sri Lanka. South Asia will become a free trade area by 2014 after implementing all agreed phased tariff reduction programs by countries in the region.

Indo-Sri Lanka Free Trade Agreement (ISFTA)

India Sri Lanka Free Trade Agreement (ISFTA) came into force with effect from March 2000. ISFTA focused only on the trade in goods sector and import tariff was the only border measure considered in the agreement. Tariff concessions for the implementation of the agreement between two countries were based on the two lists: concession list (residual list) and negative list. Concession list formed the basis for preferential trade between two countries under the agreement whereas products under the negative list are not considered for preferential trade. Both countries agreed to reduce tariffs on goods under the concession list in a phased out manner. Having considered the difficulties in the process of adjustment, Sri Lanka was given 8 years to complete the process of tariff phasing out and India was given 3 years for that purpose. Negative lists were prepared considering the importance of safeguarding sensitive domestic industries in both countries. Of the total number of tariff lines, ISFTA covers about 70 percent in Sri Lanka. As such, a large number of products (30 percent) are found in the negative list. As per the agreement India has completed its tariff reduction program for products in the India's concession list by 2003. Sri Lanka's tariff reduction program under the agreement has to be completed in 2008, in which tariffs on products on Sri Lanka's concession list will become zero. Margins of

4. Reform Initiatives

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Preference (MOP) have so far been granted as per the agreed program of tariff reduction:

Table 4.7
Tariff Reductions on MOP Basis

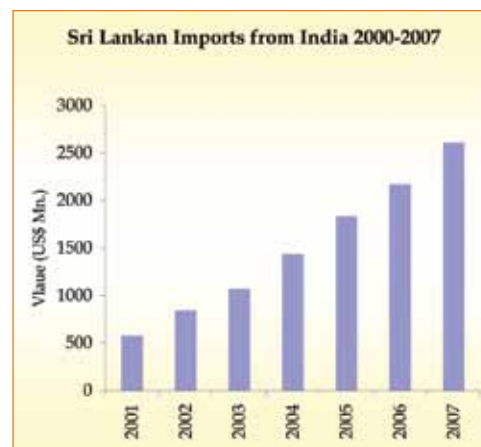
Date	MOP (Cumulative percentage)
09.03.2001	30
05.03.2003	35
15.09.2006	70

Source: Trade, Tariff and Investment Policy Department (2007)

Note: with the 30 percent MOP to be granted in 2008, tariff under ISFTA will become zero

ISFTA has had a significant impact on trade between the two countries. After the implementation of the agreement, value of exports from Sri Lanka to India increased to US\$ 515 million in 2007 from that of US\$ 54.9 million in 2000 registering over a nine fold increase during a period of 7 years. During this period, India has become the key source of import supply to Sri Lanka. In year 2000, value of imports from India to Sri Lanka was US \$ 567 million and it increased to US\$ 2.6 billion in 2007, which is a 4.6 fold increase.

Chart 4.14



Source: Central Bank of Sri Lanka

Chart 4.15



Table 4.8
India-Sri Lanka Trade 2000-2007 (US\$ Mn.)

Year	Imports from India			Exports to India		
	Total Imports	value	%	Total Exports	value	%
2000	7,319.3	567.8	7.76	5,522.3	54.9	0.99
2001	5,974.4	577.3	9.66	4,816.9	69.1	1.43
2002	6,105.6	843.7	13.82	4,699.0	168.7	3.59
2003	6,671.9	1,073.2	16.09	5,133.3	245.3	4.78
2004	7,999.8	1,439.1	17.99	5,757.2	391.5	6.80
2005	8,863.2	1,835.4	20.71	6,347.7	566.6	8.92
2006	10,253.0	2,172.9	21.19	6,682.7	489.5	7.32
2007	11,300.5	2,610.1	23.10	7,740.4	515.3	6.66

Source: Central Bank of Sri Lanka

Chart 4.16

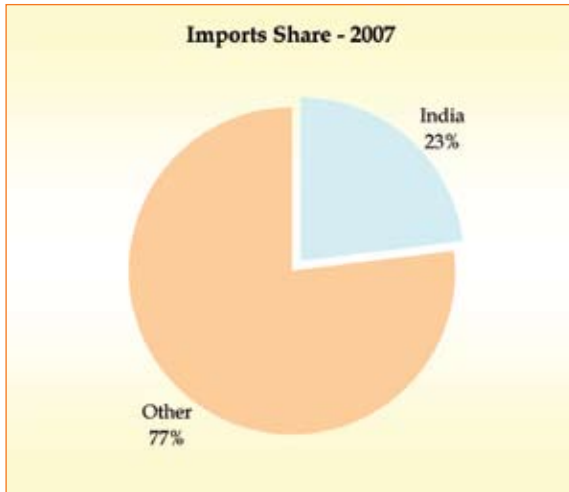


Chart 4.19

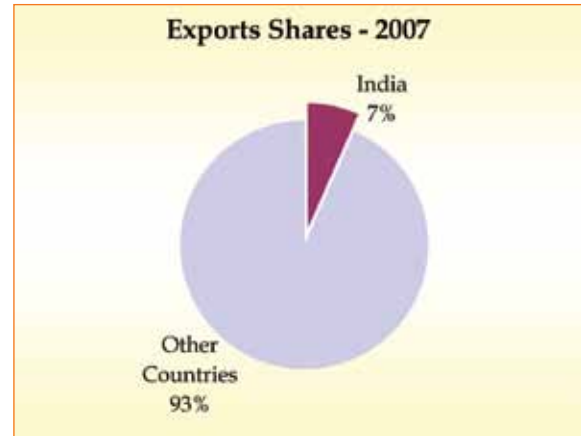
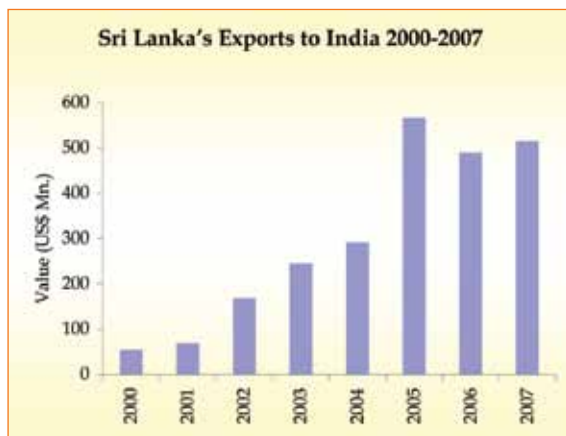
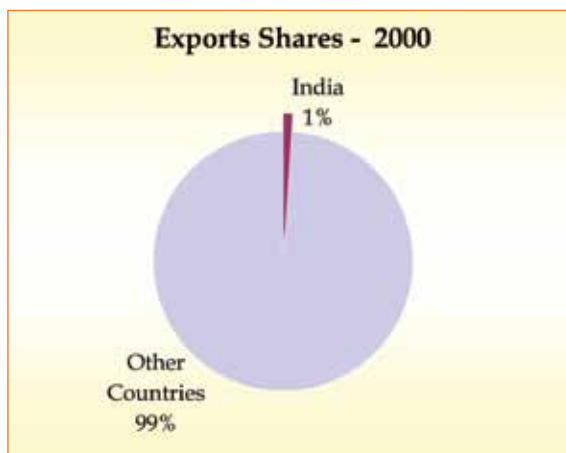


Chart 4.17



Source: Central Bank of Sri Lanka

Chart 4.18



Source: Central Bank of Sri Lanka

The two countries are in the process of negotiating a Comprehensive Economic Partnership Agreement (CEPA) having recognized the potential for transforming bilateral economic interaction to a wider area. CEPA has been designed to widen the scope for bilateral economic interaction in several areas: trade in goods, trade in services, investment and economic cooperation.

Pakistan-Sri Lanka Free Trade Agreement (PSFTA)

This Free Trade Agreement was implemented in 2005. Tariff concessions for selected products under this agreement were offered subject to a negative list as in other preferential trading schemes. Considering the asymmetry of the two economies, Sri Lanka has been given 5 years and Pakistan has been given three years to complete the tariff phasing out program. Accordingly, Pakistan has to complete its tariff reduction program for products in the Pakistan's concession list, imported from Sri Lanka by 2008. Sri Lanka, as agreed, has deepened the tariff reduction by 40% on the basis of margin of preferences (MOP) by the end of 2007.

4. Reform Initiatives

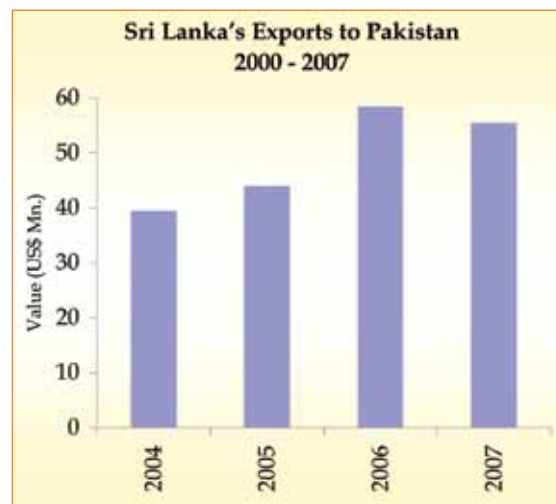
212

Table 4.9
Tariff Reductions on MOP Basis

Date	MOP percentage
2005.06.12	20
2006.06.12	10
2007.08.20	10
Cumulative	40

Source: Trade, Tariff and Investment Policy Department

Chart 4.20



Source: Trade Tariff and Investment Department

Pakistan - Sri Lanka Free Trade Agreement has contributed to increased trade between two countries marginally. Exports to Pakistan have reached US \$ 55.4 million in 2007 from US \$ 43.6 million in 2005 registering an annual growth of about 12 percent. Imports from Pakistan have risen at a rapid rate between 2005 and 2007, from US \$115.6 million in 2005 to US \$ 178 million in 2007 after the implementation of the agreement (Table 04).

Sri Lanka and Pakistan are currently engaged in negotiations for the establishment of a Comprehensive Economic Partnership Agreement (CEPA) which includes areas such as trade in goods, trade in service, investment and customs cooperation with a view to transforming bilateral economic integration to a higher level.

Table 4.10
Pakistan-Sri Lanka Trade 2004-2007 (US\$ Mn)

Year	Imports from Pakistan			Exports to Pakistan		
	Total Imports	value	%	Total Exports	value	%
2004	7,999.8	107.9	1.35	5757.2	39.5	0.69
2005	8,863.2	115.6	1.30	6347.7	43.6	0.69
2006	10,253.0	146.6	1.43	6682.7	58.4	0.87
2007	11,300.5	178.0	1.58	7740.4	55.4	0.72

Source: Central Bank of Sri Lanka

Foreign Financing of the Budget

Improved aid utilization
enabled greater benefits
from development
assistance

An Overview

The medium term development programme of the Government 'Mahinda Chintana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006-2016' has placed strong emphasis on improving the effectiveness of aid utilization to reap the highest benefits from both committed and prospective development assistance. This development framework was presented to the country's development partners at the Sri Lanka Development Forum held in January 2007 in Galle. The development partners pledged their support to this pro-poor pro-growth development framework. The total foreign aid mobilized in 2007 was US\$ 1,674 million which is second only to the highest level of commitment registered in 2005 in the aftermath of the tsunami devastation. In line with the Government's priorities a larger proportion of the commitment i.e. around 70 percent was for infrastructure development. The cumulative undisbursed balance of commitments as at end of December 2007 stood at US\$ 5 billion.

As an emerging middle income country, Sri Lanka has made significant inroads in its efforts to capture alternate sources of foreign funding for its development programmes by successfully completing the first ever international bond issue of US\$ 500 million in October 2007, despite a difficult global financial market environment. The aid mobilization efforts focused on getting maximum use of already available bilateral and multilateral sources of funding as well as exploring new sources of funding such as export credit available from bilateral development partners. The new funding arrangements largely target infrastructure projects identified in the Ten Year Horizon Development Framework 2006-2016.

The publication of the Ten Year Horizon Development Framework gave a clear overview of Government's development objectives, paving way for development partners to align their development strategies and priorities for Sri Lanka.

The main focus of foreign financing of the budget was for the development of infrastructure, while paying special attention to development of lagging regions. Special projects have

been formulated for the development of new infrastructure and also for the rehabilitation of existing infrastructure such as roads, water supply and electricity. Commercial sources of funding such as export credit facilities and capital market borrowings would be utilized to finance selected projects which are commercially viable.

As Sri Lanka's per-capita income reached the level of a middle income country, the concessionary terms that the country enjoyed are gradually declining. Therefore, the country needs to be well prepared to make use of other sources of funding to supplement available concessionary financing. Diversification of the foreign financing portfolio has become necessary and Sri Lanka was able to attract new donors such as China, Iran, India and Eastern European countries to finance key infrastructure development programmes.

Sri Lanka Development Forum - 2007

The Sri Lanka Development Forum 2007 was held on 29th and 30th of January 2007, in Galle, Sri Lanka under the Chairmanship of His Excellency the President Mahinda Rajapaksa. The Forum was patronized at the highest level by over fifty development partners, comprising of donor countries and development financing institutions. The main theme of the Forum was "Mahinda Chintana : Vision for a New Sri Lanka – A Ten Year Horizon Development Framework 2006 - 2016". The Forum focused on making an assessment of the post-tsunami recovery and reconstruction challenges and consequential issues, development of lagging regions and the contribution of development partners. Further, issues relating to security, law and order, terrorism and peace, human rights, humanitarian and resettlement challenges and the role of the civil society in development, were also discussed.

The Forum provided an opportunity for the development partners to engage in a wider consultation process on the ten year development framework. The development partners appreciated the comprehensive articulation of the development objectives and priorities for the next ten years, and appreciated, the Government's approach towards reducing poverty and income disparities in a comprehensive manner. They expressed confidence that Sri Lanka has the

potential to achieve the goals envisaged in the Development Framework.

His Excellency the President in his inaugural address appreciated the support extended by the development partners in the post tsunami recovery and reconstruction process of the Government. The President spoke of the challenges faced by Sri Lanka in the first year of his administration, in particular, the economic challenges stemming from escalating oil prices, intense competition in export markets, natural disasters and acceleration of terrorist attacks. The President stressed the fact that beside all the challenges faced by the economy, it witnessed a robust growth and he noted that the Government accords priority to develop infrastructure in the lagging regions and link them to the major centres in order to achieve an accelerated growth. In particular, he referred to the *Jatika Saviya-Gama Naguma* Programme that aims to create rapid growth in the lagging regions and the *Randora* Programme for the implementation of key infrastructure in power, irrigation, road and transport, seaports, airports and urban facilities.

For development to be wholesome and sustainable it needs to be associated with a good value system, respect for human rights and democracy, and culture and heritage. While reiterating the need to defeat terrorism, the President expressed his determination to pursue a political solution acceptable to all the parties concerned. The President sought the cooperation of the development partners for the implementation of the ten Year Horizon Development Framework.

The development partners recognized the achievements made by Sri Lanka in accomplishing the Millennium Development Goals. They noted that the resilience of the economy has enabled maintain one of high economic growth, reduced unemployment, and improved revenue performance amidst budgetary and Balance of Payments pressures, mainly attributable to the unfavourable world economic situation. It was the consensus view that terrorism should be separated from finding a solution to the conflict and that a lasting solution could be found through a negotiated settlement. It was further noted that such a

solution would involve improved decentralization to expand the development horizon of the country with enhanced aid and private capital inflows for the development of lagging regions and reconstruction requirements of the affected areas.

The Forum also provided an opportunity to review the utilization of development assistance in 2006, to note the implementation challenges faced and to have a dialog on the possible improvements for project implementation.

Based on current pledges and ongoing negotiations the expected foreign aid for the period 2007 to 2009 is in the region of US\$ 4.5 billion. With the existing portfolio of US\$ 4.5 billion at the end 2006, the total development assistance available to Sri Lanka to be utilized in the medium term is around US\$ 9 billion.

Foreign Financing Commitments

The total commitment made by lenders and donor agencies to Sri Lanka in 2007 was US\$ 1,674 million, of which project loans accounted for US\$ 1,504 million and grants accounted for US\$ 170 million.

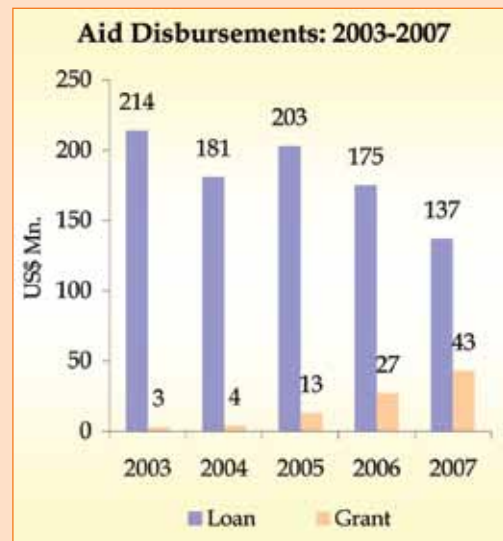
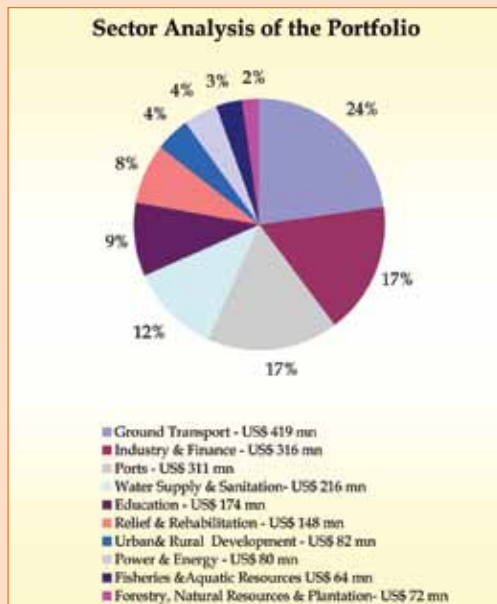
As such, the total commitment made in 2007 is significant as it is the second highest commitment reported in history. The highest aid commitment of US\$ 1,740 million has been made by the donors in 2005 to facilitate the post tsunami reconstruction programme.

Of the total new commitments, 70 percent or US\$ 1,170 million is earmarked to develop roads and bridges, transport, ports and water supply. The highest commitment of US\$ 618 million or 37 percent was to improve the development of Port facilities. The Government of China through an export credit facility has committed US\$ 307 million for the Hambantota Sea Port Development Project.

Box 5.1 Japanese Assistance Remains High

Japan is the largest bilateral donor accounting for about 25 percent of the annual aid flow to Sri Lanka. About 80 percent of Japanese assistance is provided in the form of soft loans, covering a wide spectrum of sectors.

During the period from 2004 to 2007 the annual average disbursement of Japanese assistance was about US\$ 260 million which accounted for around 20 percent of the total aid disbursement. The highest ever disbursement in the recent past amounting to US\$ 302 million was achieved in 2006. US \$ 230 million has been disbursed in year 2007.

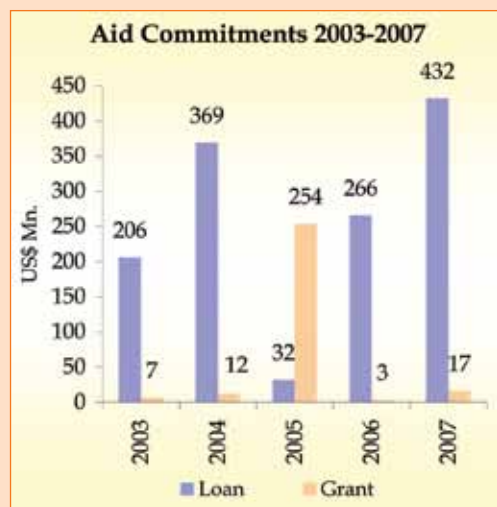


During the period 2003 - 2007 Japan has provided US\$ 1158.3 million as a soft loan and US \$ 164.5 million as grants.

Japan plays a major role in building economic infrastructure in the country.

Recently completed key projects

- Bandaranaike International Airport (BIA) Development Project (US\$ 108 million)
- Road Network Improvement Project (US\$ 27 million)
- Manampitiya Bridge (US\$ 12 million)
- Kukule Ganga Hydro Power Project (US\$ 214 million)



Box 5.1
Japanese Assistance Remains High Contd.

Japanese Assistance - Continued.....

Key projects being implemented

- Southern Highway Construction Project (Kottawa – Kurudugahahatekkma) (US\$ 153.9 million)
- Outer Circular Highway Project – (Kottawa – Kaduwela) – (US\$ 189 million)
- Upper Kotmale Hydropower Project – (US\$ 250.3 million)
- Galle Port Development Project – (US\$ 130 million)
- Water Sector Development Project (US\$ 114 million)
- Construction of Mannar Bridge and Causeway (US\$ 12 million)
- Development of Anuradhapura Teaching Hospital (US\$ 16 million)

Key Projects proposed to be Implemented during the next two to three years

- Outer Circular Highway Project (Kaduwela – Kadawatha) (US\$ 230 million)
- Moragahakanda Development Project (US\$ 168 million)
- Construction of LFO/LNG operated Combined Cycle Power Plant at Kerawalapitiya on a DBT basis (US\$ 300 million)
- Construction of LNG Receiving Facilities (Terminal/ Jetty and Pipeline) (US\$ 400 million)
- Bandaranaike International Airport Development Project – Phase II (US\$ 250 million)
- Kandy Wastewater Treatment Plant (US\$ 90 million)

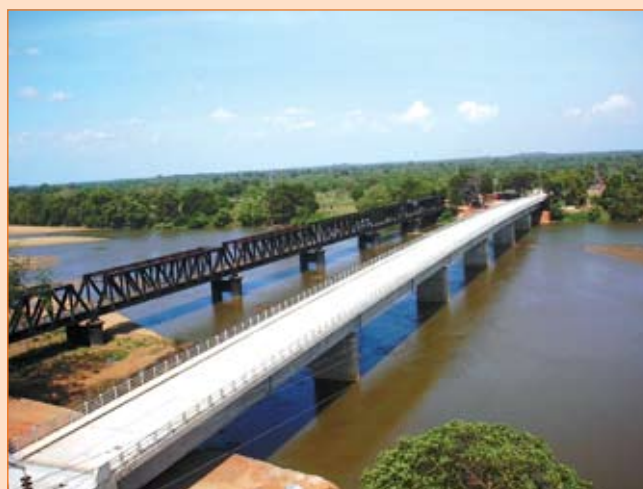
Japan has also made significant contribution towards reconstruction and rehabilitation of small scale infrastructure in the lagging regions.

Future Direction and Flagship Projects

In order to implement priority projects on a fast-track basis, the Government has taken initiatives to obtain export credit facilities from the Japan Bank for International Cooperation. Under this scheme, the first Japanese export credit facility was finalized in 2007 for the rehabilitation of the Ukuwela Power Station.

Technical Cooperation

The Government of Japan has made a significant contribution for human resource development through their technical assistance programmes. Out of 704 training programmes received by the Sri Lankan Government in 2007 from different donors, 137 were from Japan. Key areas that will benefit are IT, agriculture, health, environment, governance, industry and SMEs.



Japan - Sri Lanka Friendship Bridge at Manampitiya - The longest bridge in Sri Lanka

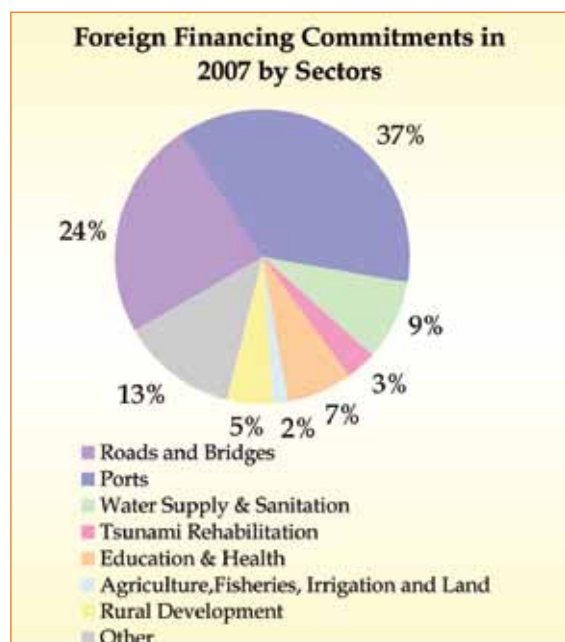
5. Foreign Financing of the Budget

Table 5.1
Foreign Financing Commitments - 2007 (US\$ million)

Sector	Loan	Grant	Total
Roads and Bridges	379.6	25.6	405.2
Ports	606.7	11.7	618.4
Water Supply & Sanitation	146.1	0.0	146.1
Tsunami Rehabilitation	30.5	26.1	56.6
Education & Vocational Training	85.1	16.0	101.1
Health & Nutrition	0.0	19.2	19.2
Agriculture, Fisheries and Irrigation	23.1	5.0	28.1
Rural Development	86.8	0.0	86.8
Environment and Natural Resources	95.9	0.0	95.9
IT, Science & Technology	8.6	8.7	17.3
Housing & Urban Development	8.8	0.0	8.8
Other	32.9	57.9	90.7
Total	1504.1	170.2	1674.3

Source: External Resources Department

Chart 5.1



The ADB has committed US\$ 300 million for Colombo Port South Harbour Expansion Project to promote the development of south port terminal facilities on a private public partnership basis. The Road sector recorded the second highest commitment by mobilizing US\$ 405 million. Japan provided assistance for the development of the outer circular road (Greater Colombo Transport Development Project) and for the construction of the Mannar Bridge and improvement of the causeway amounting to US\$ 187 million and US\$ 14 million respectively. China committed US\$ 66 million for the importation of 100 railway passenger carriages and 15 diesel multiple units. The commitment made for the Water Supply and Sanitation Sector was US\$ 146 million. Japan was the main donor in this sector and has committed US\$ 113 million for water sector development projects. The sector-wise details of all agreements signed 2007 are given in Annex I (at pages 351 - 353).

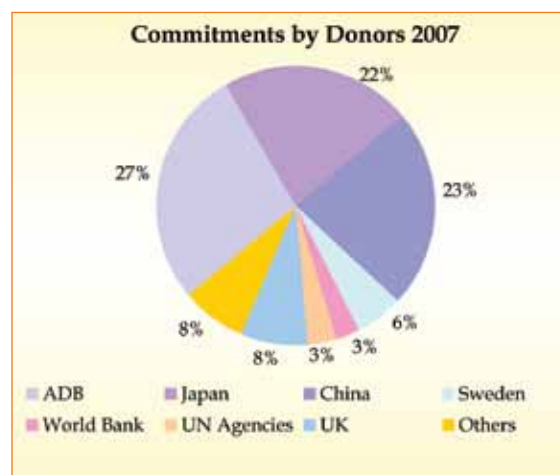
Table 5.2
Foreign Financing Commitments - 2007 (on donor basis)

(US\$ million)			
Donor	Loan	2007 Grant	Total
Bilateral	470.8	88.5	559.3
China	65.8	13.6	79.4
France	22.3		22.3
Germany		17.3	17.3
Japan	334.1	36.9	371.0
Korea	16.1		16.1
Sweden		1.2	1.2
Spain	17.0		17.0
USA		6.8	6.8
Other Bilateral	15.5	12.7	28.2
Multilateral	490.8	81.7	572.5
Asian Development Bank	432.9	32.5	465.4
World Bank	32.9	14.4	47.3
UN Agencies	23.1	34.8	57.9
Other Multilateral	1.9		1.9
Export Credit	542.5		542.5
China	306.7		306.7
Sweden	91.9		91.9
Austria	12.7		12.7
United Kingdom	127.2		127.2
Norway	4.0		4.0
Total	1,504.1	170.2	1,674.3

Source: External Resources Department

Chart 5.2

The Asian Development Bank, the Government of China and the Government of Japan were the 3 leading donors who have made highest commitments in 2007. These three donors have contributed US\$ 1,222.5 million or 73 percent of the total commitment.



Committed Un-disbursed Balance (CUB)

The total Committed Un-disbursed Balance (CUB) of foreign financing available for the Government's development program as at end 2007 was US\$ 5 billion. The project implementation duration for these commitments will be in the range of 2 -5 years and hence the utilization will be on that basis. Table 5.3 and Table 5.4 indicate the sector-wise and donor-wise classification of the committed and un-disbursed balances, respectively.

Table 5.3
Committed Undisbursed Balance of Foreign Financing
(on a sectoral basis as at 31.12.2007)

Sector	US\$ million	%
Roads, and Transport	929.1	18.5
Ports	738.0	14.7
Water Supply & Sanitation	464.2	9.3
Tsunami Rehabilitation	775.2	15.5
Health, Education & Vocational Training	366.6	7.3
Power & Energy	587.9	11.7
Private Sector Development	156.2	3.1
Agriculture, Fisheries and Irrigation	234.1	4.7
Conflict Affected Areas Rehabilitation	165.8	3.3
Rural Development	91.3	1.8
Environment & Natural Resources	90.4	1.8
IT, Science & Technology	83.8	1.7
Housing & Urban Development	64.9	1.3
Other	267.9	5.3
Total	5,015.4	

Source: External Resources Department

Table 5.4
Committed Un-disbursed Balance by Donors
(as at 31. 12. 2007)

Donor	Amount US\$ million	%
ADB	1408.6	28.1
Japan	1204.9	24.0
China	442.9	8.8
World Bank	413.9	8.3
France	130.5	2.6
Germany	80.2	1.6
USA	50.7	1.0
UN Agencies	214.3	4.3
European Investment Bank (EIB)	94.3	1.9
Export Credit	607.9	12.1
Others	367.2	7.3
Total	5015.4	

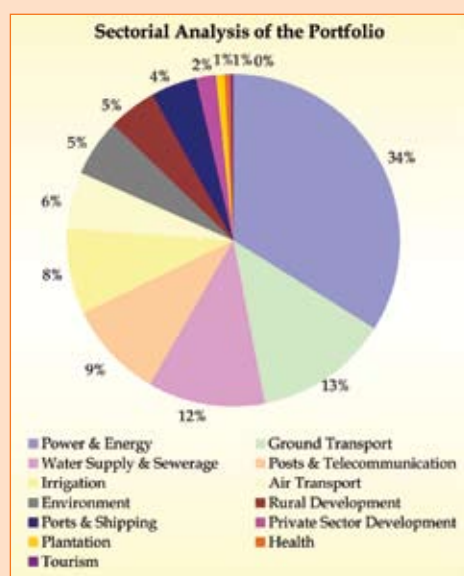
Source: External Resources Department

Box 5.2
Strong Assistance from the Asian Development Bank

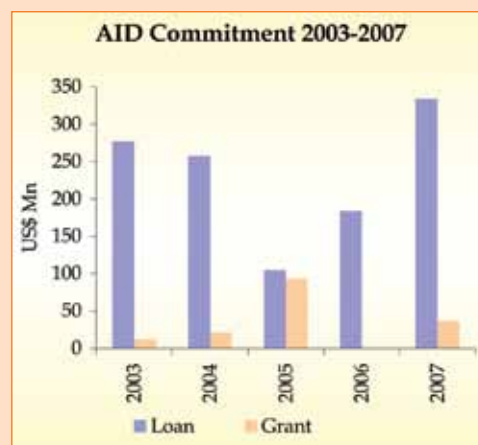
The Asian Development Bank has been a strong supporter of Sri Lanka's development efforts for more than three and a half decades. ADB is the largest donor providing about 26 percent of annual aid flow to Sri Lanka.

Country Partnership Strategy of the ADB is prepared in line with Government priorities that focus on investments in large-scale infrastructure, facilitating a knowledge economy and promoting urban/rural development to develop lagging regions.

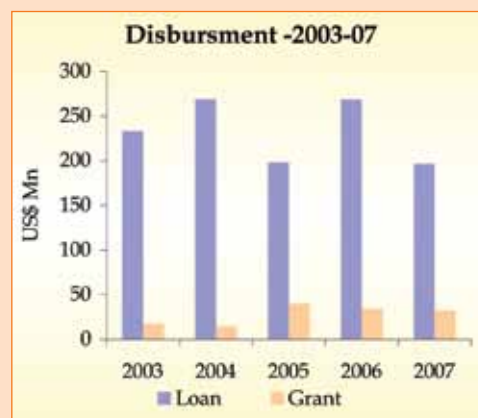
During the period 2003-2007, ADB assistance has gradually moved mainly from agriculture to power, ports, roads and education.



During the period 2003-2007, Sri Lanka has received US\$ 1.3 billion under project and programme loans and US\$ 221 million by way of grants and technical assistance. In 2007, the ADB committed US\$ 448.5 million, which is the highest ever commitment for Sri Lanka. This commitment includes; US\$ 300 million for Colombo Port development, US\$ 80 million to improve the education sector, US\$ 50 million to develop the SME sector and a supplementary loan of US\$ 13.6 million for the Secondary Towns water supply project.



Generally, the Government disburses an annual average of about 19 per cent of total aid disbursement from the ADB portfolio. In 2007, US\$ 175.8 million has been disbursed from the targeted disbursement of US\$ 197 million.



Box 5.2

Strong Assistance from Asian Development Bank Contd.

Key Projects being implemented

- **National Highways Sector Project (US\$ 150 million)**
The project covers the construction and development of the Puttalam-Anuradhapura road (83 km), Nuwara Eliya - Badulla road (54 km), Udatenna-Mahiyangana road (41 km), and Habarana-Kantale road (44 km).
- **Road Sector Development Project (US\$ 60 million)**
Reconstruction of 760 km of 155 C & D Class roads in North Central, North Western, Western, and Uva provinces.
- **Southern Expressway Project (US\$ 180 million)**
Construction of the Southern Expressway from Kurudugahahethpma to Galle with 4 lanes and the access road to Galle (will be completed by 2010).
- **Colombo Port Expansion Project (US\$ 300 million)**
To promote development of South Port terminal facilities on a private public partnership basis.

Major Projects Completed

- **Road Network Improvement Project (US\$ 90 million)**
The project supported the rehabilitation of roads involving 311 km and 69 bridges at a total cost of US\$ 87.5 million.

- **Skills Development Project (US\$ 20 million)**

The project supported six national vocational training institutions and their training centers throughout the country.

- **Secondary Education Modernization Project – 1 (US\$ 55 million)**

The project supported improving the quality of Secondary Education from Grades 10 to 13, by assisting the development of IT education and laboratory facilities for Advanced Level science students.

Future Lending Direction of the ADB

Future Lending of the ADB is aligned to the Ten year Development Framework of the Government which focuses mainly on investing in infrastructure development. Accordingly, the 2008 programme of the ADB will focus support on power, water supply and sanitation sectors. The ADB Country Partnership Strategy for 2009-2011 is also being prepared.

Disbursement of Foreign Funds - 2007

The total foreign fund disbursement by 31 December 2007 was US\$ 1,100 million. Of the total disbursement, project loans accounted for US\$ 808.4 million (73 percent) and grants US\$ 291.6 million (27 percent). Table 5.5 gives a comparison of the disbursement of funds by donors between 2005 and 2007.

Chart 5.3



Table 5.5
Foreign Funds Disbursements 2005 - 2007

(US\$ million)					
Donor	Loan	2007* Grant	Total	2006	2005
Bilateral	466.6	167.0	633.6	540.9	401.0
Japan	196.9	32.6	229.5	268.4	238.6
China	173.8		173.8	9.9	9.9
Denmark	20.8		20.8	11.2	1.7
Germany	9.8	69.8	79.6	55.9	64.5
India	12.8		12.8	21.5	7.5
Korea	26.1	12.6	38.7	19.8	17.5
Sweden	0.8	13.9	14.7	1.6	10.5
Spain	13.3		13.3	4.6	
USA		32.2	32.2	28.6	16.7
Other Bilateral	12.3	5.9	18.2	119.4	34.1
Multilateral	262.2	124.6	386.8	504.5	552.1
ADB	134.4	41.4	175.8	201.6	219.0
World Bank	74.1	52.0	126.1	166.9	157.7
EIB	42.0		42.0	33.0	17.9
UN Agencies	4.5	31.2	35.7	72.3	137.0
Other Multilateral	7.2		7.2	30.6	20.5
Export Credit	79.6		79.6	93.0	43.7
Total	808.4	291.6	1,100.0	1,138.4	996.8

*Provisional

Source: External Resources Department

5. Foreign Financing of the Budget

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Table 5.6
Projects with Disbursements over US\$ 10 million in 2007

Project Name	Donor	US\$ million
Southern Expressway Development Project	Japan	32.0
Upper Kotmale Hydro Power		21.3
Small & Micro Industries & Entrepreneur Promotion		19.5
Tsunami Affected Area Recovery Project		15.3
Rural Development Project		14.9
Walawe Left Bank Irrigation Project		13.5
Kaluganga Water Supply Project		10.3
Small Scale Infrastructure Rehabilitation and Upgrading		11.4
Environmentally Friendly Solution Fund - II		10.7
Grant for Reconstruction of Tsunami Affected Areas		17.0
Japanese Commodity Grant		10.9
Project Name	Donor	US\$ million
Puttalam Coal Power Project	China	141.5
Supply of 100 Nos. of Railway Passenger Carriages		15.6
Supply of 15 Nos. Diesel Multiple Units		11.1
Road Network Improvement Project	ADB	16.3
Southern Expressway Development Project		19.0
Power Sector Development Project		13.1
Road Sector Development Project		12.2
Secondary Towns and Rural Community Water/Sanitation		10.2
Tsunami Affected Areas Rebuilding Project		19.2
Road Sector Assistance Project	World Bank	19.0
"Gami Diriya" Project		16.7
North East Housing Reconstruction Project		17.8
Health Sector Development Project		11.6
Indian Line of Credit	India	10.4
Colombo Sewerage rehabilitation Project	Austria	11.4
Disaster Management Response Systems	Netherlands	19.1
Towns South of Kandy Water Supply Project	Denmark	12.1
Tsunami Recovery and Reconstruction Support	USA	19.3
Post-tsunami Credit Line	European Inv. Bank	28.2
DFCC Global Loan		13.8
Ratmalana & Ja-Ela Water Treatment Facilities	Sweden	17.7

Source: External Resources Department

The Government of Japan, the Government of China, the Asian Development Bank and the World Bank disbursed US\$ 705.2 million during 2007. This accounted for about 64 percent of total disbursements. The Government of Japan disbursed US\$ 229.5 million mainly for the Southern Expressway Development Project, Upper Kotmale Hydro Power Project and Small & Micro Industries Entrepreneur Promotion Project. The Government of China recorded second highest disbursement in 2007 by disbursing US\$ 173.8 million, of which US\$ 141.5 million was for the Puttlam Coal Power Project and US\$ 15 million was for the purchase of railway passenger carriages.

The ADB disbursements amounting to US\$ 175.8 million were mainly for road network improvements, Southern Expressway Project, power sector development and Tsunami-Affected Areas Rehabilitation Project. The disbursements made by the World Bank totalled US\$ 126.1 million, mainly for the Road Sector Assistance Project, North East Housing Reconstruction Project, and for the Gami Diriya, rural empowerment project.

Projects that recorded over US\$ 10 million disbursements in 2007 are given in Table 5.6.

Foreign Aid Utilization

A comparison of foreign aid utilization is given in the Table 5.7, wherein the utilization rates for 2007 are compared with those of 2006. The utilization rates need to be considered in the context of the type of assistance received, as some of the mega projects involve a very large initial commitment, to be spent over a longer period of time depending on the implementation cycle.

The utilization of foreign funds was constrained due to delays in land acquisition, incomplete project designing, and delays encountered in project preparation and contract awarding and procedural delays and rigidities of donor agencies. Approximately US\$ 300 million could not be utilized in 2007 due to these reasons. Of this amount nearly 67 percent or US\$ 200 million can be attributable to delays encountered in awarding contracts, disagreements between

donors viz a viz TEC recommendations / CAPC. Procedural delays accounted for almost 10 percent or US\$ 30 million, of the unutilized amounts. Inappropriate project designing, delays in land acquisition and cost overruns have hindered the utilization of funds by approximately US\$ 30 million. Details of underperformed projects are given in Table 5.8.

Table 5.7
Utilization Rates

Donor	2007	2006
Japan	16.9	20.0
ADB	12.8	19.0
World Bank	24.6	26.3
China	28.5	2.7
Germany	53.7	47.6
France	1.8	0.7
Netherlands	0.5	3.6
Sweden	28.7	34.0
Korea	44.4	32.0
U.S.A.	40.3	24.4
Spain	32.4	-
Export Credit	43.1	51.4
FAO	60.3	90.0
IFAD	7.1	8.8
NDF	48.0	49.5
UN Agencies	14.7	93.1
India	34.3	33.8
Italy	54.5	46.5
Kuwait	7.0	9.4
Denmark	69.1	44.7
Norway	3.1	15.6
Switzerland	45.1	34.3
U.K.	35.7	40.9
Saudi Fund	21.7	11.6
European Investment Bank	33.9	38.9
OPEC	38.1	44.9
WFP	23.5	11.9
Other	2.0	16.2
Overall	21.3	23.3

Source: External Resources Department

Box 5.3
India Broadens Development Assistance

India has always been an important partner, providing development assistance through credit lines and grants for development programmes to facilitate economic growth of the country. Details of important ongoing projects and projects in the pipeline to be funded by the Government of India are as follow.

- **Rehabilitation of the Southern Railway**

The Indian Government has pledged a line of credit of US\$ 100 million for the rehabilitation of the southern railway track, renovation of selected Railway Stations and upgrading railway operations. The total cost of this project is estimated at US\$ 167.4 million and the Government of India has approved US \$ 100 million for this project.

- **Development of a 2x250 MW Coal/Gas based Power Project**

The Ceylon Electricity Board (CEB) and National Thermal Power Corporation of India (NTPC) have committed to set-up a coal based power station with 2x250 MW capacity at a cost of US\$ 550 million on BOO basis in the Eastern city of Trincomalee towards aiding power requirements of Sri Lanka.

- **Grant Assistance for Small Development Projects**

The Indian Government provides grant assistance for small development `projects under a MOU signed between the Governments of Sri Lanka and India. This grant program is available up to US \$ 3 million per proposal for community oriented projects and allows Indian scientific and educational institutions to share their developmental and entrepreneurial experiences with Sri Lankan organizations operating at grass-roots level. The project would relate mainly to socio-economic development, particularly for the development of infrastructure in education, health or community development sectors, livelihood activities, conservation of the environment and cultural heritage, empowerment of women and for child welfare. The total capital cost of all such projects at any time shall not exceed Sri Lankan Rupees 5 billion.

A project for supplying of fishing boats and other accessories to 773 fishing families in the Vakaraï region is under implementation. Proposals to set up a faculty of Siddha Medicine in the Trincomalee Campus of the Eastern University, Development of Dairy farming in the Plantation Estate Sector and to provide Solar Photo-Voltaic Aided Computer Education for 25 rural schools in the Uva Province are under consideration.

- **A District General Hospital for Hatton**

The Government of India provided a special grant for the construction of a 150 bed District General Hospital at Dickoya, Hatton. A cost of around SLR 918 million is required for the implementation of this project. Earlier, the Government of India had provided financial assistance to setup an operating theater and to install equipment in the gynecological and pediatric centres of the existing hospital.

- **Assistance to Promote a Rural Vocational Training**

A grant was availed by the Indian Government to setup facilities at the Rural Vocational Training Centre at Nagawillu, Puttalam. The estimated cost of the project is SLR 55.7 million. The project is expected to be implemented over the next 6-8 months. It will involve creation of facilities at the Rural Vocational Training Centre (RVTC) at Nagawillu through the supply of necessary equipment and training of personnel to enable the centre to carry out short-term, modular and full-time courses in various streams of vocational training to the people in and around Puttalam.

- **Development of Kankesanthurai (KKS) Harbour**

India has agreed to assist in the rehabilitation of the KKS harbour which is estimated to cost around US\$ 23 million.

Table 5.8
Under-performed Projects in 2007

					(USD million)
Donor	Name of the Project	Loan Amount	Disbursement Target for 2007	Not Utilized in 2007	Reasons for Variation and Current Status (30.04.2008)
Japan	Upper Kotmale Hydro Power Project	302.0	51.8	29.5	Unsatisfactory progress of the contractors for the Preparatory Work and Main Civil Work, and the delay in finalization of the tender for Generating Equipment Contract. The contractors showed a good progress in the 1st quarter of 2008. The tender for Generating Equipment Contract has not been finalized yet.
	Colombo City Electricity Distribution Development Project	54.0	10.0	9.3	Though the bids were opened in October 2006 (Package C - Construction and Rehabilitation of 11 kV Distribution System & Package D - Establishment of a SCADA System), November 2006 (Package A - GIS Substation), January 2007 (Package B - Construction of 8.7 Km of 132 kV Underground Cable), no contracts have been awarded in 2007 due to the disagreement of JBIC on the evaluations of technical proposals of bidders by Procurement Committee. The matter has now been resolved. One contract has been awarded and two contracts are about to be awarded.
	Greater Colombo Urban Transport Project (Construction of Road Section from Kottawa to Kaduwela of Outer Circular Highway)	199.0	13.6	13.6	It was planned to award the civil work contract by the end of November 2007 and pay the mobilization advance in December 2007. However the, bid closing date has been extended up to 18th January 2008 to allow the bidders to submit their alternative bids. The tender has not been finalized yet.
	Duel Fuel Combined Cycle Power Plant at Kerawalapitiya	210.0	45.5	45.5	The Project was to be financed under the export credit facility from JBIC. Due to disagreement between the selected contractor and PC/CANC on the technical proposal, the proposal was rejected.

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Table 5.8
Under-performed Projects in 2007 Contd.

					(USD million)
Donor	Name of the Project	Loan Amount	Disbursement Target for 2007	Not Utilized in 2007	Reasons for Variation and Current Status (30.04.2008)
	Rehabilitation of Ukuwela Power Plant	11.0	5.5	5.5	<p>The loan agreement was expected to be signed by November 2007. However, due to a long delay in obtaining the clearance from the Attorney General's Department, it was not possible to sign in 2007.</p> <p>The loan agreement was signed on February 15, 2008.</p>
	Pro Poor Eastern Infrastructure Development Project (Reconstruction of a 98 Km road section between Trikandimadu - Akkaraipattu)	40.0	10.3	10.0	<p>Though the bids for the civil work contract of the project were opened in early March 2007, the bid evaluation was completed early in August 2007. Due to this delay, the expected disbursement could not be achieved.</p> <p>Disbursement is now in progress.</p>
Japan	Power Sector Restructuring Project (Kerawalapitiya Kotugoda Transmission Project)	26.0	14.2	11.7	<p>The JBIC temporarily suspended the loan extension due to a delay in the finalization of the Dual Fuel Combined Cycle Power Plant at Kerawalapitiya and no disbursements were made till November 2007.</p> <p>The disbursement resumed only in December 2007. Disbursement is now in progress.</p>
World Bank	National HIV/AIDS Prevention	12.6	4.7	2.9	<p>Procurement not adhered to acceptable procurement procedures, lack of ownership of the project and staff issues.</p> <p>The project is scheduled to be closed in June 2008 and an unutilized amount of US \$ 6.5 mn will be cancelled.</p>
	North East Irrigated Agriculture	64.7	16.0	10.9	<p>Inappropriate project designing at the initial stage of the project.</p> <p>The project was redesigned to address to the present requirements. Disbursements have been improved in 2008.</p>
	e-Sri Lanka	53.0	13.1	8.3	<p>Disbursement delays due to initial procurement delays. The procurement delays are catching up.</p>

Table 5.8
Under-performed Projects in 2007 Contd.

					(USD million)
Donor	Name of the Project	Loan Amount	Disbursement Target for 2007	Not Utilized in 2007	Reasons for Variation and Current Status (30.04.2008)
ADB	Southern Transport Development Project	90.0	10.0	10.0	ADB approval for supplementary loan was not granted in 2007.
	National Highways Sector Project Components-				A supplementary loan will be signed on 30th April 2008.
	Puttalam - Anuradhapura 70 Km	41.6	2.0	2.0	Selected bidder was cancelled due to court case filed by a bidder. Approval from Court is pending for re-tendering the contract.
	Udatenna-Mahiyangana 40.8Km	35.5	0.5	0.5	Delay in ADB concurrence for bidding documents. Bids have been evaluated and awaiting ADB concurrence.
	Habarana-Kantale Road 44 Km	25.6	2.0	2.0	ADB approval was not given in time as ADB was awaiting the Court decision on Puttalam -Anuradhapura Road. The Civil Works contract has been awarded. Construction Supervision Consultancy to be awarded.
	Nuwara -Eliya - Badulla 54.8 Km	39.7	3.5	3.5	Delay in ADB concurrence for bidding documents. Bids have been evaluated and submitted to ADB.
ADB	Conflict Affected Area Rehabilitation Project - Road Component				The ADB has not approved tenders for the all components due to high bid prices.
	Kandy - Jaffna 28.6 Km	6.7	1.3	1.3	ICB packages have been converted to 7 LCB packages in which include the roads in cleared areas.
	Vavuniya - Horowpothana 21 Km	4.2	0.9	0.9	
	Medawachchiya - Mannar 49.5Km	14.1	2.8	2.8	
	Colombo Port Expansion Project	300.0	30.0	30.0	Re-bidding was proposed in view of the national interest consideration. Approval of ADB was obtained to proceed with breakwater tender while re-tendering for terminal operators.

5. Foreign Financing of the Budget

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Table 5.8
Under-performed Projects in 2007 Contd.

					(USD million)
Donor	Name of the Project	Loan Amount	Disbursement Target for 2007	Not Utilized in 2007	Reasons for Variation and Current Status (30.04.2008)
	Plantation Development Project	30.0	3.5	1.8	Regional plantation companies did not provide their contribution for the implementation of social development component. The existence of alternate housing loan schemes that were being implemented for estate workers on more concessionary terms has hindered the progress of the housing loan component of the project. It was agreed to transfer un-committed funds since the project is expected to be closed by 31 December 2008.
	Secondary Towns and Rural Community Based Water Supply and Sanitation Project	50.0	15.0	13.7	Contracts could not be awarded till the supplementary loan was processed by the ADB. 54% of the loan amount has been committed as of 31 March 2008.
	Aquatic Resources Development and Quality Improvement Project (Fish Market)	4.0	0.1	0.05	Due to delay in land acquisition & land filling. Draft bidding documents and designs for the construction of the fish market building has been submitted to ADB.
Denmark	Oluvil Regional Port Development Project	67.5	5.0	5.0	Delays in land acquisition. Land acquisition was completed in March 2008 and the Loan Agreement is expected to be signed in June 2008.
	Kelani Right Bank Water Treatment Plant	70.5	4.3	4.3	Delay in the tender processing. Tender awarded in April 2008.
Saudi Fund	Development of Health Facilities in Colombo Hospital Project	12.0	10.5	7.6	Delay in procurement of equipment and delay in the realignment work of the sewer and storm water lines handled by the Colombo Municipal Council. Now the project implementation is in progress and there are no any major issues.
Korea	Korea Sri Lanka Friendship Hospital	6.7	4.9	4.9	Delay in selecting the Contractor by KOICA. The project implementation is now in progress.

Table 5.8
Under-performed Projects in 2007 Contd.

					(USD million)
Donor	Name of the Project	Loan Amount	Disbursement Target for 2007	Not Utilized in 2007	Reasons for Variation and Current Status (30.04.2008)
IFAD	Post-Tsunami coastal rehabilitation and resource management programme and post-tsunami livelihood support and partnership programme.	16.1	6.9	4.4	Delay in the establishment of Project Management Units in 7 Districts. The project implementation is now in progress.
India	Upgrading and Double Tracking of Coastal Railway Line	100.0	20.0	20.0	Delay in the finalization of the feasibility study. The Government of India has approved US \$ 100 million.
Australia	Ampara Water Supply Scheme – Phase III	91.8	20.0	20.0	Delay in the finalization of the loan agreement. An investigation has been started by the Australian Government on the contractor.
Sweden	Rural Electrification IV	20.0	12.0	12.0	CEB has reinvited the tenders on ICB basis as there was no successful bidder from the Swedish Turnkey contractors. Negotiations with the selected contractor were concluded in March 2008.
Hungary	Labugama Kalatuwawa Water Project	52.5	3.0	3.0	Nominated contractor was withdrawn by the Donor. A new contractor has been nominated by the Hungarian Government and a proposal will be called from the contractor.
Nether lands	Rehabilitation of Dikovita Fishery Harbour	67.5	3.0	3.0	Tender evaluation had to be referred to the Cabinet Sub Committee on Investment Facilitation for approval. The awarding of the contract is expected to be done in May 2008.
Spain	Improvement of Karapitiya and other related health institutions	20.0	2.0	2.0	Delay in the acceptance of the Tender document by the donor. The Spanish Government has agreed to the new formulation of the tender document proposed by the Ministry of Health Care and Nutrition.
Total		2138.3	347.9	301.8	

Source: External Resources Department

New Project Initiatives

The project pipeline for foreign financing for the next three years has been finalized to implement the infrastructure projects identified in the Ten year Horizon Development Framework 2006 – 2016. Sri Lanka has been able to attract new donors such as China and Iran as partners of

development and financing expected from these two donors for the period 2008 – 2010 is approximately US\$ 2602 million or 36 percent of the total expected commitment. The details of the project pipeline for 2008 - 2010 are given in Annex II (at pages 354 - 356) and names of the major projects are given in Table 5.9.

Table 5.9
New Project Initiatives with Foreign Financing 2008-2010

(in US\$ million)		
ADB	Provincial & National Road Network Improvement Project (under Discussion)	180.0
	Sustainable Power Sector Development	100.0
	Supplementary loan for Southern Transport Development Project	90.0
China	Colombo Katunayake Expressway	313.0
	Hambantota Sea Port Development Project- Phase II	100.0
	Puttalam Coal Power Project - Phase II & III	400.0
India	Upgrading Double Tracking of Coastal Line Railway	100.0
Iran	Oil Refinery Project	800.0
	Umaoya Multipurpose Development Project	450.0
Japan	Development of Bandaranaike International Airport - Phase II	250.0
	Greater Colombo Urban Transport project - Phase II (Construction of Southern Section of the Outer Circular Highway (OCH) from Kaduwela to Kadawatha Flyovers in Colombo City	240.0
	Moragahakanda & Kaluganga Development Project	250.0
	Southern Expressway Project - Phase II (Widening of road section from Dodangoda to Kurundugahahettkma of the Southern Expressway from 2 lanes to 4 lanes and Installation of a Toll system and O/M facilities for the entire road)	168.0
	Water Sector Development Projects (Kalu Ganga Water Supply Project, Greater Colombo Water Rehabilitation Project, Kandy Wastewater Treatment Plant,	265.0
Kuwait	Moragahakanda & Kaluganga Development Project	214.0
UK	Construction of Flyovers in the Colombo City	150.0
World Bank	Provincial and National Road Network, Education, Health, Agriculture, Environment and Tourism Resources Development	900.0

Source: External Resources Department

Box 5.4
China Supports *Randora* Initiatives

In line with the priority for infrastructure development under Mahinda Chinthana - the Ten year Horizon Development Framework, the Government of China has extended its support to provide long term funds for the construction of the Hambantota Port, the 300MW Puttalam Coal Power Plant with terminal and transmission facilities, the Colombo-Katunayake Expressway, the modernization of railways and the construction of the Performing Arts Theatre in Colombo.

• **Hambantota Port Development**

The Government has assigned high priority for the Hambantota Port Development project under its National Infrastructure Development Initiative –*Randora*. The port is planned to be initially developed as a service and industrial port and subsequently as a trans-shipment port. The proposed Hambantota Port will offer a unique deep water facility which is located within 10 nautical miles of the world's busiest shipping lane. Therefore, the proposed Hambantota Port has a comparative advantage for the provision of facilities and it will be an important catalyst for major economic development in the Southern Region.

The project will consist of the construction of the East breakwater (315m length) and West breakwater (950m length), two berths with a total length of 600m, a marine structure to accommodate 100,000 DWT container vessels, 1km length approach channel with a 210m width and 16m depth and also port bunkering and oil tank farm facility.

The total cost of the port project is estimated at around US\$ 360.8 million of which US\$ 54 million will be financed by the Sri Lanka Ports Authority and the balance US\$ 306 million will be provided by the Exim Bank of China. The Loan Agreement was signed on 30th October 2007 and the civil work of the project has already commenced.

The estimated project cost of the Hambantota Port Bunkering and Oil Tank Farm would be US\$ 70 -75 million and the Exim Bank of China has already agreed to finance the Project. The Loan Agreement is expected to be finalized in May 2008 and construction work will commence thereafter.

• **Puttalam Coal Power Project -Phase I**

This project will install a 300 MW Coal Power Plant in Norochcholai, Puttalam, with all the auxiliary equipment/ systems, including a coal unloading jetty, a 115 km power transmission line and other infrastructure facilities. Considering the national importance to meet the growing electricity demand at a minimum cost to the economy and to reduce the heavy reliance on diesel power generation as at present, the Government accorded high priority to the project.



The total cost of the project is estimated at US\$ 455 million. The Exim Bank of China has extended a loan of US\$ 455 million and construction has commenced. The Exim Bank of China has released US\$ 150.5 million so far. The project is to be commissioned by 2010.



Box 5.4
China Supports Randora Initiatives Contd.

• **A National Performing Arts Theater**

The theater will be a well equipped modern facility with a seating capacity of 1200 and other facilities such as foyer, dressing rooms, restaurant and a car park. The floor area of the centre will be around 14,000 square meters. The total cost of the project is US\$ 21.2 million of which US\$ 7.7 million is provided on a grant basis, and the balance US\$ 13.5 million as an interest free loan.

The designing of the theater was completed by the Beijing Institute of Architectural Design and the agreement was signed in August 2007. A Chinese construction team has arrived in Sri Lanka and the construction work of the theater is scheduled to commence in May 2008.



• **Assistance to Railways**

Procurement of 100 Passenger Carriages and 15 Diesel Multiple Units (DMUs) will enable the Government to meet the long felt demands in the railway service, proposed to be utilized to strengthen long distance and intercity services. The 15 DMUs will strengthen the Colombo suburban train service and increase the capacity as well as the frequency of train operations. The new 100 Passenger Carriages will alleviate the existing capacity constraints of trains and it will improve train services substantially.

The two Loan Agreements for the procurement of 15 DMUs and 100 Passenger Carriages for Sri Lanka Railways were signed on 15th May 2007. 100 Passenger Carriages have already been delivered and the first batch of 3 DMUs will reach Colombo by August 2008 and the next two consignments of 6 each in September and December 2008.



• **Colombo-Katunayake Expressway**

The four-lane Colombo-Katunayake Expressway is a long felt need to connect the Bandaranaike International Airport with the capital city of Colombo. The project encompasses the construction of 25 km with five flyovers at Kelaniya, Peliyagoda, Ja-Ela, Kerawalapitiya and Katunayake.

During the recent state visit of His Excellency the President to China in April 2008, the Government of China confirmed its willingness to finance the project.

This expressway will be linked to the Southern Expressway through the outer circular road which is in the construction phase and proposed to be operational by 2010.

The total estimated cost of this project is US\$ 292 million and the commercial contract has been finalized. Negotiations are being concluded with the Exim Bank of China to obtain a loan to fund this project.



Supplementary Funds from the Capital Market

Sri Lanka made a successful entry to the capital market to supplement available concessionary funds, to develop infrastructure projects. The US\$ 500 million raised through the sale of bonds in international capital markets to finance high priority infrastructure projects complementing available resources, helped to contain the pressure on Balance of Payments, emanating from high crude oil prices. Barclays Capital, HSBC and J. P. Morgan acted as Joint Lead Managers of the bond issue and Bank of Ceylon acted as the Co-Manager.

Road-shows were held in Singapore, Hong Kong, London, New York, Los Angeles and Boston. 136 investors participated in the transaction and it was oversubscribed three times. The bonds were sold at par with a coupon of 8.25 percent, maturity date being October 24, 2012. Proceeds of the loan were utilized to finance high priority infrastructure projects such as electricity generation, water supply, roads, and port facilities reflected in the National Budget. A total of US\$ 760 million has been raised in 2007 through capital market borrowings.

Table 5.10
Market Borrowings - 2007

Creditor	US\$ Million
International Bond Issue	500.00
Syndicated Loan arranged by the Bank of Ceylon	210.00
SLDB Loan - National Savings Bank	50.00
Total	760.00

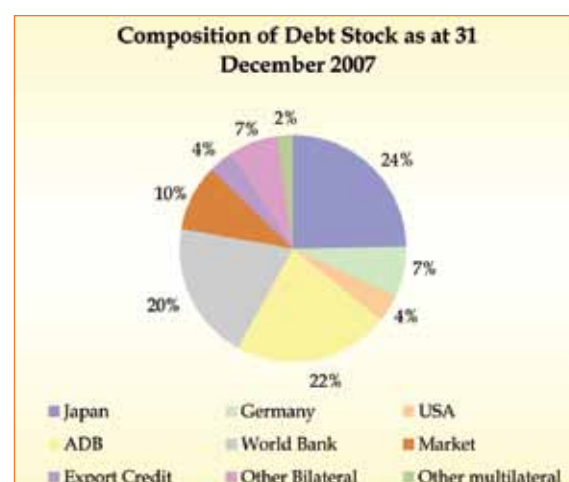
Source: External Resources Department

External Debt

External Debt of the Government as at end 2007 stood at US\$ 12.12 billion as against the 10.6 billion as at end 2006. Of the total debt, 42 percent is due to bilateral donors, 44 percent to multilateral donors, 10 percent to commercial banks and the balance 4 percent to export credit agencies. The external debt to the GDP ratio declined to 37.9 percent in 2007 from 38.4 percent in 2006. With the new borrowings made in 2007, export credit and market borrowings accounted for 14

percent of the debt stock. A graphical representation of the composition of the External Debt stock as at end December 2007, of the major donor category is demonstrated in Chart 5.4.

Chart 5.4



Two thirds of the external debt stock (or 66 percent) is owed to the three main donors namely, Japan, ADB and the World Bank which were borrowed on highly concessionary terms. The maturity profile of the external debt stock as at 31st December 2007 is depicted in the Chart 5.5.

As shown therein, about 50 percent of the debt stock will mature during the 10 years period commencing from 2008. Nearly, 35 percent will mature during the next 10 year period commencing from 2018 and the balance 15 percent will mature after 20 years.

Chart 5.5



Source: External Resources Department

933 million. Forecasted debt service payments for 2008 and 2009 show an increase, since some of market borrowings are due to be matured in these years. The debt service payments are expected to come back to the normal level in 2010- 2011. However, in 2012 a higher level of debt service payments is expected due to the scheduled retirement of the US\$ 500 million international bonds.

Table 5.12 illustrates the profile of external debt service payments based on the current debt stock for the period 2006 – 2012. The debt service payments to three major donors, i.e. Japan, ADB and the World Bank accounted for 58.4 percent of the total repayments in 2007.

External Debt Service Payments

The total external debt service payment during 2007 was US\$ 831.5 million comprising US\$ 197 million on account of interest payments and US\$ 634.5 million as capital payments. Therefore, although the country borrowed US\$ 1568 million, the net external debt increased only by US\$

Table 5.11
Debt Service Payments* 2007-2012

(in US\$ million)						
Type	Actual 2007	2008	Forecast 2009	2010	2011	2012
Total Outstanding Debt	12,120.2	11,350.9	10,607.3	10,066.7	9,531.3	8,490.1
Principal repayments	634.5	769.3	743.6	540.6	535.4	1,041.2
Interest payments	197.0	225.8	218.7	198.9	189.3	201.2
Total debt services	831.5	995.1	962.3	739.5	724.7	1,242.4

Source: External Resources Department

* Note: includes debt services of all Borrowings

Box 5.5
Partnership with Iran as an Emerging Donor

Iran being an emerging donor to Sri Lanka, has agreed to extend its support for the country's development programme. During the visit of His Excellency the President to Iran in November 2007, the Government of Iran committed for long-term financial assistance for the implementation of the Uma Oya Multipurpose Development Project; the Expansion and Modernization of the Sapugaskanda Refinery; provision of a credit facility for the procurement of Crude Oil and to enter into several bilateral arrangements to promote investment, trade and tourism. The development partnership with Iran was further strengthened during the state visit of the Iranian President to Sri Lanka in April 2008 during which the Loan Agreements for Uma Oya Multipurpose Development Project and the Expansion of Sapugaskanda Refinery Projects were signed.

- **Uma Oya Multipurpose Development Project**

This project is one of the important development projects that will provide 100-150MW of hydro power and irrigate around 4000 - 5000 hectares of dry lands and facilitate providing drinking water for the South. A dam which will be constructed across the Uma Oya in Puhulpolla, Welimada in the Uva Province, will divert water to the Kirindi Oya reservoir in Wellawaya through a 23KM long tunnel and provide over 100 MW of power to the national grid. The Iranian Government will provide up to US\$ 450 million of financial assistance to complete the project on a turnkey basis.



- **Modernization/Expansion of Sapugaskanda Refinery**

The Sapugaskanda refinery at present has the capacity to produce around 50,000 barrels of refined products from crude oil, per day. This quantity is able to meet approximately 45 percent of the domestic demand. Expansion of the Sapugaskanda refinery will increase the daily output capacity to 100,000 barrels of refined oil and also facilitate to meet the domestic requirement of LP Gas, aviation fuel and Bitumen (tar) by way of by products. The Iranian Government has committed to provide US\$ 700 million to implement the project.

- **Credit to Procure Crude Oil**

Following the state visit of H E the President to Iran in November 2007, the Iranian Government has committed to provide a 4 month interest free credit facility for the procurement of crude oil from Iran, which may be followed up on concessionary terms, to be negotiated based on needs. The value of the 4 month interest free credit facility is around US\$ 360 -400 million.

5. Foreign Financing of the Budget

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Table 5.12
External Debt Service Payments 2006 - 2012

Donor/Creditor	US\$ millions						
	Actual			Forecast			
	2006	2007	2008	2009	2010	2011	2012
Bilateral	342.7	426.5	462.6	469.7	379.6	386.9	375.8
Japan	215.8	268.1	294.5	293.3	236.8	240.9	242.1
Canada	4.2	5.3	5.6	5.6	4.4	4.4	4.4
Denmark	0.9	1.2	3.8	5.2	4.7	4.7	4.7
France	9.0	11.4	12.2	12.0	9.2	8.6	7.8
India	-	8.0	9.6	17.0	16.7	14.7	11.8
Italy	-	-	0.5	0.5	0.5	0.5	0.5
Kuwait	4.7	5.2	3.1	4.2	4.1	4.1	4.0
Korea	7.4	11.2	12.7	12.5	10.6	10.0	9.5
Netherlands	5.8	7.5	6.7	4.6	1.8	0.9	-
Germany	43.2	51.5	54.0	53.2	40.0	36.0	31.1
China	2.9	3.1	6.9	9.2	8.6	20.6	19.0
USA	48.5	53.1	52.0	51.2	40.5	39.8	39.2
Saudi Fund	0.3	0.9	0.8	1.0	1.1	1.1	1.1
Other Bilateral	-	-	0.2	0.2	0.6	0.6	0.6
Multilateral	147.1	171.5	193.6	211.0	222.1	242.5	252.2
ADB	76.1	93.6	107.0	119.3	127.7	137.6	141.9
World Bank (IDA)	58.0	67.1	74.1	75.3	78.0	85.6	88.5
IFAD	8.2	3.0	2.6	3.5	3.5	3.4	3.4
European Investment Bank	2.9	5.1	7.0	9.6	9.6	12.7	15.2
Nordic Fund	0.3	0.3	0.4	0.6	0.7	0.7	0.7
OPEC Fund	1.6	2.4	2.5	2.7	2.6	2.5	2.5
Market Borrowings	76.0	195.9	297.8	244.4	91.5	48.4	568.6
Export Credits	33.5	37.6	41.1	37.2	46.3	46.9	45.8
Total	599.3	831.5	995.1	962.3	739.5	724.7	1,242.4

Source: External Resources Department

Note:

1. Debt Services on domestically raised debt in foreign currency are excluded.
2. Exchange rate as at 31st December 2007 (Rs 108.7194 = 1 US\$) has been used for the calculation of future debt services.

Aid Utilization for Post-Tsunami Reconstruction Activities

At the Sri Lanka Development Forum – 2005 held on 16th and 17th May 2005 in Kandy the bilateral, 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. Of the total pledges, the bilateral and multilateral development partners accounted for US\$ 2047 million and by end of 2007 agreements were signed for US\$ 1,855.5 million.

Out of the pledges of bilateral and multilateral development partners, over 90 percent had been committed by the end of 2007. Most of these commitments have been earmarked for major infrastructure development such as national roads, bridges, water supply schemes, railway lines and fishery harbours, in the Tsunami affected areas. The project design, procurement and implementation of these projects involve a 2 - 4 year period and therefore the construction activities of most of such projects have begun in 2007.

Of the bilateral development partners France, Germany, Japan, India and China and of multilateral development partners the Asian Development Bank, the World Bank UNICEF and the European Union each committed more than US\$ 100 million. Of the US\$ 1855.5 million committed by multilateral and bilateral donors US\$ 1041.1 million or 56 percent has been utilized up to end of 2007. The balance committed funds are for the reconstruction of Matara – Batticaloa road and major bridges on that road for which majority of the contracts have been awarded and Puttalam Coal Power Project of which construction has been commenced in 2007. Contract for civil work for Trincomalee

Water Supply Scheme is to be awarded in the middle of 2008. These funds are expected to be fully utilized in the period 2008 – 2010.

A brief account of the current status of reconstruction of Tsunami activities by the bilateral and multilateral development partners is given in the Table 5.13.



Completed post tsunami construction site that was handed over to the affected in Batticaloa in the Eastern Province

5. Foreign Financing of the Budget

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Table 5.13
Donor Assistance for Post Tsunami Reconstruction (US\$ million)

Donor Countries & Agencies	Expected donor Assistance	Pledges	Commitments as of 31.12.2007	Disbursements as of 31.12.2007	Current Status
a. Bilateral	735.0	1181.7	1012.4	552.9	
France	104.0	104.0	113.0	6.2	Reconstruction of 133 km of National roads, 5 bridges and 1 causeway in the Eastern Province. Agreed to provide additional Euro 15 million to cover cost escalation. Construction to begin in mid 2008. Upgrading of Greater Trincomalee Water Supply Scheme. Constructions to begin in mid 2008. Credit facilities for construction companies engaged in Tsunami reconstruction. Digital mapping of Tsunami affected coastal line is in progressing.
Germany	81.0	102.5	116.4	111.6	Construction of 8,683 fully damaged and 4,378 partly damaged houses in Ampara & Batticaola Districts - completed. Storm Water Drainage Systems in Valachchani & Thiraimadu. Power Supply in thiraimadu - completed. Rehabilitation of Water Supply Scheme in Galle District including main transmission line between Galle & Ambalangoda - completed. Reconstruction of 11 Technical Colleges and Upgrading of Galle & Ampara Technical Colleges - to be completed by mid 2008.
India	23.0	123.0	1.4	-	US\$ 100 mn for Rehabilitation of Southern Railway line was approved by the Indian Government.
Italy	69.0	72.0	5.1		Funds channel through Italian Government agencies and NGOs. Reconstruction of 19 schools, facility improvement of schools, rehabilitation of hospital buildings.
Japan	181.0	185.0	185.1	145.0	Reconstruction of Roads, Water Supply Schemes, Irrigation Schemes, Post Offices. Credit facilities for affected small & medium enterprises. Reconstruction of 14 Schools, 5 Police Stations, 5 Bridges and 3 Causeways. 3 Friendship villages. Provision of freezer trucks, Fishing Boats and Iceplants. Reconstruction of Galle and Tangalle Fishery Harbours have been completed.

Table 5.13
Donor Assistance for Post Tsunami Reconstruction (US\$ million) Contd.

Donor Countries & Agencies	Expected donor Assistance	Pledges	Commitments as of 31.12.2007	Disbursements as of 31.12.2007	Current Status
Korea	35.0	40.0	33.7	11.2	Construction of Mahanama Bridge at Matara completed. Construction of Korea Sri Lanka Friendship Hospital in Matara and Administrative Complex in Hambantota are in progress.
U.S.A.	65.0	60.0	59.6	36.5	Construction of Arugambe Bridge, Fisheries Harbours in Hikkaduwa, Mirissa and Puranawella (dondra) Four Vocational Training Centres in Eastern Province & Five in Southern Province, Water Supply Scheme in Eastern Province are in progress. All the activities to be completed by mid 2008.
Denmark	8.0	8.0	8.0	8.0	Water supply projects in Hambantota, Kalutara and Ampara completed.
China	18.0	318.0	318.0	170.0	Rehabilitation fishery harbours at Panadura, Kudawella and Beruwala completed and the construction of Puttalam power plant is in progress.
Switzerland	12.0	18.0	17.6	12.4	Reconstruction of 10,757 fully damaged houses in Matara & Trincomalee Districts. Reconstruction of 9 schools of which 3 completed the balance to be completed in 2008.
Canada	84.0		0.4		Funds channel through NGOs.
Netherlands	11.0	16.0	28.4	22.2	Restoration of Railway Signalling in the Southern Line completed. Reconstruction Multi day boats to be completed by mid 2008.
Sweden		13.0	13.0	4.8	Reconstruction of damaged roads in the Northern & Eastern Province is in progress. Emergency bridge materials supplied.
Norway	19.0	10.0	9.8		Funds channeled through NGOs.
Spain	25.0	55.0	44.8	17.8	Reconstruction of 4 bridges in the Eastern Province and Water Treatment Plants in Ambatale & Negombo is in progress.

5. Foreign Financing of the Budget

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Table 5.13
Donor Assistance for Post Tsunami Reconstruction (US\$ million) Contd.

Donor Countries & Agencies	Expected donor Assistance	Pledges	Commitments as of 31.12.2007	Disbursements as of 31.12.2007	Current Status
Australia		8.0	7.4		Funds channeled through NGOs. Strengthening Eastern Technical Institute Ruhuna Child-Friendly School Complex Fishnet Manufacturing in Jaffna, Victoria Gardens Settlement Project in Galle and Establishment of an Emergency and Trauma Centre at Karapitiya Hospital.
Iceland		1.0	2.5		Rehabilitation of 25 Fish landing sites of which 8 completed.
Venezuela		6.2	6.2	6.2	Cash grant
Hungary		22.0	22.0		Funds channeled through NGOs.
Kuwait		20.0	20.0	1.0	Construction work of Advanced Technological Institute Buildings in Ampara, Labuduwa, Jaffna and Trincomalee and Construction of University buildings in South Eastern, Eastern, Ruhuna and Jaffna and construction of 13 Tsunami affected Divisional Secretariat buildings is in progress.
b. Multilateral	622.0	865.3	843.1	488.2	
ADB	157.0	165.0	165.0	56.4	Reconstruction of 9,539 damaged houses completed. Roads rehabilitation in the Eastern Province. Water Supply Schemes in Hambantota completed, Batticaloa work is in progress. Reconstruction of Matara-Batticaloa road - work is in progress. 232 small infrastructure projects completed. Emergency repair of coastal infrastructure completed. Rehabilitation of new fisheries anchorages are in progress.
World Bank	150.0	175.0	175.0	149.0	Reconstruction of 112 km of Kalutara Matara Road - completed. Cash grants provided for 418,916 Tsunami victims. Construction of 42,000 damaged houses of which 35,000 completed. Provision of health facilities - partly completed.
UNDP	69.0	69.0	47.6	19.4	Strengthening of divisional administration and local organizations completed. Construction of damaged houses and micro credit - activities completed.

Table 5.13
Donor Assistance for Post Tsunami Reconstruction (US\$ million) Contd.

Donor Countries & Agencies	Expected donor Assistance	Pledges	Commitments as of 31.12.2007	Disbursements as of 31.12.2007	Current Status
FAO		26.0	25.7	24.4	Agriculture & Forestry Programme in Tsunami affected areas - activities completed.
UNFPA		11.3	12.9	12.6	Reproductive health and Psychosocial programmes in Tsunami affected area - activities completed.
WFP	25.0	49.0	50.0	50.0	Relief and recovery operations are completed.
UNICEF	21.0	136.0	136.0	100.8	Assistance for education, water and sanitation, health and nutrition, child protection activities. Around 75 % of the activities completed.
IFAD	35.0	17.0	15.6	2.5	Rehabilitation of 35km of rural roads in Tsunami Housing Schemes and fisheries infrastructure is in progress.
EIB	90.0	90.0	88.4	61.2	Provision of credit facilities for enterprises directly and indirectly affected by Tsunami. Credit line for indirectly affected enterprises fully committed.
EU	75.0	127.0	126.9	11.9	Reconstruction of 200 km of Matara Batticaola road implemented by ADB - in progress. Community access road in Ampara District implemented by UNOPS. Community livelihood support -IOM.
Sub Total (a+b)	1,357.0	2,047.0	1,855.5	1,041.1	
c. NGO & INGOs*	853.0	773.0	773.0	352.0	
Total (a+b+c)	2,210.0	2,820.0	2,628.5	1,393.1	

* Disbursement data of NGOs and INGOs are not complete.

A Sectoral Perspective

**Benefits of development
expanded to lagging regions
and low income groups**

An Overview

Sri Lanka's economy is dominated by the services sector forming 60 percent of Gross Domestic Product (GDP). The annual average growth in this sector during the 3 year period of 2005 – 2007 was 7.1 percent in comparison to a growth of 6.3 percent in the preceding 3 year period 2002-2004. The industrial sector consisting of manufacturing, mining, energy and water production accounted for 22 percent of GDP in 2007 and recorded an average growth of 7.6 percent during the period of 2005 – 2007. The 3 year average growth prior to 2005 was 4.8 percent. Agriculture consisting of plantation agriculture, non plantation agriculture, livestock, forestry and fisheries accounted for 12 percent in 2007. The 3 year average of this sector was 3.8 percent, noting wide fluctuations responding to vagaries of weather.

Chart 6.1

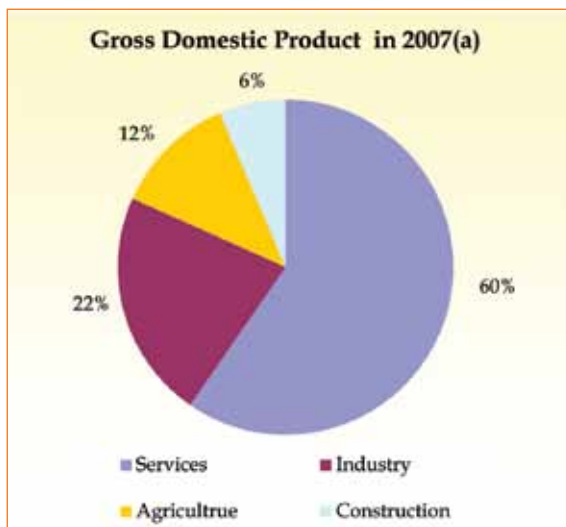


Table 6.1
Sectoral Growth Rate of Gross Domestic Product

Category	2005	2006	2007(a)
Agriculture	1.8	6.3	3.3
Industry	7.7	7.8	7.2
Construction	9.0	9.2	9.0
Services	6.4	7.7	7.1
Overall GDP	6.0	7.7	6.8

Source: Census and Statistics Department

The construction industry which formed 6 percent of GDP in 2007 sustained a growth momentum of 7.6 percent during the 3 year period ending 2007, experiencing a revival consequent to post-tsunami reconstruction work, Government infrastructure development initiatives and private sector expansion. Reflecting a high growth momentum in services, industry and construction sectors, the Sri Lankan economy sustained a 6.8 percent growth during the last 3 years through sectoral performance.

Services

The services sector grew by 7.1 percent in 2007 having registered a growth of 7.7 percent in the previous year. The total production of sub-sectors in real terms amounted to Rs. 1,331 billion in 2007 in comparison to Rs. 1,243 billion in 2006. In terms of current prices, the total production of the services sector was Rs. 2,088 billion. The size of the services sector was US\$ 18,985 million in an economy (GDP) the size of which was US\$ 32,522 million in 2007.

Table 6.2
Services Valued at 2002 Prices

(Rs.Mn)

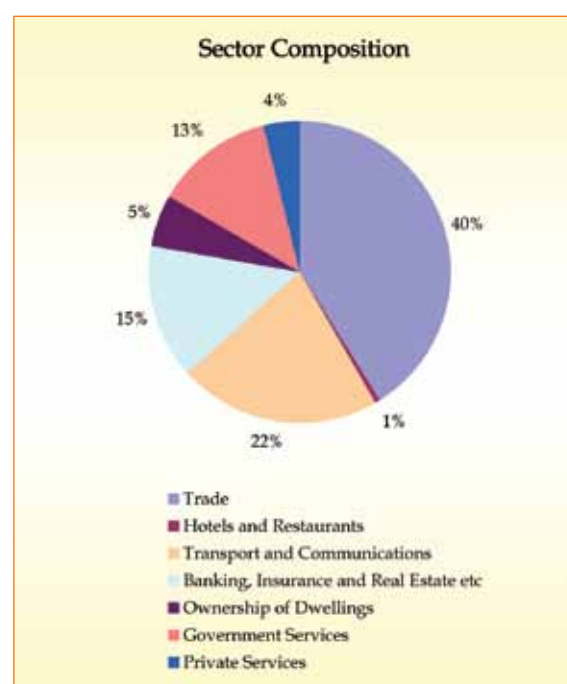
Sector	2004	2005	2006	2007
Trade	451,633	480,402	514,511	546,145
Import	178,024	184,086	196,647	203,105
Export	86,736	92,175	95,535	103,926
Domestic	186,873	204,142	222,328	239,115
Hotels and Restaurants	10,691	9,186	9,411	9,199
Transport and Communications	210,495	230,597	259,546	286,779
Transport	185,130	198,733	220,990	241,663
Port and Aviation	10,262	11,320	13,583	14,773
Post and Telecommunications	15,103	20,543	24,973	30,343
Banking, Insurance and Real Estate etc	153,143	163,863	177,817	193,375
Ownership of Dwellings	70,008	70,749	71,533	72,345
Government Services	146,030	153,866	161,611	171,259
Private Services	42,460	45,177	48,689	52,500
Total Production Value	1,084,459	1,153,839	1,243,119	1,331,602

Source: Census and Statistics Department

Chart 6.2

The growth rate of the largest sub-sector in services - the wholesale and retail sales-grew at a somewhat lower rate of 6.1 percent in 2007 in comparison to 7.1 percent achieved in the previous year, while the banking sector grew at a higher rate of 8.7 percent in comparison to 8.5 percent in 2006. Meanwhile, the hotels and restaurants sub sector within the services sector contracted by 2.3 percent in value added terms in 2007. The tourism sector had a challenging year with the drop in tourist arrivals by 11.7 percent.

Sub sectors such as telecommunications, cargo, transport and private sector services including education and health and other services grew faster, due to the growing needs of the society that was making a diversified economic expansion.



Industries

The industrial sector consisting of manufacturing, mining, electricity, water and construction activities grew at a rate of 7.6 percent in 2007 in comparison to 8.1 percent in 2006. In the manufacturing sector, about 70 percent of the growth was from food, beverage, tobacco industries, textile and wearing apparels industries.

Electricity, gas and water sub sectors generated a total value of Rs. 55,339 million registering an increase of 4.6 percent in 2007 compared with the 14.8 percent growth achieved in 2006. This moderate growth in 2007 was largely due to increased use of thermal power to generate electricity consequent to depleted water capacity in hydro reservoirs.

Table 6.3
Industry

(Rs.Mn)

Sector	2004	2005	2006	2007(a)
Production (1)*	395,343	425,785	459,050	492,203
Mining and Quarrying	24,439	28,791	35,769	42,631
Manufacturing	330,459	350,886	370,355	394,233
Processing (Tea, Rubber and Coconut)	13,509	13,703	13,818	14,150
Factory Industry	296,349	315,276	333,372	355,611
Cottage Industry	20,601	21,907	23,166	24,472
Energy and Water	40,445	46,108	52,926	55,339
Electricity	34,189	39,757	46,183	48,303
Petroleum and Gas	4,092	4,087	4,399	4,525
Water	2,164	2,264	2,344	2,512
Exports (2)*	457,175	497,695	562,450	655,170
Food, Beverages and Tobacco	17,729	32,047	37,822	56,856
Textiles and garments	285,172	291,090	320,829	369,697
Chemical Products	4,954	8,103	8,597	8,596
Petroleum Products	10,133	13,170	19,580	18,693
Rubber Products	28,727	39,693	46,753	53,501
Ceramic Products	4,752	4,736	4,923	5,188
Leather, Paper and Wood	12,291	13,475	13,153	22,049
Plastics and articles thereof	5,345	5,960	6,218	5,995
Machinery, Mechanical and Electrical equipment	38,848	33,178	41,165	60,078
Jewellery	1,897	1,336	1,622	2,161
Diamonds	24,950	26,593	32,440	38,588
Other	22,377	28,312	29,348	13,768

Source: Census and Statistics Department

*(1) Valued at 2002 Constant Prices for GDP Computation

*(2) Export at current market prices

Chart 6.3

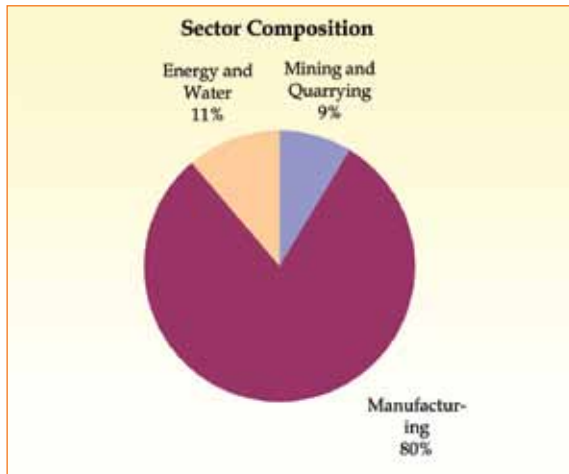
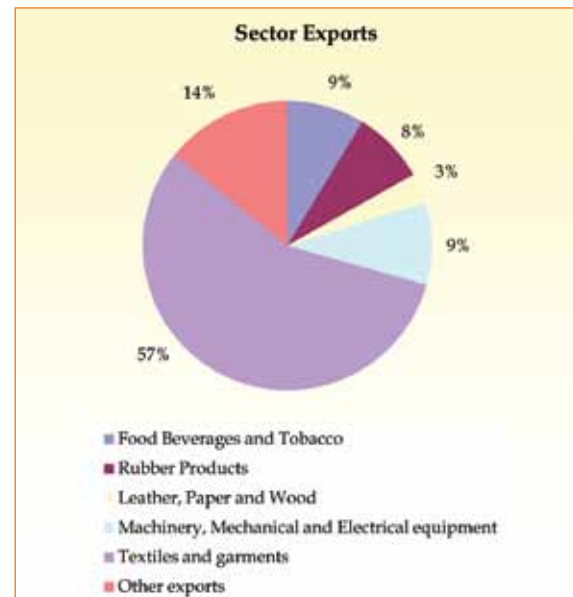


Chart 6.4



Industrial Exports

Industrial exports which represented 76.5 percent of total exports, expanded by 9.6 percent. Garments and textiles achieved a growth rate of 8.5 percent in 2007. This was supported by various multilateral and regional trade agreements which facilitate liberal market access.

Food, beverages and tobacco, machinery and equipment, diamond and jewellery and rubber products sectors also showed high rates of growth in 2007.

Box 6.1 Sectoral Development Initiatives

Industrial Estates

Four Industrial Estates were established in 2007. (Ulapane Industrial Estate at Nawalapitiya, Nalanda Ellawala Industrial Estate at Kuruvita, Laksha Uyana Industrial Estate at Polonnaruwa, and Nagoda Industrial Estate at Kalutara). 13,000 employment opportunities were created in these industrial estates through the establishment of 175 factories.

300 Industry Program

98 projects were implemented with a total investment of Rs.16,216 mn and 22,850 employment opportunities were created during the year 2007.

Apparels and Textiles

Productivity improvement programmes were conducted in 30 selected garment factories in collaboration with the Joint Apparel Association Forum (JAAF).

A Brand Logo for Sri Lankan apparels was introduced with the aim of building an international image for Sri Lankan products.

The total requirement of 10.6 million meters of school uniform material was locally manufactured in 2007.

430 youth rangers followed certificate courses in apparel technology, management, pattern cutting, grading and styling development under the Mahinda Chinthana "Yovun Diriya" training program.

Footwear and Leather Industry

10 local footwear designers were trained in India during 2007.

A national standard for footwear was prepared in collaboration with the Sri Lanka Standards Institution.

Box 6.1
Sectoral Development Initiatives Contd.

An advisory committee consisting of industrialists in the sector provided guidance towards developing the industry.

Facilities were provided to set up 1000 Small/Medium Scale footwear factories.

Processed Food

The annual Processed Food and Packaging International Exhibition was held in July 2007 with the participation of Japan, India, Pakistan and Thailand. 220 local companies also participated.

30 middle and supervisory level officers in the packaging industry were given training to improve their skills.

Ceramic Industry

A program was launched to improve productivity and efficiency of the ceramic industry, in collaboration with the private and public sectors.

Reduction of Post-harvest Losses

New technological advancements were introduced to Agro Producers Societies through the network of Agro Producers Councils. Under this programme, ten technological improvement programmes were held in selected districts in 2007.

Promotion of the Export of Value Added Tea

In order to maintain the quality of tea, the Government provided Rs. 25 million to procure modern equipment and machinery to the Sri Lanka Tea Board. A tea certification process was successfully completed.

Acceleration of Electrical & Electronic Product Design & Development

A new institution was setup in 2007 under the direct supervision of the University of Moratuwa and the National Science Foundation for quality testing. Rs. 40 million was spent to procure the required machinery and equipment.

Transfer of Knowledge in Science and Technology

In 2007, 205 Vidatha Resource Centres were established with the aim of transferring technology to rural areas. 156 Technology Transfer Programmes were conducted and 3082 persons benefited.

60 acres of state land at Homagama was allocated to setup a project promoting nanotechnology and initial steps action were taken to incorporate two public/ private companies (SLINTEC and NANCO) and the National Nanotechnology Board.

A Quality Control Manual and key procedures for the management and operation of Sri Lanka Accreditation Board (SLAB) and accreditation schemes were drawn up to promote conformity assessments (SLAB).

Source :- Ministries of Industrial Development

Agriculture

The Agricultural sector consisting of agriculture livestock, forestry and fisheries generated a total value of Rs. 2,655.6 billion in real terms in 2007. This was an increase of 3.3 percent in comparison to 6.3 percent in 2006. This sector

accounted for 12 percent of GDP, earned 20 percent of exports and provided livelihood to about 30 percent of the labour force. About 70 percent of the rural population depends on agriculture for their livelihood. The Government placed high priority to encourage domestic agriculture production.

Table 6.4
Agriculture (Rs.Mn)

Sector	2004	2005	2006	2007
Production (1)	237,536	241,851	257,131	265,586
Agriculture, Livestock and Forestry	213,246	228,006	235,872	241,010
Tea	26,753	27,544	26,988	26,437
Rubber	4,332	4,773	4,993	5,376
Coconut	28,012	27,204	28,933	30,053
Minor Export Crops	8,569	9,966	10,187	10,706
Paddy	29,567	36,514	37,608	35,217
Other Food Crops	75,524	79,587	81,937	85,503
Tobacco	519	343	476	356
Betel & Arecanuts	1,500	1,269	1,354	1,399
Plantation Development	4,669	5,413	5,679	6,006
Other Agricultural Products	6,209	6,641	6,856	6,999
Livestock	16,270	16,644	17,992	19,415
Firewood and Forestry	11,322	12,081	12,869	13,544
Fishing	24,290	13,846	21,260	24,576
Exports (2)	102,434	109,559	127,092	158,001
Tea	74,897	81,481	91,667	113,565
Rubber	5,155	4,724	9,674	12,089
Coconut	5,936	4,915	5,509	6,692
Other	16,446	18,439	20,242	25,655

Source: Census and Statistics Department

(1) Valued at 2002 Constant Prices for GDP Computation

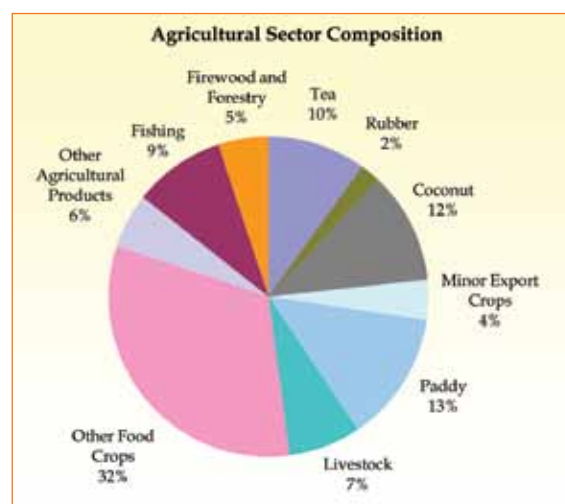
(2) Export at current market prices

This slow growth in this sector was mainly due to a output reduction of 4.5 percent and 5.8 percent in tea and paddy, respectively. The labour disputes that occurred in the first quarter of 2007 in plantation areas and unfavorable weather conditions that prevailed both in the tea and paddy producing areas in the second half of 2007, caused this decline.

“Api Wawamu- Rata Nagamu”, the national food drive programme implemented islandwide is aimed at increasing

local food production to uplift living standards of farmers, ensuring food and nutritional security, reducing the use of chemical fertilizer by 25 percent through increased utilization of organic fertilizer and promoting youth participation in agricultural activities through the application of modern technology.

Chart 6.5



Non Plantation Crops

Paddy

The paddy production in 2007 at 3.13 mn mt was 6 percent lower than the paddy production of 3.34 mn mt. in 2006. This drop was mainly due to adverse weather conditions in 2007. The extent harvested in the Eastern and Northern provinces had declined by 18 percent and 16 percent respectively, while the production in the North Western provinces had declined by 14 percent due to damages caused by floods and the drought that prevailed, particularly in Eastern and North-Western regions. The prices of all varieties of rice increased in 2007, compared with 2006, due to the low output of paddy production, increased demand for rice and rice based products and increased wheat flour prices. Soaring prices of essential food items was a major concern in 2007.

6. A Sectoral Perspective

Table 6.5
Trends in Paddy Production/Related Activities

Category	Unit	2004	2005	2006	2007
Production (k)	mt '000	2,628	3,246	3,342	3,129
Area sown (k)	hectares '000	779	937	910	817
Area harvested (k)	hectares '000	643	819	808	713
Yield (k)	Kg/hectare	4,086	3,963	4,137	4,385
Rice imported	mt '000	222	52	12	88
Credit granted	Rs mn	1,031	1,364	990	1,127

Source: Agriculture Department / Census & Statistics Department

The average producer price of paddy ranged between Rs. 18 – 20 per kg in 2007. Favorable producer prices made paddy cultivation profitable particularly to small scale paddy farmers.

The extent of paddy harvested declined by 10 percent in 2007. However, the average yield increased by 6 percent to 4.4 mt/ha. due to fertilizer usage, improved extension services and increased availability of quality seeds. However, in order to realize the estimated rice requirement, the national average yield should increase to 5.44 mt/ha. This requires increased cropping intensity, in addition to maintaining the annual extent sown at around 980,000 hectares. It is also important to further develop research and extension systems, a quality seed production system, and the adoption of new cultivation practices to reach higher targets.

Other Field Crops

This category mainly includes onion, chilie, green gram, finger millet, maize, potato, cowpea, sesame and soya beans. The total extent grown is around 120,000 ha and the annual domestic production is around 300-350 thousand metric tons.

Table 6.6
Production of Other Field Crops

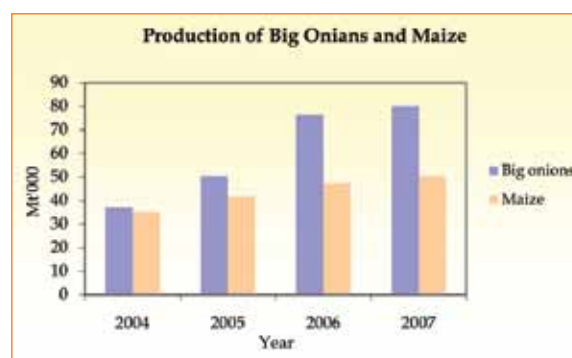
(mt '000)

Crops	2004	2005	2006	2007
Big onions	37.2	50.4	76.4	80.1
Black gram	5	6.9	7.5	7.7
Chilies	10.1	13.2	12.7	12.2
Cowpea	9.2	11.1	10.2	10.8
Green Gram	7.8	9	7.9	8.5
Kurakkan	4.7	6.5	6.3	5.5
Potatoes	81.3	79.4	79.5	77.4
Red Onions	39.5	53.1	54.6	57
Soya beans	1.9	5	5.2	4.8
Maize	35.2	41.8	47.3	50.4

Source: Census and Statistics Department

The maize and big onion production showed a rapid increase. The big onion production which was 37,200 mt in 2004 increased to 80,100 mt in 2007, while Maize production increased to 50,400 mt in 2007 from 35,200 mt in 2004. Meanwhile, imports of maize have decreased by 59 percent in 2007 indicating prospects of import substitution of this crop.

Chart 6.6



However, the potato production which showed an increase over the past few years registered a marginal decline in 2007. Subsequently, the import of potato increased from 46,000 mt in 2006 to 72,000 mt in 2007. Crops such as chilies, cowpea, millet, soya-bean and green gram showed a slight increase in production.

The Government has introduced safeguard duties for these items to encourage local production and provide food security particularly in the context of unpredictable trade patterns of other countries and wide fluctuations in import prices.

Seed and Planting Material Production

For a successful implementation of the crop diversification effort, availability of quality seed and planting material is a pre-requisite. It is estimated that the use of quality seed paddy alone can increase the yield by at least 15-26 percent. At present, only 5-7 percent of the total seed requirement of the country is supplied by the formal sector. The ongoing seed production programme is expected to help to increase the certified seed renewal rate within the next five years in order to assure availability of good quality seeds at competitive prices. About 138,000 kg of Other Filed Crops (OFCs) seeds such as black gram, green gram, cowpea, sesame, maize, soya beans etc were issued by the DOA in 2007. It is about a 55 percent increase over 2006. With the implementation of “Api Wamamu- Rata Nagama” production campaign, 76,000 home garden vegetable seed packs were issued in 2007. This is an increase of over 300 percent in comparison to 2006.

Moderate Growth in the Horticulture Sector

The total extent under fruit crops is estimated to be around 104,500 ha. The production of fruit in 2007 was around 630,000 mt. Sri Lanka exported 25,000 mt of fresh and dry fruit valued at Rs, 1,500 mn in 2007. With favorable policies introduced by the Government, the private sector is now geared to reach the goal of self sufficiency in fruits and vegetables by 2010. They will be further encouraged to establish a modern handling system i.e. cold storage chain for fruits and vegetables to minimize post harvest losses of 40-30 percent, to 5 percent and also to upgrade technology.

Table 6.7
Fruits and Vegetables

Items	2004	2005	2006	2007
Low country ('000 mt)	346	381	389	393
Exotic ('000 mt)	290	278	298	325
Mangoes (mn. No.)	428	464	426	424
Plantain (mn Bans.)	32	34	31	32
Papaw (mn No.)	31	30	32	33
Pineapple (mn. No.)	46	46	47	44

Source: Census and Statistics Department

Exploiting the Lucrative Floriculture Sector

The floriculture industry has been a good source of income for urban and sub-urban communities.

Table 6.8
Performance of the Tea Sector

Category	2004	2005	2006	2007
Total Production	309.5	317.2	310.8	304.6
(mn kg)				
High	74.6	80.4	74.7	72.5
Medium	49.7	55.1	51.5	54.4
Low	183.9	181.8	184.6	177.7
Total extent	211	222	222	222
(d) hectares '000				
Extent bearing (d)				
(hectares '000)	166	193	193	193
Cost of production (e) (Rs/kg)	157.34	168.41	188.4	237.1
Average price				
- Colombo Auction Rs/kg	180.74	185.84	198.87	279.1
- Export(f.o.b) (Rs/kg)	248.92	263.31	279.97	364.28
Export earnings	749	815	917	1,128
(US \$ mn)				
Replanting (hectares)	1,245	1,351	1,338	1,353
New planting (hectares)	22	212	16	4
Domestic market (price) Kg/Rs	180.74	185.84	198.9	279

Source: Sri Lanka Tea Board, Tea Small Holding Authority

Sri Lanka exports foliage plants, cut decorative leaves, cut flowers, water plants, dried flowers etc to the Netherlands, Germany, Italy, Japan and Middle East countries. Annual export earnings from the floriculture sector stand at about Rs. 1,000 mn.

Plantation

The plantation sector is important to the national economy, particularly in term of providing livelihoods and foreign exchange earnings. It provides employment to about 1.5 million people and occupies around 750,000 ha of the arable lands. The annual export earnings of this sector exceeded Rs 140 bn in 2007 .

Tea- A Significant Growth in Export Earnings

Tea production declined marginally by 2 percent in 2007, from 310.8 million kgs in 2006 to 304.6 million kgs. This was mainly due to the effect of the labour unrest which prevailed during the first half of the year. However, the production of tea grown in the mid country increased significantly in 2007 due to the better weather patterns that prevailed in such areas.

Sri Lanka recorded the highest ever sales in the exports of tea exceeding US\$ 1 billion in 2007. This is a significant increase of 22 percent over the previous year. The main reason for increased export earnings in 2007 was the high price for Ceylon Tea in the international market. The average price of tea at the Colombo Auctions also showed an increase of 29 percent in 2007 . The replanted areas increased by 9.5 percent to – 1,465 hectares while acreage under tea cultivation stood at 222,000 hectares, during 2007.

Rubber - A Steady Price Increase

Rubber production showed a continuous increase over the past few years, with production which was around 90 mn kgs in 2000 increasing to 109 mn kgs in 2006 and to 118 mn kgs in 2007. The increase in production is mainly attributable to enhanced rate of adoption of important agronomic practices such as use of fertilizer, rain guards and tapping techniques.

Table 6.9
Performance of the Rubber Sector

Category	2004	2005	2006	2007
Production (kg mn)	94.7	104.4	109.2	117.6
Total extent (c) (hectares '000)	115	116	120	120
Area under tapping (c) (hectares '000)	89	91	97	93
Yield (kg/hectares)	1,064	1,144	1,128	1,261
Export earnings (US \$ mn)	52	47	97	109
Cost of production (d) (Rs/kg)	73.40	76.12	97.20	104.82
Average price				
-Colombo Auction (RSS 1) (Rs/kg)	127.20	147.41	202.55	234.22
-Export (f.o.b.) (Rs/kg)	128.51	147.73	189.86	234.48
Replanting (e) (hectares)	820	1,257	2,372	1,474
New planting (e) (hectares)	518	1,032	922	1,701

Source: Central Bank of Sri Lanka

The price of the rubber showed a further consolidation in 2007. This is particularly due to increasing prices of natural rubber in the international market. The average export price of natural rubber which remained at around US\$ 2 per kgs in 2006 increased to around US\$ 2.24 per kgs in 2007. This is an increase of about 12 percent over previous years. The producer prices were well over cost of production, which has acted as a strong incentive for those involved in the rubber plantation industry which consists largely of smallholdings . This has raised the income level of smallholder families.

Coconut- Better Prices for Farmers

The coconut production in 2007 has increased to 2,869 mn nuts, registering an an increase of around 3 percent over 2006. Favorable weather that prevailed in 2005 and 2006,

attractive producer prices and measures taken to control mite attack have contributed to an increased coconut production in 2007.

Table 6.10
Performance of the Coconut Sector

Category	2004	2005	2006	2007
Production (mn nuts)	2591	2515	2684	2935
Total Acreage ('000 ha)	395	395	395	395
New planting (ha)	1098	3250	4102	2957
Re/under-planting (ha)	1226	1668	997	2529
Cost of Production (Rs/Nut)	7.50	9.50	7.00	10.25
Domestic Market Price (Rs/Nut)	12.68	16.65	15.65	21.83

Source: Central Bank of Sri Lanka & Coconut Development Authority

The adverse weather conditions that affected Philippine and Indonesia in 2006 badly affected global coconut production. This resulted in increased prices of copra, coconut oil and desiccated coconut in the domestic market, during the first half of 2007. Price increases of copra, coconut oil and desiccated coconut witnessed during the first quarter of 2007 were highly significant.

Cashew

The Sri Lanka Cashew Corporation together with the University of Wayamba has introduced three high yielding new clones - WUCC 05, WUCC 08 and WUCC 13 and have already released these to farmers.

In the year 2007, establishment of 5 cashew processing centers were completed. Under the Gama Naguma and Nagenahira Navodaya programmes the cultivation of Cashew is being carried out and at present around 1342 acres have been planted. Development of seed gardens and the cashew plantations particularly with a view to improve the quality of cashew, is now in progress.

Minor Export Products

The production of minor export agriculture crops increased in 2007, except in relation to coffee and cloves. Cinnamon production, which is a large minor export agricultural commodity increased by 4.5 percent in 2007, in comparison to 10 percent in 2006 while the production of pepper and other minor export commodities increased by 5 percent in comparison to 1.2 percent in 2006.

Table 6.11
Production of Minor Export Crops

(mt)

Category	2004	2005	2006	2007
Coffee	3,490	3,525	3,500	3,460
Cocoa	600	900	810	1,200
Cinnamon	14,875	14,450	15,900	16,610
Pepper	12,020	14,270	14,440	15,160
Cloves	3,575	6,080	3,575	2,990
Cardamoms	74	80	80	90
Nutmeg and Mace	1,515	1,860	1,925	2,115
Cashew kernels	1,732	1,811	1,944	2,331

Source: Central Bank of Sri Lanka

Agricultural commodities have fetched favourable prices in recent years. This has helped to raise producer margins significantly, incentivising smallholder farmers to engage in such production activities.

Sugar

During 2007, several measures were taken to revitalize the sugar industry in Sri Lanka. The Hingurana Sugar Factory was handed over to Gal Oya Plantation Limited and sugar cane is being cultivated. It is expected that around 20,000 acres will be cultivated in the initial stage of this project. An investor has already been identified to take over over the Kantale Sugar Factory. The cultivation of sugar cane in Kantale is expected to be commence in 2008. The extent expected to be cultivated in Kantale is around 21,000 acres. The pre- feasibility study of the Uva Wellasa Sugar Company has already been completed.

Two nurseries at Dehigama and Bibile have been established to cater to seeding requirements. The Sugar Research Institute has developed two varieties of sugarcane in 2007, fit for commercial cultivation.

Table 6.12
Statistics of the Sugar Sector

Item	Unit	2004	2005	2006	2007
Total area under cane (with rations) (c)	hectares	8,240	8,445	8,831	8,600
Area Harvested (c)	hectares	6,655	6,432	8,390	6,605
Cane Harvested (c)	mt'000	375	375	462	279
Private cane purchased	mt'000	282	281	204	102
Quantity of cane crushed	mt'000	662	660	660	382
Average yield (c)	mt/hectares	56	58	55	42
Sugar production (without sweepings)	mt'000	58	54	56	32
Sugar recovery rate (d)	percentage	8.8	8.2	8.5	8.3

Source: Central Bank of Sri Lanka

The country's overall sugar production at 32,000 mt in 2007 is almost a 43 percent reduction in comparison with 56,000 mt. produced in 2006. The total area under cane cultivation as well as the cane harvest registered a decline in 2007.

Fisheries

During 2007, the fisheries sector showed a significant revival mainly due to the Government intervention. The development of major infrastructure such as fishery harbours, anchorages, landing sites, ice plants, and retail sales outlets continued. The development of existing fishery harbours which were damaged by the tsunami was completed in 2007. The construction of Dikowita Fishery harbour and two anchorages in Ampara and Batticaloa have commenced. In addition, incentives for the construction of 234 multi-day boats have been provided in 2007 with the aim of promoting offshore and deep sea fishing.

The national annual fish production recorded a 10 per cent growth over the previous year amounting to 29,100 mt.

It is noteworthy that the annual fish production in 2007 has exceeded the pre tsunami average fish production in 2004 reflecting the speedy recovery of the fisheries sector. The number of multi-day boats operated in 2007 reflected an increase of 17 percent demonstrating operational improvements in the industry. The number of one-day boats, traditional boats and non motorized traditional boats being operated also expanded rapidly.

Fish exports recorded a growth of 18 per cent while fish imports which cost Rs. 11,863 million recorded an increase of 22.5 percent in terms of value during the 2007.

Table 6.13
Reforms of the Fisheries Sector

Description	2004	2006	2007
Fish Production ('000 mt.)	286	251	291
Import (Value- Rs. mn.)	5444	9681	11863
Export (Value- Rs. mn.)	8634	14,440	16,994
Multi-day Boat (No.)	1581	2230	2618
One day boat (In Board) (No.)	1493	860	1157
One day Boat (Out Board)(No.)	11559	14700	18206
Traditional Boat (Out Board)(No.)	674	1680	1854
Traditional Non motorized(No.)	15260	14700	18206

Source: Ministry of Fisheries and Aquatic Resources

A guaranteed price for selected 18 fish varieties was introduced to secure small scale fishermen who are operating one day boats, in the face of the rising cost of fuel. In addition, Rs 64 mn was availed among 16,000 small scale fishermen to reduce their burden caused by increased kerosene price in 2007. This intervention was mainly carried out to protect the livelihoods of small scale fishermen who were affected by soaring oil prices. With the aim of providing quality standards and hygienic requirements for wholesale and retail sales of fish, steps were taken in 2007 to commence the construction of a modern central fish market complex at Paliyagoda, as per a Budget proposal.

Livestock

During the year 2007, priority was given for the development of the livestock industry with the aim of meeting the ever increasing demand of milk and milk products. A number of identified priority programmes namely, the dairy village programme, herd improvement program and fresh milk promotion programme have been continued with the support of the private sector.

In addition, action was taken to improve the service delivery system in relation to the livestock industry. In connection with this, 150 Veterinary Surgeons have been recruited to the Provincial Department of Animal Production and Health, in 2007. Three veterinary investigation centres have been established in Kegalle, Nuwara Eliya and Dambulla with the aim of providing effective disease investigations and diagnosis facilities.

As a new strategy for cattle breeding, the National Livestock Development Board (NLDB) introduced an embryo transfer mechanism that would enable an increase in a high yielding cattle population. 110 embryo transfers programmes were carried out in 2007 on pilot basis and twenty calves were born. It is expected that 40 more calves will be delivered by March 2008.

The total milk production reached 201 mn. litres in 2007 showing 2 percent increase compared to the year 2006. This consisted of 168.0 million litres of cow milk and 32.5 million litres of buffalo milk. In 2007, the contribution of the livestock sector accounted for 1.2 percent of GDP.

As such, the importation of milk and milk products has decreased in 2007 by 15 per cent compared to the previous year, 2006. However, value of importation of the milk and milk products has increased by 9 per cent due to increasing prices of milk and milk products in international markets.

Importation of Food Items

Total value of imports of food items in 2007 accounted to Rs. 183.7 billion or US\$ 1662 million. This accounts for 14.7 percent of total imports of the country. A wider range of imports of food items shows clear prospects for local production and self sufficiency in such activities for basic consumption in addition to improved prospects for further value addition.

Table 6.14
Livestock Production and Imports

Description	2004	2006	2007
Milk Production (mn.lt.)	162	199	201
Egg Production (mn.)	871	1422	1220
Importation of milk and milk products (Kg. mn.)	53	73	62
Importation of milk and milk products (Rs. bn)	11.28	17.74	19.3
Meat Production ('000 mt.)	95	83	96

Source: Ministry of Livestock Development

Table 6.15
Major Food Items Imports

Year	2004		2005		2006		2007	
Item	Quantity (MT)	Value CIF (Rs Mn)	Quantity (MT)	Value CIF (Rs Mn)	Quantity (MT)	Value CIF (Rs Mn)	Quantity (MT)	Value CIF (Rs Mn)
Rice	221,663	6,186	51,729	1,554	11,536	577	88,003	1,261
Wheat	945,329	17,817	956,148	15,798	1,174,604	20,473	854,864	22,756
Flour	3,429	99	150,436	3,200	13,578	321	5,797	229
Sugar	496,521	12,579	444,244	14,096	520,599	22,970	470,706	16,346
Dhal	86,944	2,8989	84,396	3,100	104,807	3,802	103,195	6,593
Chilies	24,323	1,684	27,261	1,629	29,410	2,739	31,242	4,080
Red Onions	2,693	74	10,233	304	10,859	377	23,754	949
Big Onions	115,120	2,169	110,713	1,826	119,478	1,940	140,728	4,392
Potatoes	31,738	698	46,464	1,117	48,799	1,266	85,929	2,211
Dried Fish	43,167	3,252	50,284	3,784	50,455	5,507	51,743	6,253
Milk Powder	54,176	11,492	52,800	12,581	68,105	16,716	62,081	19,318
Vegetables	1,093	105	925	98	708	119	733	154
Fruits	42,462	1,545	38,656	1,336	40,806	1,498	37,242	1,551
Fish	4,980	719	5,310	775	6,986	1,291	11,152	1,863
Meat	2,654	289	2,560	291	1,065	186	1,710	258
Total		61,604		61,490		79,782		88,215

Source: Statistics Division, Sri Lanka Custom

Recognizing the prospects for local production and import substitution, the Government provided safeguard measures from unfair import competition, enhanced credit facilities, liberated valuable agricultural lands affected by terrorism, developed irrigation facilities, provided incentives to procure quality seeds and planting materials, through policy action. Agriculture has been excluded from Income Tax and VAT as well.

Table 6.16
Duties on Certain Imports

Item	Safeguard Duty (Rs / Kg)
Potatoes	15
B' Onions	20.
Chickpeas	15.
Green gram (Moong)	13
Chillies	30
Sugar	14
Meat Products	30% or Rs.175/Kg.
Prawns	25% or Rs.75/Kg.
Cheese and Curd	30% or Rs.50/Kg.
Fruits	30% or Rs. 40/kg.
Fruit Juices	30% or Rs. 40 g.
Maize (Corn)	20%
Cut Flowers	20% or Rs. 30/Kg.
Gherkins	30% or Rs. 40/kg.

Source: Trade , Tariff and Investment Department

Empowering the Rural Economy

Access to Electricity

In 2007, the national grid served electricity was available for 80 percent of the total households in the country, while about 3 percent of households were served by off-grid systems which included the solar home systems or community owned small hydro/wind/biomass power plants. However, there were significant regional gaps in the supply of electricity. The average electricity coverage in urban areas is about 80-90 percent whereas it is about 60-70 percent in rural areas.

Table 6.17

Supply of Electricity by Provinces and Districts - 2007

Province	District	Households with electricity as %
Central	Kandy	79
	Matale	84
	Nuwara Eliya	86
		82
North Central	Anuradhapura	71
	Polonnaruwa	69
		70
North Western	Kurunegala	76
	Puttalam	83
		78
Western	Colombo	98
	Gampaha	98
	Kalutara	83
Eastern	Ampara	67
	Batticaloa	54
	Trincomalee	56
		59
Southern	Galle	97
	Matara	94
	Hambantota	80
		92
North	Vavuniya	62
	Kilinochchi	4
	Jaffna	60
	Mannar	37
	Mulathivu	1
Uva		44
	Badulla	67
	Moneragala	50
Sabaragamuwa		61
	Ratnapura	70
	Kegalle	79
		74

Source: Ministry of Power & Energy

In order to achieve the target of providing electricity to 90 percent from the national grid and 6 percent from the off-grid by 2010, substantial amount of investment has been made during the last three years. In 2007, Rs 4,995 million was provided for rural electrification projects. In addition, a lions-share of the funds were provided under the Decentralized Budget.

4932 rural electrification schemes were completed under different ongoing projects and programmes implemented by the Ceylon Electricity Board and Rural Electrification Schemes and schemes implemented under Gama –Neguma, Rajarata Navodaya, Negenahira Navodaya, De- Centralized Budget & Provincial Council programmes.

The project activities of lighting Sri Lanka (Southern region) Phase 1 was commenced in order to improve the transmission and distribution network in the Hambantota District, which has the lowest percentage of households with electricity in the Southern Province.

Box: 6.2

A Reliable and Affordable Supply of Electricity, a Priority

Increase in power generation, extension of electricity distribution and reduction of transmission losses were given high priority in the electricity sector development activities under the 10 year development strategy, to ensure reliable and affordable supply of electricity .

Power Generation

The total installed capacity of power generation plants increased by 0.36 percent from 2,434 MW in 2006 to 2,443 MW in 2007. The installed capacity of CEB plants was 1758 MW while the private sector had several power plants with installed capacity of 685 MW. The total power generated by public and private sectors in 2007 increased by 4.6 percent.

The hydropower generated by the Ceylon Electricity Board (CEB) decreased by 16 percent, while thermal generated power increased by 39.9 percent in 2007. With regard to power generation by the private sector, hydropower generation increased by 2 percent, while thermal power generation increased by 14.5 percent. The private sector produced 39.5 percent of the total power generation in the year 2007.

To achieve the Government's long-term aim of a better energy balance in power generation capacity with an appropriate combination of hydro, coal and fuel based power plants, the Government has accelerated the work connected with the Norochcholai power plant, Upper Kotmale Hydro power project, Kerawalapitiya Combined cycle power plant, Broadlands hydro power project, Trincomalee coal power plant, Moragolla hydro power project, Uma Oya hydropower plant and Kerawalapitiya LNG power plant.

Progress – 2007**Norochcholai Coal Power Plant - 300 MW**

- A Housing complex for resettlement of affected families was completed during 2007, and resettlement was completed.
- Access roads were completed.
- The contract with China National Machinery Import and Export Corporation entered into in 2007 and the construction of the power plant has commenced.

Upper Kotmale Hydro Power Project - 150 MW

- Excavation work of the diversion tunnel was completed. Construction of right bank and left bank roads are in progress. Excavation and preparatory work of the Intake dam, power cavern, and other main structures made progress and the transmission line route was finalized.
- Agreements on housing entitlements were handed over to the relevant persons at Nanu Oya (21 houses) to proceed with resettlement activities.

Kerawalapitiya Combined Cycle Power Project

- Ceylon Electricity Board entered in to a power Purchase Agreement with West Coast Power (private) Limited in January 2007 to establish 270 MW furnace oil fired combined cycle power plant at Kerawalapitiya on a Built – Own – Transfer basis. Civil work commenced in 2007 and work is in progress.
- Gas Turbine plants are expected to be commissioned in June 2008 to provide 170 MW for commercial operations by September 2008.

Uma Oya

- A Loan Agreement was signed in may 2007 for the implementation of Uma Oya Multi Purpose Development Project with the Export Development Bank of Iran. The total loan amount is US \$ 450 mn.

LNG Terminal - feasibility Study

- Action was taken to appoint consultants to conduct a feasibility study relating to the proposed LNG terminal.

Box: 6.2

A Reliable and Affordable Supply of Electricity, a Priority Contd.

Transmission Development

Construction of Amabalangoda, Pannala and Aniyakanda Grid substations (GSS).

Augmentation of Deniyaya Grid substation

Construction of 132 Kv Transmission lines from Matugama GSS to Ambalangoda GSS, Polpithimukalana to Aniyakanda GSS, and Maningala to Pannala GSS.

Commencement of Kerawalapitiya – Kotugoda 220 KV transmission Line.

Rehabilitation of Pannipitiya Grid Substation

Distribution Development

4,932 rural electrification schemes were completed under different ongoing projects and programmes.

The project activities of lighting Sri Lanka

(Southern region) Phase 1 was commenced in order to improve the transmission and distribution network in the Hambantota district.

Renewable Energy Development

A cost based technology specific three-tiered tariff was introduced for small scale renewable energy developers. Letters of intent were issued to 91 developers to construct power plants with the capacity of 260 MW.

Special power purchase agreements were signed with 35 developers to construct renewable energy power plants with the capacity of 86 MW.

System Losses

A major issue in the electricity sector is high transmission and distribution losses. It increases the cost of power generation. CEB's transmission and distribution loss was estimated at 16 percent of net power generation and continue to be a major burden on CEB finances. In addition, the high cost of operations is caused by fuel based power generation. Action is being taken to reduce transmission losses.

Many medium voltage express lines, development lines and distribution gantries with medium voltage lines reconducting has been carried out together with primary substation development work with the objective of strengthening the network to cater to future load growth with power losses and voltage drops within acceptable levels.

Renewable Energy Development and Energy Conservation

The Government enacted Sri Lanka Sustainable Energy Authority (SEA) Act No. 35 of 2007 on 1st October 2007 heralding an important milestone in sustainable energy development. Many activities were carried out by the SEA under various programmes such as energy policy development and planning programme, resource development programme, energy efficiency improvement programme, awareness programme and technology development programme.

Investment in Power Sector

The total capital expenditure of power sector was 20.6 bn in 2007.

Public Investment in Electricity (Rs. Mn)	2005	2006	2007	2008	2009	2010
Power Generation	567	1,506	18,641	16,578	76,800	123,900
Hydro	567	1,257	2,471	4,468	800	8,900
Coal	-	249	16,170	510	55,000	55,000
LNG	-	-	-	600	21,000	60,000
Combined cycle (heavy fuel)	-	-	-	3,000	-	-
Distribution	54	177	482	1,076	6,000	6,000
Transmission	1,028	928	514	8,288	17,300	12,500
Rural Electrification	174	1,873	987	3,709	6,000	6,000
Total	4,823	4,484	20,624	29,651	106,100	148,400

Source: Ministry of Power & Energy

Access to Drinking Water and Sanitation

A community Water Supply and Sanitation Project has been implemented to expand water supply coverage in rural areas with community participation.

This programme is designed to improve the quality of life and reduce poverty of rural and estate communities by improving health condition through the provision of safe drinking water, adequate sanitation facilities and hygiene practices.

Table 6.18
Small Township Water Supply Schemes Completed in 2007

Name of the Project	TEC Total Cost Rs. Mn.	Beneficiaries
Yatiantota water supply scheme	126.80	6,700
Murutawela water supply scheme	338.00	16,000
Makandura water supply scheme	61.50	5,000
Udugampola water supply scheme	34.80	5,750
Kirindiwela water supply scheme	84.70	8,000
Yakkala water supply scheme	212.90	8,000
Kosgama water supply scheme	254.80	21,400
Nittambuwa - Veyangoda water supply scheme	181.50	12,000
Udawalawa water treatment plant	350.40	9,000
Oruwela - Koratota water supply scheme Phase I	12.00	18,000
Nawalapitiya water supply scheme	189.80	21,000
Kakkapalliya water supply scheme	297.53	37,000
Ridiyagama water supply scheme	83.70	6,000
Nachchaduwa water supply scheme	68.08	2,500
Lolugaswewa water supply scheme	3.07	1,112
Habarana water supply scheme	37.16	2,990
Weligama new treatment plant	720.00	40,000
Hikkaduwa water treatment plant	385.50	9,000

Source: National Water Supply and Drainage Board

Access to Postal Services

Post Offices in rural areas act as the main provider of access to information and communication, receiving and dispatching mail and paying utility bills of local residents who have less access to communication and financial services. The number of Rural Agency Post Offices have

increased from 113 in 2000 to 156 in 2007 and estate post offices have increased from 10 to 65 during the same period. However, what is obvious is that increased post offices are still not able to match the demand. The doorstep delivery in rural area is 3 days whereas in commercialized areas such as Colombo, Kandy, Matara etc. it takes only a day.

Table 6.19
Postal Networking and Investment

Postal Services	2004	2005	2006	2007
Delivery Areas (No)	6,729	6,729	6,729	6,729
Post Offices (No)	4,711	4,711	4,704	4,727
Public	4,049	4,041	4,043	4,053
Main Post Office	630	633	636	641
Sub post Office	3,419	3,408	3,407	3,412
Private	662	663	636	641
Agency Post Office	441	442	463	463
Rural Agency Post Office	156	156	156	156
Estate Agency post Office	65	65	65	65
Area Served by				
a post Office (sq.km)	13.9	13.9	13.8	13.8
Population Served by				
a post Office (No)	4,100	4,100	4,167	4,252
Letters per Inhabitant (No)	24	25	24	23
Public Investment (Rs.mn)	131	211	617	297

Source: Postal Department

Recognizing the needs, a sum of Rs. 30 mn was provided for purchasing bicycles for postal employees and Rs. 220 mn has been spent for rehabilitation and construction of postal buildings in 2007.

Rural post offices are being encouraged to engage in non-postal activities such as money transfers, withdrawal of cash, payment of pension and be involved in rural postal life insurance etc. in order to make the National Postal Network a conduit to rural economy access. This will also promote overseas remittances to rural masses and state banks will have a greater advantage in promoting savings including investments in Treasury Bills / Bonds through the postal network.

Access to Housing for Low Income People

Under the Janasevana rural housing programme, the NHDA constructed 10,285 housing units in 2007. Construction of another 5,300 housing units had commenced.

In 2007, under the Pelin Mandira urban housing programme, 110 housing units were constructed at 48 Watta and Wadullawatta, for the low income families. The construction of another 60 housing units is in progress.

In 2007, construction of 1,225 houses for displaced families had commenced in the Puttalam District with an investment of Rs. 3,250 mn.

4,660 housing units for estate worker families were completed. The construction work of 5,470 housing units had commenced in 2007. Further, construction of 1,425 houses for service personnel also commenced at Ipologama in the Anuradhapura District.

By the end of 2007, around 90,000 houses were reconstructed under the post-tsunami housing reconstruction programme. The construction work of another 10,000 units are in progress. The major donors of this housing programme included World Bank, Swiss Development Corporation (SDC), German Government (KfW), ADB and NGOs.

The State Mortgage and Investment Bank (SMIB) and the Housing Development Finance Corporation Bank (HDFC Bank) provided 12,537 and 12,122 housing loans during the year 2007 respectively.

Access to Public Services

With a view to providing an efficient and people friendly service to the public, the Ministry of Public Administration and Home Affairs under took the following programmes in 2007.

Around 16,000 problems relating to land disputes, issuing ID cards and birth certificates and public assistance programmes were solved within a short period through mobile service programmes.

Issuing death and marriage certificates were expedited through implementation of a Pilot Project at the Divisional Secretariat offices in Colombo, Thimbirigasyaya, Ratmalana, Dehiwala and Moratuwa.

Access to Information and Communication Technology

Solar powered computers were provided to rural schools: 100 primary schools in rural and difficult areas where electricity was not available were provided with solar powered computers facilitating access to IT education to about 2000 students in 2007.

General Information Technology was introduced as a subject under the Technology Stream for Grade 10 students in schools. 1500 schools were provided with Computer Learning Centres in 2007. Another 70 Computer Resource Centres were established for the development of IT education for students who are in the transition period between GCE (O/L) and GCE (A/L) examinations. In addition, 23 computer learning centers were established with the assistance of the Secondary Education Modernization Project II (SEMP II). Training 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 were used to improve education.

Development of the Lagging Regions

The Government has given high priority to reduce regional disparities in development, with particular attention to lagging regions where poverty incidence and food insecurity are relatively high. Gama Neguma and Jathikasaviya are key projects in this regard. The development of urban townships infrastructure is expected to promote regional growth centres which will attract investments to the periphery and generate direct and indirect employment opportunities at rural level.

In 2007, under the *Maga Neguma* programme, 3,700 km. of rural roads were developed benefiting around 78,000 families at a cost of Rs. 2,422 mn.,

Approximately, 780 community infrastructure projects were commenced under the Gemidiriya project in 2007, out of which 253 projects were completed. More than 2,500 tanks and anicuts were rehabilitated at a cost of Rs. 2,832 mn. under minor irrigation development programme. In 2007, 240 water supply schemes and 10,000 sanitation projects

were completed under the Community Water Supply and Sanitation project. The associated cost was Rs. 791 mn. and the beneficiaries were around 400,000.

Nearly 400 dairy villages were established under the Kiri Gammana programme in 2007. This initiative helped around 8,000 poor rural farmers to raise their income. . Nearly 4,300 skills development loans worth Rs. 52 mn. were issued. At the end of 2007, 60 Osu Gammana were established and around 6,000 farmers were provided assistance to cultivate herbal plants. By end of 2007, 113 industrial villages were established benefiting around 12,000 industrialists.

Under the livelihood development scheme of the Samurdhi programme, Rs. 1,027 mn. was spent to improve infrastructure facilities at village level benefiting around 74,000 families in 2007. Under the promotion of income generating activities, 74,900 projects were completed through beneficiary families. The total investment of these projects was Rs. 1,352 mn.

Table 6.20
Details of Income Generating Projects - 2007

Type of the Project	Projects Completed	(Rs.mn.) Investment of the Projects
Agriculture	27,169	472
Livestock	19,423	315
Fisheries	1,132	22
Industry	19,391	390
Marketing	4,547	90
Services	2,932	56
Others	328	7
Total	74,922	1,352

Source: Samurdhi Authority

By the end of 2007, 500 Nena Sala centres were established throughout the country. In 2007, 97 Vidhatha centres were established in selected Divisional Secretariat Divisions to make entrepreneurs aware of new technological developments. The Decentralized Budget provided an

allocation of Rs. 1,125 mn. to Members of Parliament to implement development projects at District level in consultation with the community.

The Jathikasaviya is a special programme designed to improve the socio-economic condition of the people living in threatened /boundary villages. Rs. 3,141 mn. was provided for this programme in 2007. The outer circular road in Trincomalee, construction of school buildings, teacher's quarters, dhamma schools and bhikku hostels in Ampara, and construction of an OPD in Anamaduwu hospital were other major projects and activities implemented in 2007. In addition, infrastructure facilities including housing which required to facilitate resettlement of displaced people in Welioya and Vakarei were improved during the year 2007.

In 2007, a number of projects and programmes were initiated and implemented under the "Nagenhira Navodaya". The main achievements from these programmes are as follows

- Around 225,000 internally displaced persons were resettled in their respective places of origin.
- 07 new police stations were established and civil administration was restored in the region.
- Around 1,000 km. C and D level roads and rural roads were rehabilitated.
- Under the North East Irrigated Agriculture project, rehabilitation work of the Karavahu Irrigation Scheme in Ampara and Allai scheme in Trincomalee were commenced.
- Rural infrastructure and irrigation canals were rehabilitated in the Trincomalee District.
- Around 2,000 houses were reconstructed under the North East Housing Reconstruction Programme.

- 9 major water supply schemes were implemented in the Eastern Province at a cost of Rs. 41,839 mn.
- 460 km. of roads were being rehabilitated at a cost of Rs. 4,350 mn.
- Ground work of the industrial estate at Kappalthurai commenced.

Table 6.21
Major Foreign Funded Projects of the Northern and Eastern Provinces - 2007

Project	Expenditure - 2007 (Rs.mn.)
North East Housing (NEHRP)	2,486
North East Community Development (NECORD - II)	1,038
North East Coastal Community Project (NECCDEP)	252
North East Irrigated Agriculture (NEIAP - II)	838
Pro-Poor Economic Advancement (PEACE)	59
Total	4,673

Source: Ministry of Nation Building and Estate Infrastructure Development

With the objective of minimizing regional disparities in development and improving living conditions of urban residents, particularly the urban poor, a number of urban infrastructure development projects and programmes were launched.

Under the Greater Hambantota development programme, construction work of the administrative complex and Convention Centre, commenced. The investment made for this in 2007 was Rs. 900 mn. These projects are expected to be completed by 2009/10. Once they are completed, the regional economy is expected to boost through new investment and employment opportunities.

Administrative complex at Dambulla, multipurpose community hall and central market at Galewela and the urban rural connectivity project at Gammedda had commenced under the Greater Dambulla development programme. Construction of the Trincomalee vegetable market and fish market and the new District Secretariat commenced under the Trincomalee Metro Development project.

Initial work of secondary town centres at Balangoda, Ratnapura, Nawalapitiya, Thalawakele, Horana, Padukka, Kadawatha, Avissawella, Homagama, Seethawaka, Diyagama and Gampaha commenced. 10 sacred area development projects were completed during the year and another 8 such projects are in progress.

- A Global Telecom System (GTS) was improved in order to strengthen meteorological data communication between Colombo and New Delhi.
- Public address systems were provided to 15 police stations in the coastal areas to disseminate early warning messages.
- Nearly 100 soil testing projects were conducted in landslide prone areas.

Disaster Mitigation and Risk Management

The Ministry of Disaster Management and Human Rights with the assistance of other relevant institutions had implemented a number of projects and programmes with a view to mitigating and minimizing the possible adverse impacts and damages due to natural disasters. The major achievements in 2007 are given below:

- A national policy for disaster risk management was developed.
- Two tsunami early warning towers were established in Ampara and Hikkaduwa.
- Island-wide awareness programmes for school children on disaster management were conducted.
- District and village level disaster management committees were established to identify projects and programmes aimed at mitigating hazards due to natural disasters.

Development Finance

**SME Sector development
signified growth and social
empowerment**

An Overview

The Government has recognized Micro and Small and Medium Enterprise (SME) sectors as significant contributors for promoting growth and social development in Sri Lanka. These sectors represent a diverse range of industries, services and geographical locations, while acting as an important avenue of employment for low income rural and urban households. SME's account for 70 percent of employment in the manufacturing sector and 20 percent value addition. Further, the surplus labour from agriculture is also successfully absorbed into this sector providing additional income.

These sectors have been recognized as a major source of income generation, poverty alleviation and regional development. They also form the incubators for the development of larger enterprises.

The Sri Lankan financial market in terms of Microfinance, outreach is fairly extensive with 82.5 percent of households having access to financial institutions for their savings and credit needs. State Banks are generally more popular for savings with over 75 percent of household savings.

Over 60 percent of households that have utilized financial services, have accessed institutions such as Samurdhi, Regional Development Banks, Co-operative Rural Banks, SANASA, NGOO, and Community Based Organizations underlining the important role played by Micro Finance Institutions (MFII) in the financial sector, in the case of credit in Sri Lanka. There is a fairly active market for informal credit in the country, with nearly 20 percent of households having accessed informal sources of finance.

However, finance related constraints have been identified as the foremost factor affecting the growth of the above sectors. This situation has led to the use of outdated technology, poor production facilities, absence of quality controls, lack of market orientation finally ending up with relatively low profitability. In this context, the Government plays an important role in the delivery of necessary finance



and related services targeted at Micro and SMEE thereby creating an 'enabling business environment' for these sectors.

In the above endeavor during 2007 the Ministry of Finance and Planning, through the Department of Development Finance, facilitated the improvement of the financial sector in favour of the development of the Micro, Small and Medium Enterprises by:

- Mobilizing the financial resources and removal of the market impediments of the small and medium industries and micro enterprises
- Strengthening the institutional capacity for development of financial markets
- Enhancing rural entrepreneurship
- Provision of subsidies

Performance During 2007

SME Development

New Comprehensive Rural Credit Schemes (NCRCS)

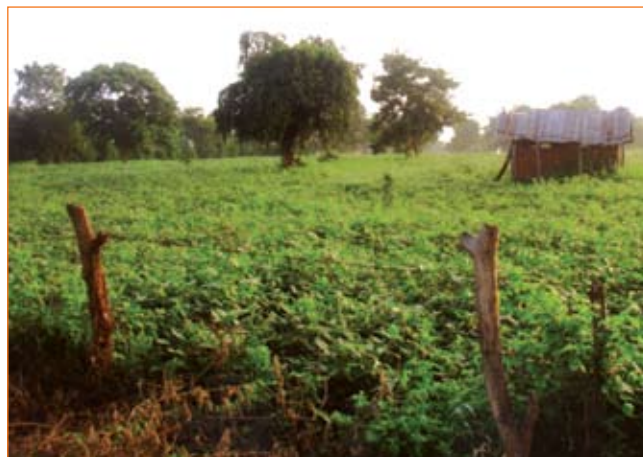
During 2007, the Government continued with the provision of an interest subsidy to lending banks for loans advanced by them out of their own resources, to farmers for cultivation of paddy and other subsidiary food crops, production of seed and planting material on a commercial scale, and to buyers for purchasing agricultural produced under Forward Sales Contracts. The lending banks were required to grant loans to farmers and also commodity buyers who entered into Forward Sales Contracts with the farmers at an interest rate of 08 percent per annum under NCRCS. The Government provided the interest subsidy at 09 percent per annum to the lending banks who lent out of their own funds under this scheme.



Agro processing plant funded by NCRCS – Mihinthale



Well managed Maize farm funded by NCRCS - Mahavilachchiya



Large Scale Black Gram Farm funded by NCRCS - Thantirimale

Further, in 2007, the Government extended NCRCS facilities to the farmers and buyers of pineapple, sugar cane, ginger, bees honey, floriculture and betel and also enhanced the upper limit of agricultural lending to maize farmers from Rs. 10,000 to Rs. 15,000 per acre under Forward Sales Contracts.

7. Development Finance

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Table 7.1 - Progress of NCRCS in 2007
Cultivation Loans Granted ^(a)

(Rs.Mn.)

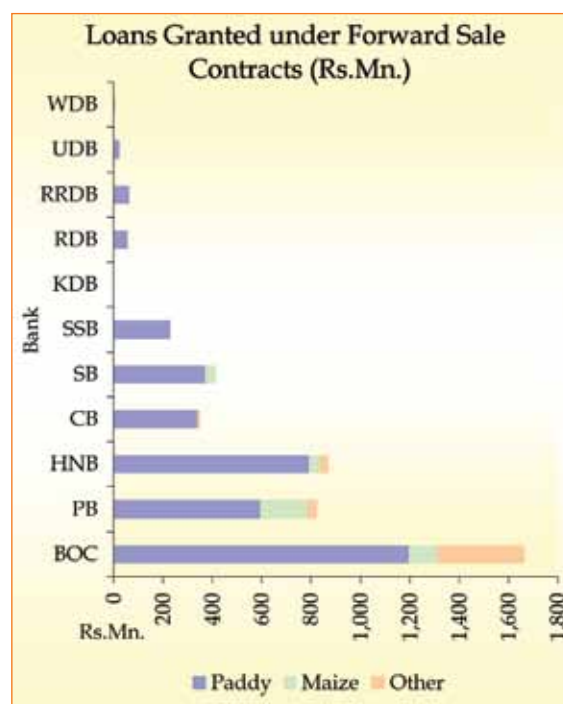
Lending Bank	Loans granted by sector					Total
	Paddy	Maize	Onion	Potato	Other Crops	
Bank of Ceylon (BOC)	250.0	76.0	72.0	62.0	60.0	520.0
People's Bank (PB)	88.0	10.0	14.0	28.0	35.0	175.0
Hatton National Bank (HNB)	186.0	0.0	56.0	86.0	8.0	336.0
Commercial Bank (CB)	9.0	0.0	0.0	57.0	0.2	66.2
Seylan (SB)	79.0	20.0	0.7	43.0	6.0	148.7
Sampath (SSB)	0.0	0.0	0.0	0.5	2.0	2.5
Kandurata Dev. Bank (KDB)	24.0	0.0	19.0	1.0	40.0	84.0
Rajarata Dev. Bank (RDB)	291.0	32.0	4.0	0.0	9.0	336.0
Ruhuna Dev. Bank (RRDB)	99.0	0.0	0.3	0.0	12.0	111.3
Uva Dev. Bank (UDB)	16.0	0.3	0.8	41.0	4.0	62.1
Wayamba Dev. Bank (WDB)	10.0	0.0	0.4	0.0	3.0	13.4
TOTAL	1,052.0	138.3	167.2	318.5	179.2	1,855.2

Source: Central Bank of Sri Lanka

^(a) Includes : 2006/07 Maha and 2007 Yala seasons

Chart 7.1

The NCRCS programme has improved the livelihood of the farmers through regular income generating activities in backward areas and border villages i.e. Thirappane, Talawa, Mahawilachchiya, Thambuttegama, Moneragala.



Source: Central Bank of Sri Lanka

Krusha Navodaya Programme

The Krushi Navodaya programme introduced by the Government was targeted to meet the capital requirements of small farmers islandwide, aimed at empowering them by providing access to finance to acquire agricultural inputs at an affordable cost.



Bountiful harvest with optimum inputs at an affordable cost.

It was expected to disburse a total amount of Rs. 3000 million per annum as credit through 14 Participatory Financial Institutions (PFII) i.e. Bank of Ceylon, People's Bank, Hatton National Bank, Commercial Bank, Sampath Bank, Seylan Bank, SANASA Development Bank, Lankaputhra Development Bank, Ruhuna Development Bank, Rajarata Development Bank, Wayamba Development Bank, Sabaragamuwa Development Bank, and Kandurata Development Bank, among the farming community with loan amounts ranging from Rs. 10,000 to Rs. 100,000. The Loans were granted by PFII using their own capital, on a cost sharing basis at 8 percent per annum and the Government incurring a part of the cost of funding at 9 percent per annum to PFII.

Paddy, onion, potato, other food crops such as maize, kurakkan, cowpea, green gram, black gram, soyabean, sesame, etc., export agricultural crops such as cinnamon, pepper, cardamom etc., sugarcane, fruits, vegetables, floriculture, cashew, livestock, fisheries, organic agriculture, agricultural inputs such as seed and planting material and

development of organic fertilizer, technology for value added agro based products, storage facilities, processing of fruits & food, and rice flour millers were eligible under this credit programme.



Quality Harvest from Hightech Farming

Box 7.1
Krushi Navodaya

Helps towards productive self-employment



Tea Cultivation

Imaduwa

Half an acre of personal barren land was turned into a flourishing tea cultivation, utilizing the Rs. 100,000 credit facility provided by the Koggala Branch of the People's Bank under the Krushi Navodaya Loan Scheme. It would be the main income source of his future life which is more bountiful now.



Poultry Farm

Habaraduwa

A person started a backyard poultry pen with a few number of birds as self employment, soon after leaving school. However, he was not in a position to develop it as a business due to lack of capital. In this background, he applied for a loan from the People's Bank and they granted him Rs. 100,000 to develop a systematic poultry farm at the concessionary interest rate of 8 percent. At present, he is earning around Rs. 13,000 a month with a flock of 500 birds.



Production of Curd

Hambanthota

The Production of curd is one of the main sources of income of people in the Southern Province. A woman was engaged in this industry for more than 15 years at household level, since she did not have enough funds to modernize the production process. However, she was able to get a loan of Rs. 100,000 from the People's Bank, Hambanthota under the Krushi Navodaya loan scheme. She expanded her industry utilizing this credit facility in 2007, and she is grateful to the Krushi Navodaya loan scheme and the People's Bank for having empowered her with the means to develop the industry as a profitable venture.

As at end December, 2007 the total number of loans granted and the value of the loan amounts were 8896 and Rs. 606.8 mn respectively.

Table 7.2
Progress of the Krushi Navodaya Programme as at
31.12.2007

Bank	No of Loans	Loan Amount (Rs. Mn)
Bank of Ceylon (BOC)	4404	269.7
People's Bank (PB)	3975	296.8
Sanasa Development Bank	231	18.8
Regional Development Banks	213	15.8
Lankaputhra Development Bank	73	5.7
TOTAL	8896	606.8

Source: Development Finance Department

Through the state banks, the Government has embarked on an extensive programme to provide concessional funding, enabling the sector to counter financing difficulties in development banking. Table 7.3 shows details of loans granted by state banks to the entire SME sector during the period 2003-2007.

Table 7.3 - Loans Granted by the State Banks to the SME Sector 2003 – 2007

(Rs. Mn)

	2003		2004		2005		2006		2007		
Banks	A	B	A	B	A	B	A	B	A	B	Total
Bank of Ceylon (BOC)	-	53	-	65	-	3,488	1,200	3,285	1,584	4,899	14,574
People's Bank (PB)	25,232	3,719	25,020	3,599	17,957	4,870	19,717	5,497	1,584	6,854	114,049
Rajarata Development Bank (RDB)	42	579	51	746	53	1,033	51	1,146	77	1,564	5,342
Ruhuna Development Bank (RRDB)	351	511	464	762	422	739	486	579	577	891	5,782
Uva Development Bank (UDB)	-	86	-	107	-	73	-	74	-	108	448
Wayamba Development Bank (WDB)	185	154	207	173	383	437	551	592	624	682	3,988
Sabaragamuwa Development bank (SDB)	56	54	102	72	145	106	192	132	127	131	1,117
Lankaputhra Development Bank	-	-	-	-	-	-	379	46	1,962	807	3,194
Total	25,866	5,156	25,844	5,524	18,960	10,746	22,576	11,351	6,535	15,936	148,494

A - Industry & Services B - Paddy, Agriculture & Fisheries

Source: Bank of Ceylon, People's Bank and Regional Development Banks

Paddy Purchasing

With the aim of providing an attractive price to farmer, the Government continued purchasing paddy in the Maha 2006/07 and Yala 2007 seasons. The Government allocated Rs. 2000 million to purchase 110,000 metric tons of paddy in 2006/07 Maha season through 740 representative's i.e. Farmer Organizations, Farmer Societies, Multi purpose Co-operative Societies and Rice Mill Owners appointed by the Sri Lanka Agricultural Products Marketing Authority were carrying out the entire Paddy Purchasing Programme throughout the country. The Sri Lanka Agricultural Products Marketing Authority was able to purchase 84,436 mt, amounting to 77 percent of the expected target of 110,000 mt and disbursed Rs. 1375 mn of the total allocation of 2000 mn. The Government also planned to purchase 30,000 mt in Yala 2007 at a rate of Rs.17.50 per kg but the need did not arise as the paddy secured an attractive price up to Rs. 30.00 per kg.

The commercial banks were also encouraged to mobilize Rs. 3,000 million for the same purpose. This effort helped purchase about 10 percent of the total paddy production in 2007 while ensuring a remunerative price for farmer.

Table 7.4 - Loans Granted for Paddy Millers and Collectors (Maha 2006 / 07)

Bank	Amount (Rs. Mn)
Bank of Ceylon (BOC)	610.35
People's Bank (PB)	321.12
Hatton National Bank (HNB)	107.15
Commercial Bank (CB)	109.85
Sampath Bank (SB)	99.37
Ruhuna Development Bank (RDB)	26.60
Kandurata Development Bank (KDB)	2.89
Wayamba Development Bank (WDB)	2.60
Rajarata Development Bank (RRDB)	13.70
Uva Development Bank (UDB)	14.20
Seylan Bank	86.03
TOTAL	1393.93

Source: Development Finance Department

Assistance for Prawn Farming

Taking into consideration the non-conducive environment that prevailed for prawn farming, certain debt relief measures were granted to the genuine defaulters of loans who are engaged in the prawn industry in consensus with the banks. Under the above debt relief programme, defaulters were granted a grace period to comply with the rescheduled repayment agreements and further, legal actions if any in this connection, were suspended temporarily in order to revitalize and drive the prawn industry to success.

Fertilizer Subsidy

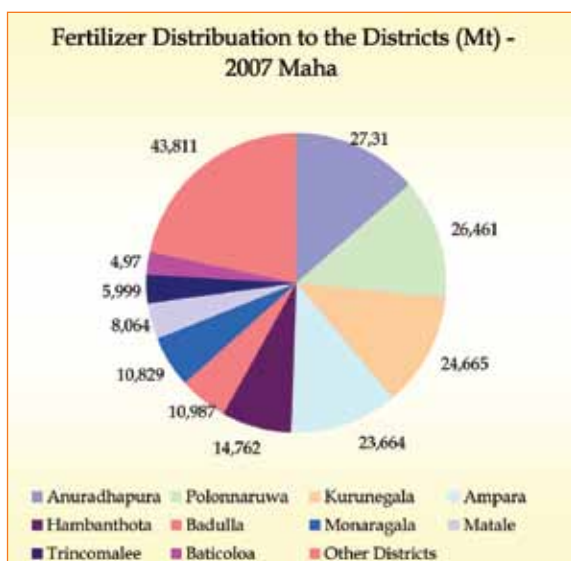
Apart from the objective of ensuring food security, the agriculture policy of the Government places high priority on transforming traditional subsistence agriculture to one which maximizes productivity. Increase in productivity directly benefits the farmer in improving his livelihood. The Government, recognizing the fact that with judicious use of fertilizers, crop yield can be increased by two to three fold with additional income that can be reinvested in agriculture by the farming community, continued to provide Urea, MOP and TSP fertilizers to paddy farmers at a subsidized rate of Rs. 350 per 50 kg bag, despite the record price hike over Rs. 3000 per 50 kg bag of the above fertilizers in the world market. The Urea fertilizer subsidy which was granted to the plantation smallholder sector with less than 5 acres too, continued at a price of Rs. 1200 per 50 kg bag and this scheme catered to about 90 percent of the smallholder sector.

Chart 7.2



Source: International Market Prices – FMB Weekly Bulletin
THE MARKET – Fertilizer News & Analysis

Chart 7.3

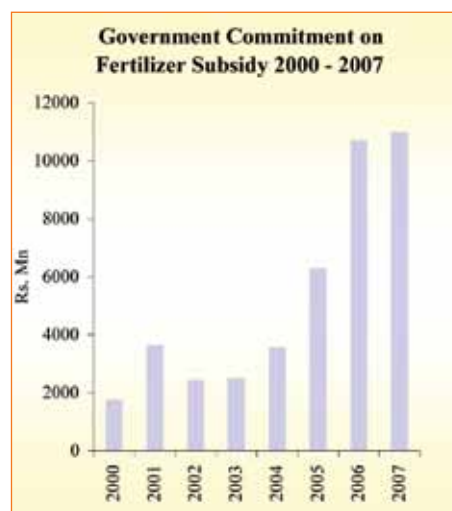


Source: National Fertilizer Secretariat

In addition to the state sector machinery, subsidized fertilizer was distributed through Agrarian Services Centers, Co-operatives, The Mahaweli Authority and other normal distribution channels for well identified needy areas of the paddy sector, throughout the country whereas the plantation sector was mainly handled by the private sector. The budgetary allocation set apart for the fertilizer subsidy in the year 2007 was nearly Rs. 11,000 Mn. which is the highest ever commitment made by the Government.

While supporting to resource the poor farming community through the fertilizer subsidy, high emphasis was placed to encourage the usage of organic fertilizer for these crops primarily, to mitigate the adverse effects caused by the use of inorganic fertilizers. In addition, concessional funding was made available for the production of low cost organic fertilizer in order to increase the profitability of farmer while enabling the Government to direct the savings to other development priorities.

Chart 7.4



Source: National Fertilizer Secretariat

Re-opening of Closed Down Factories

As per the budget proposal of 2007, Rs 2,000 mn was allocated for reviving closed-down factories, giving priority to the garment sector. According to the guidelines stipulated in the budget proposal, companies were entitled to obtain financial facilities to settle their statutory dues and tax liabilities and also immediate requirements of working capital to reopen closed factories with an employment potential higher than 200. The programme is being implemented through the Lankaputhra Development Bank (LDB). The Ministry of Finance and Planning released Rs 700 mn for the reopening of 4 garment factories in Buttala, Kamburupitiya, Welimada and Ambalantota, providing 1,300 employment opportunities. Another 09 factories submitted their proposals to the LDB in order to obtain facilities under this programme and the LDB has appraised all these proposals, out of which four proposals have been approved in 2007 by the Board of Directors of LDB. Another Rs. 50 Mn. has been provided to

the LDB to be utilized by the above four companies, enabling them to commence production.



A reopened garment factory at Buttala

New Initiatives in Financing Development

Lankaputhra Development Bank

Fulfilling another pledge in the 'Mahinda Chinthana vision for a new Sri Lanka', Lankaputhra Development Bank (LDB) was established on 24th February 2006 as a Licensed Specialized Bank under the Banking Act No 30 of 1988 incorporating as a public limited liability company under the Companies Act No. 17 of 1982. The Bank caters to the financial needs of the local economy in respect of small and medium scale industries, agriculture, tourism and other service sectors.

The LDB commenced its operations on 3rd July 2006 at No. 34, Maitland Crescent, Colombo 7 and since then has opened branches at Polonnaruwa, Hambantota, and Kegalle. The bank offered long term loans at affordable rates to viable projects that created new employment opportunities and acted as a catalyst in economic development in less developed and lagging areas of the country.

Since the inception, the project loans approved by the bank upto 31st December 2007 stand at 761, with a total commitment of Rs. 2,770 mn, of which disbursements amount to Rs. 1,867 mn. The 761 projects cover a diversified

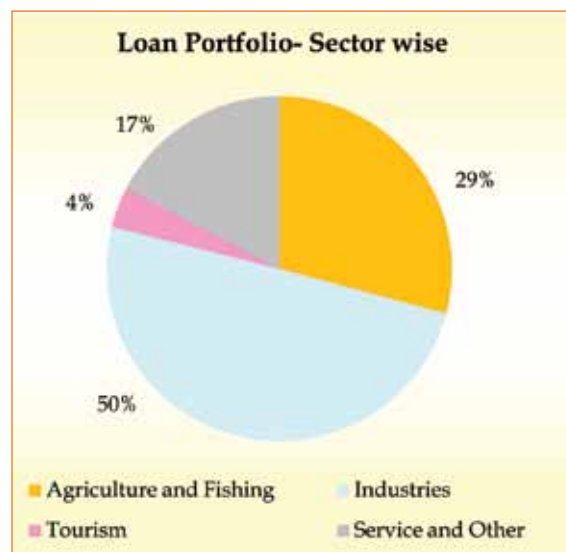
portfolio in the agriculture and fisheries sectors, industrial activities, the tourism sector, and services and other sectors accounting for 29.2 percent, 49.7 percent, 3.8 percent and 17.3 percent respectively. The projects are distributed among many geographical areas across the country, including the Central, North Central, North Western, Southern, Uva, Sabaragamuwa, Western and Eastern provinces of the country.

The Bank has authority to operate savings and fixed deposits. As at end of 2007, LDB has mobilized Rs. 1,989 mn from 5,546 accounts.

As the only development bank owned by the Government, the LDB has been entrusted with implementing several budget proposals such as "Krusha Navodaya" and "Restructuring of closed down Garment Factories".

The bank has continued its direct lending to small and medium scale enterprises through its branch network. During the year, branches and the head office approved facilities totaling to Rs 1,867 mn compared to Rs. 425 mn in the previous year, which resulted from 761 projects consisting 90 percent of the total projects approved in 2006 and 2007.

Chart 7.5



Source: Lankaputhra Development Bank

Table 7.5 - Regional / Sectoral Distribution of Loans -
Lankaputhra Development Bank (as at 31.12.2007)

Province	Industries			Agriculture			Tourism & Services			Total		
	A	B	C	A	B	C	A	B	C	A	B	C
Central	45	84	98.49	03	85	17.30	01	52	30.00	49	221	145.79
North Central	36	76	24.45	84	270	152.41	02	55	51.10	122	401	227.96
North Western	51	436	307.55	56	526	139.07	02	08	1.60	109	970	448.22
Sabaragamuwa	42	442	114.64	23	08	5.47	-	-	-	65	450	120.11
Southern	35	802	189.52	119	402	110.00	11	08	3.85	165	1212	303.37
Uva	22	2,022	15.65	01	40	8.50	-	-	-	23	2062	24.15
Western	124	1,794	672.16	54	254	284.15	46	402	424.49	224	2450	1,380.80
Eastern	01	15	4.00	03	62	115.00	-	-	-	04	77	119.00
Total	356	5671	1,426.46	343	1647	831.90	62	525	511.04	761	7843	2,769.40

A - No of Projects B - Employment Generation C - Amount (Rs.mn.)

Source: Lankaputhra Development Bank

The average size of loan facility ranged from Rs. 01 mn. to Rs. 30 mn.

Bank also concentrated on the recovery of non-performing loans, which resulted in the contribution of overall non-performing loan portfolio by 1 percent as measured by CBSL guidelines.

The new credit policy has been introduced with a view to further improving the credit quality and also catering to the greater demand out of the Western Province. This will also help the Bank to minimize the risk of non-performing loans while contributing to regional development.

The bank had more than sufficient liquidity to meet its obligations throughout the year. The liquidity risk was well managed since the surplus liquidity was invested in Government securities.

The bank rests on the premise that human resources give

the organization a significant comparative advantage in terms of knowledge, competencies and experience. Human resources focus on three key strategic objectives to support the business strategy of the bank i.e., managing change, instilling a performance driven culture and employee development and welfare. As the bank continues to evolve and change with the amalgamation, greater emphasis is being placed on human capital as its driving force.

Successful completion of the merger between LDB, SME Bank and PSIDC enabled the LDB to become the premier development bank, keeping in mind the objectives of the institution. In an endeavor to be the premier development bank providing financial services to SME, agriculture, infrastructure and micro finance sectors, human resources will spearhead the organization in the achievement of its objectives.

The bank is substantially in compliance with the regulatory requirements stipulated by the CBSL.

Reaching lagging regions.....



Branch office at Polonnaruwa



Branch office at Hambantota



Branch office at Kandy



Branch office at Kegalle

Amalgamation of SME Bank and Private Sector Infrastructure Development Company Limited (PSIDC) with Lankaputhra Development Bank

With a view to making the Lankaputhra Development Bank (LDB) the premier development bank, a decision was taken to amalgamate SME Bank, PSIDC with LDB in order to cater to a wide range of financial needs including development finance, infrastructure finance, micro finance as well as SME finance. The diversity of operations needing

to be performed by the LDB also required the provision of equity capital by the Government, not only to realize the Government's development objectives, but also to provide loans at affordable rates, ensuring long term sustainability. This consolidation enabled the Government to pool resources lying in the SME, PSIDC and LDB in order to use those more effectively and thus making the LDB a dynamic and vibrant development bank, promoting local small and medium enterprises to international standards.

The amalgamation was a seamless operation since the aims and objectives of the SME and LDB reciprocated each other and they both operated on the theme of rural development.

The merger strengthened the capital base of the LDB and made it richer in human capital as well. This in turn provided the impetus to the bank to expand its branch network, enabling it to extend its financial services to rural areas. The core activities are conducted with SME focusing by direct lendings to SME enterprises.

On these efforts, legal process of consolidation and other basic requirements were completed and amalgamation of SME Bank and PSIDC with LDB was completed on 1st January 2008 in terms of Section 244 (2) of the Companies Act No: 7 of 2007.

Amalgamation of 6 Regional Development Banks (RDBB)

The amalgamation originated from a policy objective contained in the Government's budget proposal of 2007, in order to amalgamate 6 RDBB's into one entity as a leading regional development bank, ensuring long term sustainability. The rationale for amalgamation rests on the premise that the capital adequacy requirement stipulated by the Central Bank of Sri Lanka (CBSL) could be met by the amalgamation of six RDBB.

The RDBB are currently 6 provincial based organizations concentrating on the Central, North Central, Southern, Sabaragamuwa, Uva and North Western provinces of the country, with 198 branch networks giving it an extensive coverage to serve a large segment of the rural poor, including small farmers and entrepreneurs.

The proposed amalgamation structure will have one entity headed by a single Board. The current head offices of the RDBB would consolidate the six existing Boards of Directors into one entity, thus reducing operational expenses while functioning as provincial offices overlooking the same geographical areas that they currently manage. RDBB have already developed a reputed regional brand name and have

the public perception of being a state owned enterprise, which is a well perceived model by the rural customers.

The managements of all RDBB and all the Bank Unions have given their consent for the amalgamation and a new Act for the amalgamation is being prepared by the Ministry of Finance and Planning.

Sri Lanka Savings Bank

Sri Lanka Savings Bank Limited was established as a Licensed Specialized Bank, by Banking Act No of 30 of 1988 on 01st of August 2006 with the intention of providing relief to depositors of the failed Pramuka Bank. The 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 the Memorandum and Articles of the Association. The Sri Lanka Savings Bank is a wholly owned state bank.



Sri Lanka Savings Bank located at
#110, D.S. Senanayake Mw, Colombo 08.

The Central Bank of Sri Lanka has granted approval for vesting of the business of Pramuka Bank in Sri Lanka Savings Bank with effect from 1st August 2007. Auditors have been recruited to conduct the audit of the vesting of assets and liabilities of the Pramuka Bank. The report regarding the opening balance sheet, sorting and listing of files, documents and vouchers and the fixed assets is being finalized.

A scheme for the purpose of meeting claims and demands of creditors and depositors on the liabilities of Pramuka Bank was drawn up by the Central Bank of Sri Lanka and was accepted by the Sri Lanka Savings Bank. A scheme for settling depositor claims was published in the Newspapers in all three languages on 03.12.2007 for public knowledge. The new bank will settle the liabilities of Pramuka depositors and creditors in terms of the guidelines set-out in the scheme. Action has been initiated to settle liabilities of depositors up to Rs. 100,000.00 (per depositor) with effect from 3rd June 2008.

Staff has been recruited for the main positions of the Sri Lanka Savings Bank and also some minor categories for the smooth functioning of the bank. The bank has already initiated an intensive capacity building programme for the new recruits using the training arm of the Central Bank of Sri Lanka in order to have a competent, skilled and an effective team.

To recover total loans and any other dues from depositors and investors, the bank has already set-up a recoveries unit and appointed legal officers to facilitate recoveries. The objective of the recovery unit is to recover the recoverable debts of Pramuka Bank and settle obligations of depositors as directed by the Monetary Board of the Central Bank of Sri Lanka. The new bank has already commenced recoveries of Rs. 116 million from an outstanding amount of Rs 2143 million.

Table 7.6 - Investment Portfolio as at 31st December 2007

Description	Amount (Rs.)
Investments in Government securities	391,960,153.44
Investment in Deposits	
People's Bank	95,047,048.56
Bank of Ceylon	3,267,375.00
DFCC Vardhana	93,560,432.40
PABC-Net Deposits PSDB	153,368,814.78

Source: Sri Lanka Savings Bank Ltd.

The bank conducted a public auction to dispose of the assets of Pramuka bank and an income of Rs. 2.7 million generated from the sales proceeds was added to the investment portfolio.

Liabilities to state institutions will be converted as equity contributions by the State in Sri Lanka Savings Bank Ltd. For this purpose, a gazette notification has been published enabling the bank to convert the deposits of government owned institutions held with the Pramuka Bank as capital of Sri Lanka Savings Bank.

The primary objective of the bank is to open and maintain deposits and savings accounts and other similar deposit accounts and invest its funds in government securities. The Bank has already commenced its operations and launched several products for mobilizing savings and term deposits.

Chart 7.6



Source: Sri Lanka Savings Bank

An Information Technology system has been put in place to provide better services to its clients through networking activities of the bank. Deposit mobilization being the prime objective, the bank has already launched an awareness programme in schools, post offices, and working places. New schemes titled “Door to Door”, “Rekawarana” and “Wasana Deposit Certificate” have been designed to attract un-banked and under-banked areas for mobilizing deposits from lower income segments/strata of the population such as farmers, self employed people, estate workers, house wives and community based organizations.

Mitigating Operational Risks

The internal audit function, which is an integral part of the control framework assists in identifying, evaluating and mitigating operational risks. The Bank is in the process of creating an internal audit division. As an initial step, arrangements have been made to recruit an internal auditor.

Legal Risks

Although the bank does not have its own Legal Department, the legal officer is responsible for attending to legal matters and the advice of external legal counsel will be obtained on specific legal matters if and when required.

Reputation Risks

In order to maintain its reputation and preserve the confidence of various stakeholders, the bank has in place an effective compliance system, which monitors adherence to all applicable laws, regulations and statutory requirements. A Code of ethics will be drawn up to be complied with, by all employees.



New products of Sri Lanka Savings Bank

Source: Sri Lanka Savings Bank Ltd.,

Establishing an effective network of service centers is vital to deliver services competitively. In this context, the management has ventured to deliver the services through agency branches and agents on a need basis. The competitive interest rate offered would help the new bank to broad-base customer services.

National Insurance Trust Fund

The National Insurance Trust Fund (NITF) was established with the intention of providing benefits and safeguards to officers in the public service against unforeseeable risks related to health, personal accidents and damage to properties through a contributory insurance scheme. The scheme envisaged to extend this benefit to a larger segment by including more vulnerable groups such as Samurdhi beneficiaries, farmers, fishermen, persons engaged in self employment and pensioners.

At inception, the NITF received a substantial number of applications for payment surpassing its capacity to process, suggesting that the setting up of an insurance fund was a long-felt need by clients.

Table 7.7 - Status of Payments by NITF as at 31.12.2007

	No.	Value (Rs.Mn)
Applications received in 2007	51,136	449
Backlog from 2006	43,489	300
Applications settled in 2007	81,555	636
Outstanding applications	6,930	113

Source: National Insurance Trust Fund

In order to fast track payments, the three-day payment programme was introduced to settle claims. As the NITF operates with contributions made by the Government as well as the beneficiaries, it was vital to ensure that the contributions were sent on time to allow payments. In this regard, a list of 1614 eligible organizations was prepared for easy monitoring of the premium collection. This initiative has helped increase the premium collection from Rs. 337 mn in 2006 to Rs. 599 mn in 2007, reflecting an increase of 78 percent over the year.

In terms of the provision of the Act, the Trust Fund has absorbed funds lying to the credit to the Strike and Riot, Civil Commotion and Terrorism Fund (SRCC & T Fund) in order to increase the margin through a proper investment portfolio. Accordingly, a separate unit manned by dynamic professionals with competencies in insurance, risk management and portfolio management, was set up in the NITF to operate the activities coming under the SRCC & T Fund in May 2007. When the NITF took over the management

Table 7.8 - Progress of Claims Processed by NITF in 2007

Description	Total applications received	No. of incomplete applications	No. of applications rejected	No. of vouchers to be paid	No. of applications paid
Accident	1,736	806	3	196	731
Birth - Child	8,586	1,499	526	476	6,085
Cancer	523	101	29	47	346
Cardiac	1,579	259	137	118	1,065
Death	1,567	805	0	88	674
Hospital	29,812	9,315	3,009	2,400	15,088
Kidney	222	34	13	16	159
Paralysis	14	3	4	1	6
Medical	2,261	432	249	229	1,351
Spectacles	36,561	2,919	2,719	5,293	25,630
Total	82,861	16,173	6,689	8,864	51,135
Percentage	100	19.52	8.07	10.70	61.71

Source: National Insurance Trust Fund

of SRCC & TR Fund; it had total assets valued at Rs. 6,800 million. Around Rs. 2,185 million has been received as premium and Rs. 166 million has been paid for claims to date.

In view of further strengthening the domestic insurance industry it entered into the business of reinsurance. It was decided that at least 50 percent of liabilities arising from contracts and policies of insurance affected by an insurer, be made mandatory with the National Insurance Trust Fund Board (NITFB). Enabling the NITFB to engage in reinsurance business, amendments were made to the National Insurance Trust Fund Act, No. 28 of 2006 and certain consequential amendments were also made to the Regulation of Insurance Industry Act No. 43 of 2000. However, it was decided that as an initial measure, the mandatory reinsurance requirement to be set at 25 percent of the liabilities arising from contracts and policies of insurance affected by an insurer. This policy helped save outflow of foreign exchange and set up a fully government owned reinsurance body. A separate unit was setup in the NITF to operate the activities in connection with reinsurance business in November 2007.

A new dimension to the NITF was introduced by the Government making it mandatory for all government vehicles to be insured under NITF. In this endeavor, the Motor Department was established in the NITF to insure all vehicles which have been assigned to officers with effect from 1st January 2008.

Micro Finance

The Micro Finance (MF) sector has been identified as a vital sector in the economy due to its contribution to poverty alleviation and income generation, particularly, in the rural sector. The contribution of the Rural Finance Sector Development Programme (RFSDP) funded by the Asian Development Bank (ADB) established sustainable rural finance systems through policy adjustments and improved the operations of the Rural Finance Sector Institutions (RFSI) by providing training to eliminate structural constraints on

rural growth, to complement the Government's ongoing financial sector reforms. It encompasses:

- Policy-level reforms to the legal and regulatory framework
- Organizational reforms and institutional restructuring of the major public sector institutions engaged in the MF sector [Co-operative Rural Banks (CRBB), Samurdhi Banking Societies (SBSS), Regional Development Banks (RDBB) and the National Development Trust Fund (NDTF)]
- Increase the availability and quality of capacity building and training services available to MF providers
- To a minor extent, stimulation of the demand side for MF services
- Expansion of MF in conflict-affected areas

The progress of the each component is as follows

• The Legal and Regulatory Framework

The Micro Finance Institutions Act has been prepared for streamlining the operations of Micro Finance Institutions by introducing an appropriate supervisory/ regulatory mechanism. A Monitoring Unit has been established in the Supervision of Non Bank Financial Institutions Department of the Central Bank of Sri Lanka to undertake regulatory activities. The Act will be presented in Parliament and will enhance the participation of micro-finance of non governmental organizations and other private sector initiatives.

• Capacity Building - The Center for Banking Studies

The Capacity Building components of the Rural Finance Sector Development Programme are implemented by the Center for Banking Studies. Skills of the staff of rural financial institutions are being developed through training. This training includes the subject of delinquency management, setting up of interest rates, accounting, management information systems, financial analysis, operational risk management, product development and business planning.

The following Consultative Group to Assist the Poor (CGAP) courses were conducted during the year for the Samurdhi Banking Societies, Regional Development Banks, Co-operative Rural Banks, National Development Trust Funds (NDTF) and SEEDS

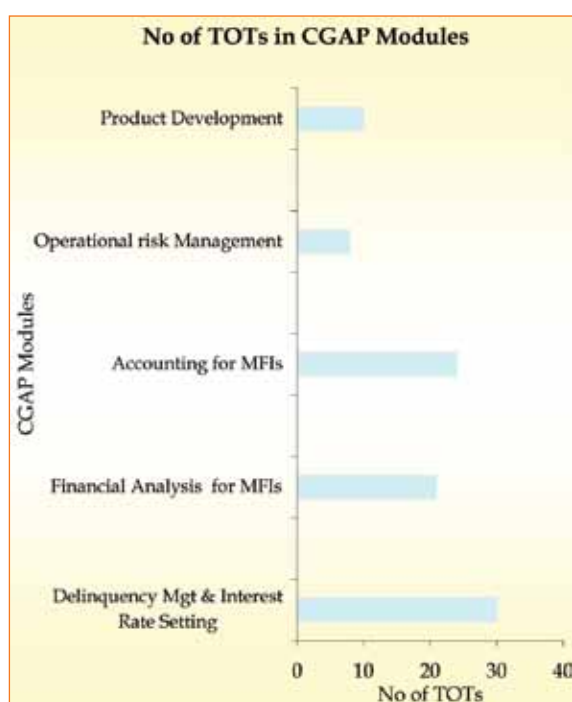
- Delinquency Management and Setting interest rate
- Accounting
- Financial Analysis
- Operational and risk management
- Product development

In order to get the maximum amount of stake-holder participation, the above CGAP modules were translated to the Sinhala medium.

This capacity building program helped to resolve the key issue in the shortage of personnel with a depth of knowledge and experience in best practices in rural and micro finance.

The Project also provided support to strengthen and reform of CRBB, NDTF, RDBB and SBSS as their outreach to Micro finance market is 65 percent.

Chart 7.7



Source: Central Bank of Sri Lanka

Box 7.2
Rural Development Initiatives



Co-operative Rural Banks (CRBB)

Computerization of Co-operative Rural Banks Dehivinipalatha, Badulla.

Progress of the Rural Finance Institutional Strengthening

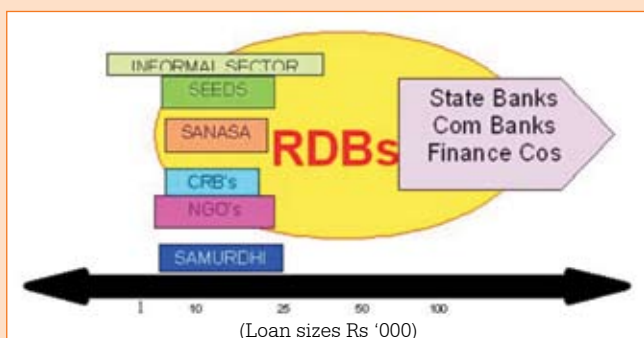
- Institutionalized CRBB as separate business entities.
- Developed comprehensive corporate plans.
- Introduced new documents on systems and procedures covering banking and financial services operations, human resources procedures and financial reporting.
- Introduced a set of performance monitoring indicators including the guide on processing and bench marking.
- Developed MIS systems and introduced operating systems for 48 CRBB, including 210 branches.



Samurdhi Banking Societies (SBSS)

Computerization of Samurdhi Banking Society Ehaliyagoda, Ratnapura.

- Prepared Samurdhi Banking Societies Strengthening plan to transform Samurdhi Banking Societies (SBSS) into sustainable financial intermediaries.
- Introduced new system for the Product Development & Marketing, System Procedures & MOP, Financial Management, Human Resource Development & Management, Control, Audit & Investigations, and Organization Structure & Governance.
- Developed MIS systems and introduced operating systems for 106 Samurdhi Banking Societies.



The Regional Development Banks

The market segment which all RDBB focus on is the rural sector. Including the segments within which each bank operates.

- Encouraged effective internal controls and a sound portfolio management system
- Strengthened human resources, including through quality training for office and field staff with an emphasis on capacity building of microfinance and rural finance officers
- Developed a sector analysis and product development capacity to enhance competitiveness in the lending market, including improvement of deposit mobilization.
- Enhanced staff skills and knowledge of best practices in micro-finance by introducing new products and services

Box 7.2
Rural Development Initiatives Contd.

Self-employed Micro Enterprise Project Supplemented through NDTF



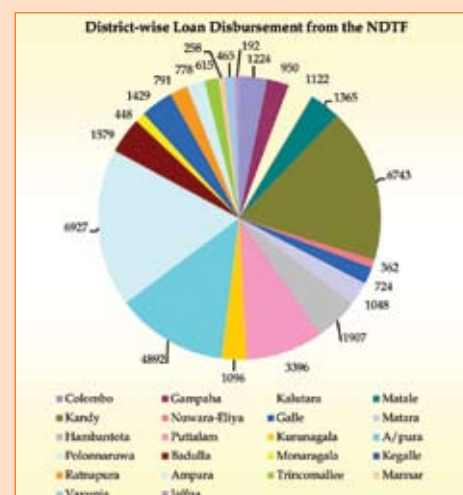
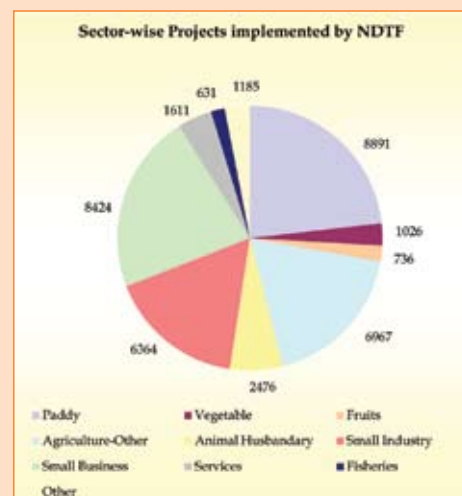
Pottery Industry
Molagoda



Poultry Industry
Chilaw

Improved the NDTF performance, outreach and impact its operations through

- Modernizing the organization and operations including improving staff skills and knowledge of best practices in micro-finance.
- Introducing new products and services established 30,000 micro-enterprises under RFSDP support



Box 7.2
Rural Development Initiatives Contd.

A Tale of Sweet Success under the RERF



Micro hydro power project at Kudawa, Pitakelle.



Well constructed Under Keulegama water Project

Kudawa is an isolated village found adjoining the Singharaja natural forest in the Ratnapura District. The nearest village which has electricity from the main grid is 8 km away from this village. The Out put of the project is 12 KW and caters to 25 households in the village. This was implemented on a cost sharing basis where the community contributed more than 65 percent of the total cost. The total cost of the Project is Rs. 2 million. Keulegama is a very remote village in the

Kurunegala District and its name implies that the water found in most places is very salty and cannot be used for drinking purposes. The villages have to bring water from very far away places and women spend a considerable part of their time for this purpose. More than 150 families have benefited. Water is available round the clock at a nominal fee. The total cost of the project is Rs. 1.5 million and the contribution of the people is around 50 percent.

Strengthening the Demand Side - The Rural Economy Resuscitation Fund (RERF)

In order to improve rural productivity, RFSDP has taken action to widen the scope of the Rural Economy Resuscitation Fund. RFSDP has supported to implement the Community Based Infrastructure (CBI) projects through RERF. At present, 138 CBI projects have been implemented in the areas of skill development, marketing networks, and infrastructure. This project has enhanced resource utilization of the rural community.

Expansion of Micro-Finance Activities in Conflict Affected Areas

Financial support has also been provided for the Micro-finance activities in the conflict-affected areas. As of 31st Dec. 2007, NDTF has disbursed about Rs. 300 million worth of credit to the 6180 households through 18 NGOs in the conflict-affected areas. RERF implemented 10 CBI projects in conflict-affected areas.

Revitalizing micro enterprises in Tsunami Affected areas

The EtiMos Bank of Italy which is a private individual financial bank, set up a project in Sri Lanka in 2005 as a recovery tool for the micro enterprises affected by tsunami.

Table 7.9 - Funds Provided by EtiMos Italy Bank to Partner Organizations in- 2007

(Euro)

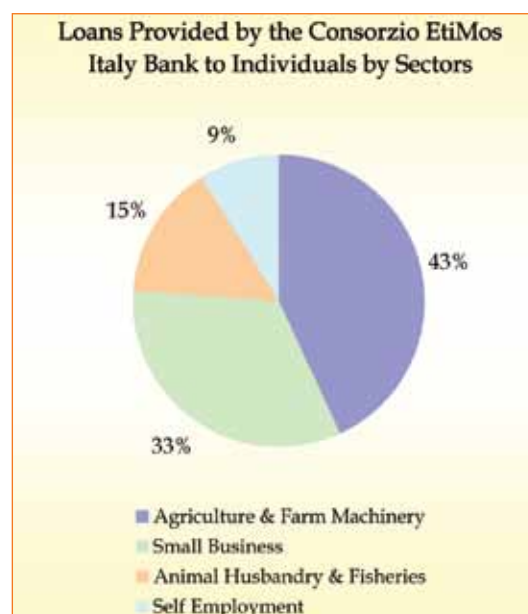
Agency	Capacity Building 2007	Credit Line 2007
SANASA	-	280,000
Sewa Lanka	-	280,000
Agro Micro Finance	27,550	200,000
Artacharya Foundation	-	-
SEEDS	21,000	137,000
Uva Development Bank	-	-
Lak Jya	37,500	-
WDF	-	-
TOTAL	86,050	897,000

Source: EtiMos Sri Lanka

The main objective of this project is to provide financial facilities from credit lines to poor individuals in Tsunami affected areas through partner organizations such as Uva Development Bank, Agro Micro Finance, SANASA, SEEDS, Agro Mart Foundation and Sewa Lanka to improve the knowledge of partner organizations and beneficiaries in this field through capacity building programmes.

The Chart 7.8 shows the loans provided from credit line to individuals to create their own businesses through partner organizations. The major part of the loan (43 percent) has been provided for the development of the Agriculture sector.

Chart 7.8



Source: EtiMos Sri Lanka

Though this project was set up for the purpose of revitalization of micro enterprises in tsunami affected areas, since end of 2006, some areas unaffected by the tsunami such as Badulla, Kurunegala and Kalutara have also been covered by this project. In 2007, Rs. 232 million has been provided under credit line to 7,000 beneficiaries, to create their own businesses through the Uva Development Bank, Agro Micro Finance, SANASA, SEEDS, Agromart Foundation Sewa Lanka.

A salient feature of this project is that more than 70 percent are women beneficiaries.

Box 7.3
Revival of Micro Enterprises through Post Tsunami Efforts

Spice processing is back

A woman of 48 who works as a spice grinder, once ground, she sells them to shops and restaurants in the area.

The Tsunami waves ruined her entire set of grinding machinery as well as the stock of spices which she made her living. Despite this serious damage, with a micro credit facility of Rs. 25,000 granted by the EtiMos Bank, she managed to buy a motor and a certain amount of raw material to be able to start working again. Now she earns a bit less than before the Tsunami, about Rs.7,000 a month compared to Rs.10,000, but her hope is to be able to buy another motor before long, to be able to get back to what she was.



EtiMos lend a hand to a woman to get back on feet

A woman of 52 who, together with her family, produces coconut oil.

Her house was buried amongst coconut trees and hundred of coconuts are piled up in the rooms. Her job is to open them and dry them in the sun for a certain period of time. Then she places them on a grill to bring down the moisture level further to be squeezed to produce oil. From this activity she earns about Rs.12,000 a month which is needed to keep the home fires burning. Because of the tsunami she has lost large amount of raw material worth about Rs. 70,000. It is only thanks to the micro-credit facility granted by the EtiMos Bank that she has managed to buy a stock of coconuts and a new bicycle, which have allowed her to succeed in life.



Promotion of the Microfinance Sector Project (ProMiS) funded by GTZ

The Promotion of the Microfinance Sector project in Sri Lanka (ProMiS) is being implemented by the German Technical Cooperation (GTZ) under the purview of the Department of Development Finance of the Ministry of Finance and Planning. The Duration of the project is four years (2006 to 2009) and the total cost of the project is Euro

4 million. The main objective of the project is to develop the microfinance sector in Sri Lanka under the following three major components.

- Micro finance sector policy
- Micro finance service providers
- Capacity building of microfinance institutions

Out of the three components, the project has completed the following activities within the year 2007.

Strengthen capacities of national government institutions towards the integration of the microfinance institutions (MFII) into the formal financial system

- Analysis of the demand and supply side of the Sri Lankan Microfinance sector has been completed. The key findings are;
 - Over 80 percent of households have total borrowings below Rs. 100,000
 - Around 82.5 percent households have accessed Financial Institutions for their savings and credit needs.
 - State banks are generally more popular for savings with over 75 percent of householders.
 - Nearly 20 percent of households have accessed informal sources of finance.
 - Collateral recruitment, excessive documentations, rigid terms and conditions and long processing periods are key barriers for accessing credit from formal institutions.
 - There is still a large unmet demand for credit.
- Introduced database on MF development partner activities for 26 MFII and the database has been constantly updated.
- Evaluated post tsunami microfinance impact in cooperation with Oxfam Novib, Plan, and Stromme Foundation and the interim report and financial analysis are in progress.
- The website www.microfinance.lk has been established and updated regularly.

The delivery mechanisms of MFI services are enhanced.

- MF network system has been established and in operation.
- A research study on Feasibility and cost effective handheld based solution for the Sri Lankan microfinance sector has been completed.

- Developed new IT-based credit technologies for MFII
- 6 CGAP (Consultative Group Assist to Poor) International Training on Trainers (ToT) completed.
- A Microfinance Diploma Course scheduled to be launched in June 2008 with the accreditation by Frankfurt School of Finance & Management.
- Introduced accounting standards for 16 MFII
- Integration of MFII under the CRIB system is in progress.

The sustainability and outreach of selected MFII in disadvantaged regions of Sri Lanka are increased.

- Operational capacities of selected 8 Thrift and Credit Co-operatives (TCCSS) are enhanced through SANASA
- Developed capacity building of 17 MFII according to their different requirements
- 3 HR programmes were conducted for Lakjaya
- Conducted a training programme on Comprehensive Management Audit (CMA) in MFI Lakjaya.
- Introduced Standard Monitoring Tool for Habaraduwa Participatory Development Foundation, and Pragathi Sewa Padanama.
- Introduced MIS software for 4 RDBB with 9 more branches of the Sabaragamuwa Development Bank
- MBW in remote terminal system was introduced at Wayamba Development Bank by connecting the head office with 2 branches.

Formulated additional activities for MFII / NGO in the Eastern Province.

The Financial Markets Programme for Private Sector Development

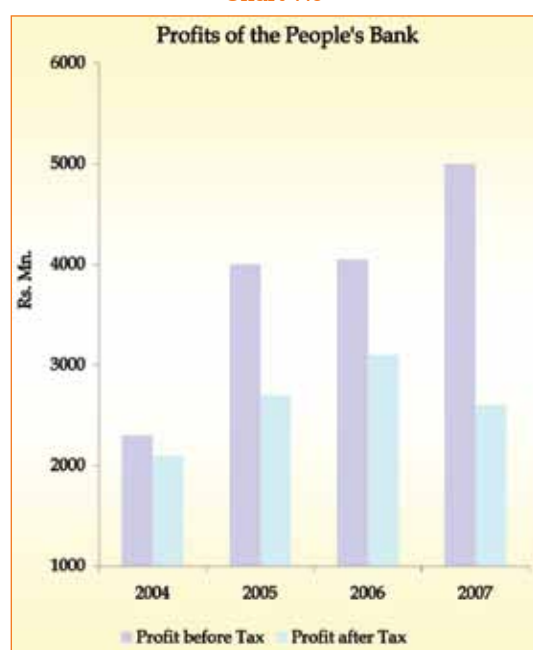
The Financial Market is one of the important sectors in the country. The improvement of this sector is very essential to develop the economy of the country. The Financial Markets Programme for Private Sector Development funded by the

Asian Development Bank has also been set up in Sri Lanka to facilitate private sector development by strengthening the financial markets, including the restructuring and phased recapitalization of People's Bank.

The following actions were implemented in terms of tranche conditions in 2007.

- Injected Rs. 1.5 billion to People's Bank in December 2007 by the Government of Sri Lanka to meet the minimum risk weighted capital requirement of 10 percent. The bank's Capital Adequacy Ratio (CAR) increased to 7 percent in 2007 and profit before tax to 5 billion in 2007. (Un-audited)

Chart 7.9



Source: People's Bank

Table 7.10 - Capital Adequacy Ratio from 2004 - 2007

Year	Percentage
2004	-4.2
2005	1.9
2006	5.6
2007	7

Source: People's Bank

- The Board of Directors of the Credit Information Bureau which met on 19th December 2007 decided to support the legal and policy reforms to modernize Sri Lanka's secured transactions system, including the establishment of a computerized national system of registration for securing movable property including machinery and equipment, which will make it easier for businesses to obtain financing by providing movable assets as collateral for loans by using their own funds.
- The Cabinet Paper was prepared to obtain approval to instruct the Legal Draftsman to draft the Securitization Bill.
- The Colombo Stock Exchange (CSE) has moved to a T+3 settlement cycle for buying and selling in the equities market with effect from 10th December 2007. Consistent with SEC and CSE instructions the Central Depository Company issued a directive on 3 September 2007.
- The SEC has issued a directive for registered and listed companies on 19th February 2007 to comply with the Corporate Governance Code effective from 1st April 2007.
- The Cabinet paper has been prepared to instruct the Legal Draftsman to draft the amendments to the Securities and Exchange Commission Act No 36 of 1987 in order to suit the emerging needs of the capital market and strengthening the regulating framework.
- Cabinet approval was obtained to make amendments to the Insurance Act to improve regulations of the Insurance Industry by permitting insurance companies to invest in securitized bonds. It is expected to submit it to Parliament by June 2008.
- People's Bank and Bank of Ceylon prepared a Corporate Governance Charter consistent with (i) the Code of Best Practice in Corporate Governance in Public Enterprises issued by MOFP in January 2003, (ii) the CBSL guidelines for corporate governance of banks, and (iii) responsibilities and duties of directors and officers under the Companies Act 2007.

Financial Statements - 2007



Financial Statements - 2007

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 2007 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 have been considered and ideas were taken from them, to have an advanced presentation consistent with the classification and presentation of the Annual Budget of the Government, to provide the reader with a clear view on the Financial Performance of the Government in Comparison with main targets of the Annual Budget as approved by Parliament.

An incremental approach to implementing accrual accounting has been in place since 2004. Accordingly, the documenting process of collecting information to be disclosed outside the Accounting System, pertaining to asset management, commitments and liabilities was designed. This is the first time that relevant information on non-current assets acquired after 01/01/2004 are disclosed in this Financial Statements until accrual accounting principles are fully adopted.

These financial statements encompass the financial operations of seventy two Government Ministries, one

hundred and seventeen Government Departments and twenty five District Secretariats/Kachcheries and how they performed in the process of making use of the financial resources allocated to them during the year 2007 in terms of the Annual Budget for implementing the intended work programmes and projects for achieving the set goals and objectives. Basic information pertaining to the financial resources allocated by the Government in 2007 to eight Provincial Councils and Public Enterprises comprised of two main 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

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for the year ended 31st December 2007

Budget Estimates 2007 Rs.		Note	2007 Rs	Actual 2006 Rs
	REVENUE			
541,229,000,000	Tax Revenue		509,216,529,939	424,898,736,897
102,124,000,000	Income Tax	1	107,168,400,031	77,706,840,153
324,085,000,000	Taxes on Domestic Goods & Services	2	300,185,146,641	266,694,499,699
115,020,000,000	Taxes on External Trade	3	101,862,983,267	80,497,397,044
68,397,776,000	Non Tax Revenue & Others	4	62,348,014,277	52,483,442,197
609,626,776,000	TOTAL REVENUE (a)		571,564,544,216	477,382,179,094
	Less : EXPENDITURE			
158,770,634,200	Wages, Salaries and Other Employment Benefits	5	155,658,627,654	122,705,090,261
74,391,789,044	Other Goods & Services	6	68,275,011,076	64,683,126,872
218,063,572,097	Subsidies, Grants and Transfers	7	209,445,019,337	241,072,280,652
182,073,647,000	Interest Payments	8	181,383,803,283	150,777,518,682
633,299,642,341	Total Recurrent Expenditure (b)		614,762,461,350	579,238,016,466
23,672,866,341	REVENUE DEFICIT (a) - (b)		43,197,917,134	101,855,837,372
405,865,204,440	Public Investments	9	271,190,996,676	197,849,604,176
429,538,070,781	BUDGET DEFICIT		314,388,913,810	299,705,441,548
	FINANCING THE BUDGET DEFICIT			
180,096,679,980	Foreign Borrowings	10	176,834,397,184	122,750,299,766
(71,655,000,000)	Foreign Debt Repayments		(71,140,379,224)	(48,850,521,704)
108,441,679,980	NET FOREIGN BORROWINGS		105,694,017,960	73,899,778,062
24,075,000,000	Foreign Grants	11	17,372,510,005	19,910,922,427
132,516,679,980	TOTAL FOREIGN FINANCING		123,066,527,964	93,810,700,489
392,639,676,495	Domestic Non-bank Borrowings	12	392,639,676,495	371,357,098,414
(276,119,817,250)	Domestic Debt Repayments	13	(236,573,034,188)	(246,842,854,169)
116,519,859,245	NET DOMESTIC BORROWINGS		156,066,642,307	124,514,244,245
10,832,285,000	Recoveries from On-lending	14	11,676,975,493	13,881,296,703
650,000,000	Divestiture Proceeds & Others		545,526,695	573,582,871
-	Net Change in Deposit Accounts and Liabilities		12,888,373,010	49,948,394,922
-	(Increase)/ Decrease in Cash & Cash Equivalents		10,144,868,341	16,977,222,318
260,518,824,225	TOTAL FINANCING		314,388,913,810	299,705,441,548

Statement of Cash Flows

for the year ended 31st December 2007

	2007 Rs.	Actual 2006 Rs.
Cash Flows from Operating Activities		
Total Tax Receipts	509,216,529,939	424,898,736,896
Interest	9,242,407,331	10,320,723,701
Dividends	2,533,325,592	3,282,443,579
Fees, Fines, Penalties and Licenses	8,476,013,697	8,751,805,388
Profit	14,589,093,972	4,878,431,865
Other Receipts	27,507,173,686	25,250,037,664
Total Cash provided from Operations (a)	571,564,544,216	477,382,179,094
Less - Cash was disbursed to:		
Personal Emoluments & Operating Payments	(223,933,638,730)	(179,009,739,335)
Subsidies & Transfer Payments	(209,445,019,337)	(241,072,280,652)
Finance Costs	(181,383,803,283)	(150,777,518,682)
Other Payments	-	(8,378,477,797)
Total Cash disbursed to Operations (including Tsunami related Disbursements (b))	(614,762,461,350)	(579,238,016,466)
NET CASH FLOWS FROM OPERATING ACTIVITIES (c) = (a) - (b)	(43,197,917,134)	(101,855,837,372)
Cash Flows from Investing Activities		
Divestiture Proceeds & Sale of Physical Assets	545,526,695	573,582,871
Recoveries from On Lending	11,676,975,493	13,881,296,703
Total Cash provided from Investing Activities (d)	12,222,502,188	14,454,879,574
Less - Cash was disbursed to:		
Purchase or Construction of Physical Assets & Acquisition of Other Investments	(271,190,996,676)	(197,849,604,176)
Total Cash disbursed to Investing Activities (e)	(271,190,996,676)	(197,849,604,176)
NET CASH FLOWS FROM INVESTING ACTIVITIES (f) = (d) - (e)	(258,968,494,488)	(183,394,724,602)
NET CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES (g) = (c) + (f)	(302,166,411,622)	(285,250,561,974)
Cash Flows from Financing Activities		
Local Borrowings	392,639,676,495	371,357,098,414
Foreign Borrowings	176,834,397,184	122,750,299,766
Grants Received	17,372,510,005	19,910,922,427
Total Cash provided from Financing Activities (h)	586,846,583,684	514,018,320,607
Less - Cash was disbursed to:		
Repayment of Local Borrowings	(236,573,034,188)	(246,842,854,169)
Repayment of Foreign Borrowings	(71,140,379,224)	(48,850,521,704)
Change in Deposit Accounts and Other Liabilities	12,888,373,010	49,948,394,922
Total Cash disbursed to Financing Activities (i)	(294,825,040,403)	(245,744,980,951)
NET CASH FLOWS FROM FINANCING ACTIVITIES (j) = (h) - (i)	292,021,543,281	268,273,339,656
Net Movement in Cash (k) = (g) - (j)	(10,144,868,341)	(16,977,222,318)
Opening Cash Balance as at 01st January	(19,742,581,635)	(2,765,359,317)
Closing Cash Balance as at 31st December	(29,887,449,976)	(19,742,581,635)

Statement of Financial Position

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as at 31st December 2007

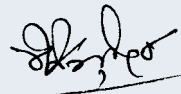
	Note	2007 Rs.	Actual 2006 Rs.
Financial Assets			
Loans to Public Officers	15	20,688,363,332	18,728,719,239
Advances to Govt. Departments	16	8,839,401,396	9,868,885,922
Foreign Aid Counterpart Funds	17	-	2,725,761,479
Membership Fees Paid	18	1,885,484,943	1,885,484,942
On Lending	19	218,853,579,691	174,444,434,667
Capital Contribution in State Owned Enterprises	20	111,817,301,166	96,842,051,860
Total Financial Assets		362,084,130,528	304,495,338,110
Liabilities			
Bank Overdrafts		29,887,449,976	19,742,581,635
Advance from the Central Bank	21	60,679,200,000	49,015,400,000
Foreign Loan Revolving Funds	22	13,048,314,707	9,117,734,410
Miscellaneous Funds	23	2,289,057,707	1,831,360,882
Government Borrowings	24	2,767,500,379,115	2,430,870,913,435
Deposits and Other Liabilities	25	63,806,542,849	67,607,138,550
Operating Accounts with Government Departments	26	3,260,015,313	3,610,026,041
Sundry Accounts	27	(512,673,826)	(3,805,585,246)
Total Liabilities		2,939,958,285,841	2,577,989,569,708
Contingency Fund		140,000,000	140,000,000
Total Liabilities & Contingency Fund Balance		2,940,098,285,841	2,578,129,569,708
Total Liabilities and Contingency Fund Balance over Financial Assets		2,578,014,155,313	2,273,634,231,598
Consolidated Fund- Accumulated Deficit	28	140,169,685,087	113,034,062,956
Total Investments in Physical Assets and Accumulated Net Revenue Deficit	29	2,437,844,470,226	2,160,600,168,642
		2,578,014,155,313	2,273,634,231,598
Contingencies & Commitments	30	78,616,920,000	30,968,370,000

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.



D. WIDANAGAMACHCHI
Director General
Department of State Accounts

General Treasury
Colombo-01.
16th May 2008



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 2007

By Functional Classification	Actual (Rs. Million)							
	2007				2006			
	Recurrent	Capital	Total	%	Recurrent	Capital	Total	%
General Public Service	102,561	16,883	119,444	13.48	85,615	51,354	136,969	17.63
Finance Costs	180,737	-	180,737	20.40	151,140	-	151,140	19.45
Law & Order	35,018	4,757	39,775	4.49	30,039	4,145	34,184	4.40
Defence	88,947	31,254	120,201	13.57	67,108	9,100	76,208	9.81
Economic Affairs	41,090	164,483	205,573	23.20	102,431	84,811	187,242	24.10
Environment	1,263	1,688	2,951	0.33	977	1,724	2,701	0.35
Housing and Community Amenities	850	23,844	24,694	2.79	306	22,274	22,580	2.91
Health	35,361	8,344	43,705	4.93	30,816	7,231	38,047	4.90
Education	31,852	15,264	47,116	5.32	25,478	11,216	36,694	4.72
Recreation, Culture and Religion	2,801	1,418	4,219	0.48	3,079	1,539	4,618	0.59
Pension Expenses	76,205	25	76,230	8.60	58,319	-	58,319	7.50
Other Social Protection Expenses	18,077	3,230	21,307	2.40	23,930	4,456	28,386	3.65
Total Expenses	614,762	271,190	885,952	100	579,238	197,850	777,088	100

Note : These figures are presented in Economic format in accordance with Classification of Functions of Government (COFOG) and based on Standard Programmes of Budget Estimate - 2005.

Statement of Accounting Policies

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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 has 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 2007.

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 by way of taxes, fees & charges imposed under various statutes approved by the Parliament.

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 Rupees 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 expenditure 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

300 Statement of Accounting Policies *Contd.*

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 are compilation of Budget Outturn and related statistics which compiled in accordance with Government Financial Statistical Manual are obtained from this Balance Sheet.

Notes to Financial Statements

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Budget Estimates 2007	Revenue Code	Revenue Title	2007 Rs	Actual 2006 Rs
	NOTE - 1	INCOME TAX		
4,045,305,000	1004.10.01	Dividend Tax	2,816,868,533	3,315,824,389
13,767,000,000	1004.10.02	Economic Service Charge	12,203,425,025	8,852,985,755
32,213,695,000	1004.10.09	Corporate Tax & Other	40,630,157,800	35,220,018,294
50,026,000,000	1004.10.00	Total Corporate Tax (a)	55,650,451,358	47,388,828,437
10,129,455,000	1004.20.01	PAYE Tax	11,249,682,632	7,464,595,075
20,011,000,000	1004.20.02	Withholding Tax on Interest	25,397,595,426	15,130,572,001
3,200,000,000	1004.20.03	Specified Fees & Other Withholdings	9,909,696,402	5,534,264,390
18,757,545,000	1004.20.09	Other	4,960,974,213	2,188,580,249
52,098,000,000	1004.20.00	Total Non -Corporate Tax (b)	51,517,948,673	30,318,011,716
102,124,000,000		Total Income Tax (a + b)	107,168,400,031	77,706,840,153
	NOTE - 2	TAXES ON DOMESTIC GOODS & SERVICES		
202,163,000,000	1002.10.00	Value Added Tax	186,990,550,178	164,277,227,616
70,446,000,000	1002.10.01	Services	62,966,902,113	49,588,092,355
39,938,000,000	1002.10.02	Manufacturing	22,523,044,478	22,218,159,285
91,779,000,000	1002.10.03	Imports	101,500,603,587	92,470,975,976
-	1002.20.00	Goods and Services Tax	142,172,771	158,331,861
	1002.20.01	Services	89,013,751	-
	1002.20.02	Manufacturing	46,838,801	-
	1002.20.03	Imports	6,320,219	-
-	1002.30.00	National Security Levy	105,013,759	92,560,902
	1002.30.01	Services	25,912,968	-
	1002.30.02	Manufacturing	75,028,258	-
	1002.30.03	Imports	4,072,533	-
24,696,000,000	1002.40.00	Excise (Ordinance) Duty	23,722,738,912	20,660,503,742
24,696,000,000	1002.40.01	Liquor	23,722,738,912	20,660,503,742
82,849,000,000	1002.50.00	Excise (Special Provisions) Duty	72,928,919,546	70,522,807,812
33,403,000,000	1002.50.01	Cigarettes	31,413,895,664	30,067,019,967
-	1002.50.02	Liquor	-	26,871,365
19,164,000,000	1002.50.03	Petroleum Products	19,124,255,674	16,585,513,464
26,900,000,000	1002.50.04	Motor Vehicles	17,415,447,682	20,730,716,730
3,382,000,000	1002.50.09	Other	4,975,320,526	3,112,686,286
35,000,000	1002.60.00	Tobacco Tax	32,909,221	33,524,816
1,600,000,000	1002.70.00	Stamp Duty	4,026,240,434	1,495,293,475
8,141,000,000	1002.80.00	Debit Tax	7,186,742,288	6,254,885,378
100,000,000	1002.90.00	Turnover Tax	461,361,956	232,565,202
650,000,000	1003.10.00	Motor Vehicle Tax	352,613,816	286,747,504
46,000,000	1003.20.00	Transfer Tax	50,180,113	67,147,063
500,000,000	1003.30.00	Betting & Gaming Levy	267,575,250	282,294,230
2,450,000,000	1003.40.00	Social Responsibility Levy	2,847,393,133	1,408,053,014
500,000,000	1003.50.00	Share Transaction Levy	412,083,582	420,180,879
30,000,000	1003.60.00	Construction Industry Guarantee Fund Levy	56,449,361	24,218,235
325,000,000	1003.90.00	Other Licences	602,202,320	478,156,972
55,500,000	1003.90.01	Fees for registration of Nursing Homes	54,594,750	51,938,225
56,000,000	1003.90.02	Registration fees relevant to the Dept. of Registrar General's	102,407,976	107,169,633
80,000,000	1003.90.03	Private Timber Transport	224,969,656	144,881,352
16,000,000	1003.90.04	Tax on sale of Motor Vehicles	20,370,925	17,889,203
8,960,000	1003.90.05	Licence Taxes relevant to the Min. of Public Security, Law & Order	13,110,273	11,949,700
10,000,000	1003.90.06	Licence fees relevant to the Dept. of Fisheries & Aquatic Resources	10,826,518	16,799,482
98,540,000	1003.90.09	Other	175,922,222	127,550,210
324,085,000,000		Total Taxes on Domestic Goods & Services	300,185,146,641	266,694,499,699
	NOTE - 3	TAXES ON INTERNATIONAL TRADE		
70,830,000,000	1001.10.00	Import Duties	56,286,665,767	53,006,278,847
20,000,000	1001.20.00	Export Duties	33,397,222	24,148,491
250,000,000	1001.30.00	Import & Export Licences Fees	192,854,028	329,384,287
28,947,000,000	1001.40.00	Ports & Airports Development Levy	26,700,463,296	21,125,702,436
13,320,000,000	1001.50.00	Cess Levy	17,157,470,578	5,872,425,071
53,000,000	1001.60.00	Motor Vehicle Concessionary Levy	10,851,635	2,609,976
1,600,000,000	1001.70.00	Regional Infrastructure Development Levy	1,481,280,741	136,847,935
115,020,000,000		Total Revenue from Taxes on International Trade	101,862,983,267	80,497,397,044
	NOTE - 4	NON-TAX REVENUE AND OTHERS		
3,650,000,000	2001.10.00	Railways	2,999,337,435	2,491,261,937
6,000,000,000	2001.20.00	Postal	3,981,741,025	2,766,339,642
50,000,000	2001.30.00	Advance Accounts (Trading)	76,937,955	44,591,601
9,700,000,000		Revenue From Other Sources (a)	7,058,016,415	5,302,193,180
1,697,000,000	2002.10.00	Rent	1,709,395,297	1,293,888,316
640,000,000	2002.10.01	Rent on Government Building & Housing	559,158,642	576,267,855
390,000,000	2002.10.02	Rent on crown forests	567,352,895	346,409,322
5,593,000	2002.10.03	Rent from Land and Other	17,439,588	11,820,918
609,407,000	2002.10.04	Lease Rental from Regional Plantation Companies	512,588,775	311,640,500
52,000,000	2002.10.09	Other Rental	52,855,397	47,749,721

Notes to Financial Statements *Contd.*

Budget Estimates 2007	Revenue Code	Revenue Title	2007 Rs	Actual 2006 Rs
7,266,776,000	2002.20.00	Interest	9,242,407,331	10,320,723,701
6,421,551,000	2002.20.01	On-Lending	8,099,756,631	9,427,609,462
845,225,000	2002.20.02	Other	1,142,650,700	893,114,239
8,323,000,000	2002.30.00	Profits	5,148,867,125	3,669,000,000
4,252,000,000	2002.40.00	Dividends	2,533,325,592	3,282,443,579
100,000,000	2003.10.00	Departmental Sales	77,596,159	48,787,582
11,569,000,000	2003.20.00	Administrative Fees & Charges	13,261,323,275	8,751,805,388
40,000,000	2003.20.01	Audit Fees	36,935,337	22,793,985
-	2003.20.02	Air Navigation Fees	-	208,981,004
51,709,000	2003.20.03	Fees under Registration of Persons Act No. 32 of 1968	81,113,125	61,842,066
40,000,000	2003.20.04	Survey Department Fees	101,780,072	69,111,197
125,000,000	2003.20.05	Service Charges of Government press	186,548,803	164,958,229
15,000,000	2003.20.06	Fees under the fauna & flora protection ordinance	6,075,816	9,412,497
4,115,800,000	2003.20.07	Fees of Passports, Visas & Dual Citizenship	3,518,187,236	2,792,701,737
630,000,000	2003.20.08	Embarkation Levy	648,967,487	578,391,347
40,000,000	2003.20.09	Fees of Valuation Department	52,912,341	52,759,956
40,000,000	2003.20.10	Fees of Registrar of Companies	58,900,035	38,906,927
22,000,000	2003.20.11	Legal Fees from Corporations & Statutory Bodies	23,756,763	20,027,670
350,000	2003.20.12	Fees recovered under the Public Contract Act	463,000	747,948
95,000,000	2003.20.13	Examinations & Other Fees	78,266,041	138,682,231
1,600,000,000	2003.20.14	Fees under the Motor Traffic Act & Other receipts	2,013,430,065	1,889,113,434
25,000,000	2003.20.15	Revenue - Botanical Gardens	112,391,501	-
35,000,000	2003.20.16	Air Craft Rentals	26,728,461	17,249,053
40,000,000	2003.20.17	Fee on Local Sale of Garments	47,352,051	32,902,500
95,000,000	2003.20.18	Fees relevant to the Department of Agriculture	37,831,030	125,444,351
4,559,141,000	2003.20.99	Sundries	6,229,684,113	2,527,779,256
2,790,000,000	2003.30.00	Fines & Forfeits	1,417,997,282	999,673,511
5,190,000,000	2003.90.00	Other Receipts	3,681,628,433	11,136,038,334
6,120,000,000	2004.10.00	Social Security Contribution-Central Govt.	5,760,791,532	3,999,630,669
4,080,000,000	2004.20.00	Social Security Contribution-Provincial Councils	3,016,438,990	2,469,826,072
4,000,000,000	2005.10.00	Central Bank Profits	4,000,000,000	-
3,310,000,000	2005.20.00	National Lotteries Board & Other Transfers	5,440,226,847	1,209,431,865
58,697,776,000		Revenue From Other Sources (b)	55,289,997,863	47,181,249,017
68,397,776,000		Total Non - Tax Revenue & Others (a) + (b)	62,348,014,277	52,483,442,197
609,626,776,000		Grand Total (Note 1 - 4) Total Revenue	571,564,544,216	477,382,179,094
NOTE - 5				
		WAGES, SALARIES & OTHER EMPLOYMENT BENEFITS		
		(OBJECT CODE WISE CLASSIFICATION)		
		Object Title		
		Object Code		
		Personal Emoluments		
108,444,878,855	1001	Salaries & Wages	106,195,960,831	81,293,940,159
50,325,755,346	1002	Overtime & Other Allowances	49,462,666,823	41,250,852,097
158,770,634,200		Total	155,658,627,654	122,544,792,256
NOTE - 6				
		OBJECT CODE WISE CLASSIFICATION OF OTHER GOODS AND SERVICES		
		Travelling Expenditure		
7,083,172,840	1101	Domestic	6,982,855,807	5,423,143,919
1,519,784,804	1102	Foreign	1,366,065,219	1,035,625,146
8,602,957,644		Total (a)	8,348,921,027	6,458,769,065
		Supplies		
2,072,649,665	1201	Stationery and Office Requisites	1,903,782,532	781,635,712
8,652,365,645	1202	Fuel	7,986,958,281	7,762,732,362
12,670,136,455	1203	Diets & Uniforms	12,484,276,472	10,601,142,029
11,425,059,541	1204	Medical Supplies	11,292,348,153	11,794,289,984
5,034,019,576	1205	Other	4,269,120,471	4,022,146,361
39,854,230,882		Total (b)	37,936,485,909	34,961,946,448
		Maintenance Expenditure		
1,232,577,614	1301	Vehicles	1,126,051,202	947,086,132
1,428,223,000	1302	Plant, Machinery & Equipment	1,311,934,793	356,139,726
735,078,399	1303	Buildings and Structures	622,836,991	1,475,417,583
3,395,879,014		Total (c)	3,060,822,986	2,778,643,441
		Services		
2,688,324,004	1401	Transport	2,539,688,834	2,265,364,154
1,875,364,020	1402	Postal & Communication	1,615,225,698	1,472,756,981
5,262,578,402	1403	Electricity & Water	4,965,035,485	4,365,593,471
2,263,795,460	1404	Rents and Local Taxes	2,080,196,930	1,819,814,522
9,086,869,148	1405	Other	7,726,534,224	10,560,238,790
1,361,790,470	1406	Contingency Services	2,099,983	-
22,538,721,505		Total (d)	18,928,781,155	20,483,767,919
74,391,789,044		Total (a+b+c+d)	68,275,011,076	64,683,126,872

Notes to Financial Statements *Contd.*

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Budget Estimates 2007	Object Code	Object Title	2007 Rs	Actual 2006 Rs
NOTE - 7		OBJECT CODE WISE CLASSIFICATION OF TRANSFERS, GRANTS & SUBSIDIES		
		Transfers		
26,509,416,832	1501	Welfare Programmes	24,698,164,777	23,501,715,927
69,483,226,130	1502	Retirement Benefits	68,822,951,068	58,005,687,004
29,482,257,620	1503	Public Institutions	27,638,232,826	20,039,360,623
11,545,230,000	1504	Development Subsidies	11,238,884,261	5,928,599,050
1,754,372,760	1505	Subscriptions and Contributions Fees	1,537,201,062	549,652,395
781,686,871	1506	Property Loan Interest to Public Servants	717,002,891	160,298,005
74,140,000,000	1507	Provincial Councils	70,815,190,458	63,029,284,526
4,367,381,884	1508	Other	3,977,391,993	70,017,981,127
218,063,572,097		Total	209,445,019,337	241,232,578,657
NOTE - 8		Interest Payments		
159,024,647,000	1601	Domestic Debt	158,944,942,224	133,787,693,266
23,049,000,000	1602	Foreign Debt	22,438,861,059	16,989,825,416
182,073,647,000		Total	181,383,803,283	150,777,518,682
633,299,642,341		Grand Total (Notes 5 to 8) - Total Recurrent Expenditure	614,762,461,350	579,238,016,467
NOTE - 9		OBJECT CODE WISE CLASSIFICATION OF PUBLIC INVESTMENT EXPENDITURE, Rehabilitation & Improvements of Capital Assets		
34,279,768,333	2001	Buildings & Structures	25,047,958,646	16,452,787,099
4,143,757,616	2002	Plant, Machinery and Equipment	3,440,125,878	5,523,366,823
1,895,210,882	2003	Vehicles	1,553,759,396	1,368,302,401
40,318,736,831		Total (a)	30,041,843,920	23,344,456,323
		Acquisition of Capital Assets		
18,687,113,927	2101	Vehicles	12,274,845,829	5,614,499,425
5,457,759,258	2102	Furniture & Office Equipment	4,314,666,750	9,251,380,192
23,081,261,533	2103	Plant, Machinery and Equipment	15,282,503,366	6,568,739,024
37,442,557,452	2104	Buildings and Structures	29,296,356,554	26,631,494,200
14,153,245,000	2105	Lands and Land Improvements	8,373,760,102	7,860,295,016
98,821,937,169		Total (b)	69,542,132,601	55,926,407,858
		Capital Transfers		
48,734,563,175	2201	Public Institutions	33,304,362,235	28,329,312,394
10,038,576,656	2202	Development Assistance	6,775,799,458	3,524,227,584
16,167,600,000	2203	Provincial Councils	11,535,309,000	4,690,450,000
163,500,000	2204	Transfers Abroad	160,425,000	410,942,468
75,104,239,831		Total (c)	51,775,895,694	36,954,932,446
		Acquisition of Financial Assets		
2,755,000,000	2301	Equity Contribution	2,755,000,000	1,618,027,840
78,597,718,733	2302	On-Lending	42,523,670,375	16,078,710,582
-	2402	Loans Outlay	-	7,560,026,212
-	2404	Acquisition of Other Capital Assets	-	1,785,000,000
81,352,718,733		Total (d)	45,278,670,375	27,041,764,634
		Capacity Building		
7,305,449,244	2401	Training & Capacity Building	3,838,610,660	-
7,305,449,244		Total (e)	3,838,610,660	-
		Other Capital Expenditure		
747,353,694	2501	Restructuring	600,604,474	1,995,555,610
82,197,910,761	2502	Other Investments	54,051,799,500	40,882,385,339
20,016,858,176	2503	Contingency Services	16,061,439,452	2,347,291,277
102,962,122,631		Total (f)	70,713,843,427	45,225,232,226
		Expenditure on Donor Funded Projects		
-	2701	Operational Cost of Donor Funded Projects	-	2,548,906,194
-	2711	Personal Emolument of Project Staff	-	792,127,588
-	2712	Other Goods & Services	-	6,015,776,907
-		Total (g)	-	9,356,810,689
405,865,204,440		TOTAL EXPENDITURE ON PUBLIC INVESTMENTS (a+b+c+d+e+f+g)	271,190,996,676	197,849,604,176
1,039,164,846,781		Grand Total (Notes 5 to 9) - Total Expenditure	885,953,458,026	777,087,620,643

Notes to Financial Statements *Contd.***Note 10 - Foreign Borrowings (Projects wise)**

S.No	(Source & Relevant Project Financed)	2007 Rs.	2006 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 System B - Left Bank	7,800,545	9,881,534
3	I.D.A. Loan No: 2043 CE Forest Sector Development Project	499,820,190	-
4	Japan / Sri Lanka Loan No: SL - P48 - Walawe Left Bank Irrigation Upgrading & Extension Project (II)	1,496,094,827	1,123,878,067
5	IDA Loan No: 2880 CE -Private Sector Infrastructure Development Project	54,009,522	112,369,101
6	Japan / Sri Lanka Loan No. SL P49 - Colombo North Water Supply Project	279,566,837	437,214,065
7	IDA Loan No: 3014 - CE - 2nd General Education Project (Part for Tsunami) (*)	-	578,876,450
8	IDA Loan No: 2881 - CE - Teacher Education & Teacher Development Project (Part for Tsunami) (*)	-	69,837,159
9	ADB Loan No: 1545 (SF) - Upper Watershed Management Project	-	56,385,234
10	ADB Loan No: 1552 (SF) - Second Perennial Crops Development Project	-	31,267,280
11	Kuwait Fund Loan No: 466 - Bridges Reconstruction & Rehabilitation Project	139,909,442	184,108,155
12	ADB Loan No: 1575 SRI (SF) - 3rd Water Supply and Sanitation Sector project	249,805,426	600,450,481
13	ADB Loan No: 1649 SRI (SF) - Road Network Improvement Project	1,965,383,628	1,420,516,106
14	German Loan No: 9865080 - Koggala Water Supply Project	135,288,783	84,302,978
15	ADB Loan: 1639 SRI (SF) - Tea Development Project	-	9,410,948
16	Japan / Sri Lanka Loan No: SLP 69 - Improve the National Blood Transfusion Services	194,955,721	480,956,426
17	Japan / Sri Lanka Loan No: SLP 55 - Kaluganga Water Supply Project	1,161,139,563	1,865,089,491
18	Japan / Sri Lanka Loan No: SLP 64 - Poverty Alleviation Micro Finance Project	-	562,594,203
19	Japan / Sri Lanka Loan No: SLP 67 - Urgent Upgrading of Colombo Port Project	-	38,484,115
20	Japan / Sri Lanka Loan No: SLP 56 - Mahaweli System "C" Upgrading Project	-	717,310,873
21	IDA Loan No: 3384 CE - Legal & Judicial Reform Project	43,246,481	362,258,889
22	ADB Loan No: 1707 SRI (SF) - Skills Development Project	171,960,173	275,739,591
23	ADB Loan No: 1756 SRI (SF) - Secondary Education Modernization project	44,025,543	972,415,289
24	German Loan No: 9765835 - Water Supply Nawalapitiya	129,070,468	72,399,483
25	German Loan No: 9765843 - Water Supply Ampara	73,858,952	40,776,888
26	Japan / Sri Lanka Loan No: SLP 63 - Road Network Improvement Project	506,396,620	733,040,651
27	Japan / Sri Lanka Loan No: SLP 70 - Southern Highway Construction Project	3,542,058,047	2,686,929,198
28	Japan / Sri Lanka Loan No: SLP 62 - Bandaranayaka International Airport Development Project	-	4,682,617,990
29	NDF Loan No.356 - Secondary Education Modernization Project	-	172,362,302
30	ADB Loan: 1744 SRI (SF) - Forest Resources Management Sector Project	440,209,301	443,599,526
31	ADB Loan: 1716 SRI (SF) - Coastal Resource Management Project	554,735,443	229,591,962
32	ADB Loan: 1767 SRI (SF) - Protected Area Management and Wildlife Conservation Project	238,428,773	170,526,190
33	IFAD Loan No: 493 LK - Regional Economic Advance Project	131,026,850	188,506,081
34	Kuwait Fund Loan No:598 - Rural Electrification Project-5	-	40,346,810
35	German Loan No: 9966698 - Colombo Grid Substation Project	8,427,773	926,688,122
36	Japan / Sri Lanka Loan No: SLP 71 - Greater Kandy Water Supply Project	791,724,838	1,652,012,827
37	IDA Loan No: 3496 CE - Land Titling and Related Services Project	-	40,350,314
38	ADB Loan:1895 SRI (SF) - Small and Medium Enterprise Sector Development Programme	-	17,146,918
39	Sweden Loan - Molecular Biology Institution of University of Colombo	-	8,631,161
40	IDA Loan No: 3673 CE - Renewable Energy For Rural Economic Development Project (Part for Tsunami) (*)	1,083,000,473	2,005,839,983
41	NDF Loan No.325 - The Skills Development Project	401,172,062	356,345,174
42	Kuwait Fund Loan No:563 - Rehabilitation of Irrigation and Schemes Project	32,094,281	107,801,412
43	ADB Loan: 1896 SRI (SF) - Small and Medium Enterprise Sector Development Programme	154,153,430	425,284,297
44	ADB Loan: 1757 SRI (SF) - Water Resource Management Project	-	1,230,133
45	ADB Loan: 1846 SRI (SF) - North East Community Restoration and Development Project	74,255,195	417,277,858
46	Japan / Sri Lanka Loan No: SLP - 66 - Reduction of Non Revenue Water Project	-	54,678,739
47	Japan / Sri Lanka Loan No: SLP - 79 - Small Scale Infrastructure Rehabilitation and Upgrading Project	58,807,987	2,375,858,140
48	Japan / Sri Lanka Loan No: SLP - 73 - Lunawa Environment Improvement and Community Development Project	608,791,086	800,768,415
49	Japan / Sri Lanka Loan No: SLP - 75 - Plantation Reform Project (II)	394,729,122	31,388,737
50	Japan / Sri Lanka Loan No: SLP - 77 - Pro-poor Economic Advancement and Community Enhancement Project	208,624,902	69,586,725
51	IDA Loan No: 3772 CE - Economic Reform Technical Assistance Project (Part for Tsunami) (*)	381,990,226	167,147,301
52	IDA Loan No: 3781 CE - Improving Relevance And Quality of Undergraduate Education Project	547,304,206	686,879,373

Notes to Financial Statements *Contd.*

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S.No	(Source & Relevant Project Financed)	2007 Rs.	2006 Rs.
53	Korean Loan No: SRI 08 - Housing Project For Public Servants	-	109,600,853
54	NDF Loan No.324 - Sourthern Transport Development Project	59,535,140	109,278,000
55	Australian Loan - Intergrated Water Supply Scheme Ampara (II)	-	603,285,040
56	ADB Loan: 1841 SRI (SF) - Colombo Port Efficiency and Expansion Project	87,947,375	56,127,867
57	ADB Loan: 1849 SRI (SF) - Southern Province Rural Economic Advance Project	739,933,871	414,049,128
58	ADB Loan: 1711 SRI (SF) - Southern Transport Development Project	2,108,596,504	2,436,936,829
59	ADB Loan: 1914 SRI (SF) - Plantation Development Project	161,041,625	684,203,098
60	ADB Loan: 1986 SRI (SF) - Road Sector Development Project	1,351,089,249	1,976,116,151
61	ADB Loan: 1910 SRI (SF) - Aquatic Resource Development and Quality Improvement Project	2,597,699	24,377,968
62	ADB Loan: 1911 SRI (SF) - Aquatic Resource Development and Quality Improvement Project	225,851,867	242,922,416
63	ADB Loan: 1993 SRI (SF) - Towns and Rural Community Water / Sanitation Project	1,131,720,767	533,950,237
64	ADB Loan: 1999 SRI (SF) - Distance Education Modernization Project	550,470,549	383,934,579
65	German Loan No. 200165589 NDB - Small & Micro Enterprises	9,110,012	1,278,171
66	HSBC Loan - Rehabilitation of Bridges in North & East Project	-	271,357,542
67	OPEC Loan No: 782 P - The Skills Development Project	57,762,661	99,314,046
68	Austrian Loan - Railway Bridges to Extentd Railtracks	104,788,384	375,687,958
69	Indian Line of Credit - 2003	2,260,972,723	122,576,595
70	ADB Loan: 2043 SRI (SF) - Conflict Affected Area Rehabilitation Project	-	1,016,947,652
71	ADB Loan: 1913 SRI (SF) - Plantation Development Project	147,935,588	64,771,102
72	ADB Loan: 2040 SRI (sf) Rural Finance Sector Development	-	2,047,218,000
73	ADB Loan: 1930 SRI (SF) - Power Sector Development Project	1,450,251,063	953,506,277
74	ADB Loan: 2041 SRI (SF) - Rural Finance Sector Development Programme	233,596,069	170,135,571
75	ADB Loan: 2042 SRI (SF) - Rural Finance Sector Development Programme	181,636,435	65,703,438
76	ADB Loan: 2130 SRI (sf) Fiscal Management Reform	-	1,613,161,500
77	China Loan - Rural Electrification Project (vii)	583,150,668	873,868,811
78	China Loan - Kelanitissa Diesel Storage Tank Project	71,183,349	57,107,780
79	Denmark Loan - Colombo Sewerage Rehabilitation Project	1,265,127,867	672,951,205
80	Japan / Sri Lanka Loan No: SLP - 74 - Upper Kotmale Hydro Electric Power Project	2,924,086,961	1,293,137,382
81	Japan / Sri Lanka Loan No: SLP - 76 - Provincial Road Improvement Project	1,093,220,665	574,431,738
82	Japan / Sri Lanka Loan No: SLP - 78 - Power Sector Restructuring Project	269,924,220	649,932
83	Japan / Sri Lanka Loan No: SLP - 80 - Small Scale Infrastructure Rehabilitation and Upgrading Project (II)	1,219,910,288	1,633,522,781
84	Japan /Sri Lanka Loan No: SLP - 81 Small & Micro Industries Leader	2,153,297,941	2,565,876,163
85	Japan /Sri Lanka Loan No: SLP - 82 Enviromentally Friendly	1,214,285,624	351,192,641
86	OPEC Loan No: 879 P - North East Community Restoration & Development Project	79,168,532	82,585,857
87	Saudi Loan No: 4/390 - Development Health Facilities - Colombo Hospital	299,331,091	122,833,702
88	Austrian Loan No: 2333.045 - Water Supply Weligama, Ambalantota, Kataragama	146,203,949	63,803,207
89	OPEC Loan No: 868 P - Southern Province Rural Economic Advancement Project	126,826,656	77,093,323
90	OPEC Loan No: 942 P - Road Sector Development Project	173,444,652	377,482,027
91	Japan / Sri Lanka Loan No: SLP 83 - Vavuniya Kilinochchi Transmission Line Project	356,926	339,644
92	Japan / Sri Lanka Loan No: SLP-84 - Sri Lanka Tsunami Affected Area Recovery and Take off Project (*)	1,814,294,424	2,835,246,907
93	Japan / Sri Lanka Loan No: SLP - 72 - Colombo City Electricity Distribution Development Project	63,702,407	167,311,505
94	Korean Loan No. SRI 11 - Balangoda-Bandarawela Road Rehabilitation Project	887,322,901	614,534,421
95	Korean Loan No. SRI 12 - Greater Galle Water Supply Project Phase (II)	480,367,364	825,961,490
96	CITI Bank Loan - Sustainable Water Assistance Management Project	-	979,722,780
97	ADB Loan No: 2027 - North East Coastal Community Development Project	148,209,476	77,519,380
98	ADB Loan No: 2132 - Fiscal Management Modernization of Revenue Administration Project	41,092,682	4,705,344
99	ADB Loan No: 2131 - Strenthnering of the Fiscal management Institutions Project	178,415,441	125,097,983
100	ADB Loan No: 2167 - Tsunami Affected Area Rebuilding Project (*)	80,199,176	62,372,082
101	ADB Loan No: 2084 - North East Community Restoration Project	176,207,352	163,052,216
102	ADB Loan No: 2168 - North East Community Restore and Development Project	461,026,242	271,910,714
103	ADB Loan No: 2096 - Secondary Education Modernization Project	736,277,665	14,631,483
104	ADB Loan - NDB V - Private sector Promotion	708,861,164	1,048,155,345
105	ADB Loan No: 2044 - Conflict Affected Areas Rehabilitation Project	17,031,204	7,256,422
106	IDA Loan No: 3935 CE - Second North East Irrigated Agriculture Project	562,619,899	431,243,212
107	IDA Loan No: 4014 CE - North East Housing Reconstruction Project	1,976,756,134	1,690,785,744
108	IDA Loan No: 3986 CE - E - Sri-Lanka Development Project (Part for Tsunami) (*)	536,015,244	306,251,577
109	IDA Loan No: 4039 CE - Tsunami Emergency Recovery Project (*)	583,710,530	2,559,260,047
110	SIDA - 2004072/SL - Education Reforms in Plantation Schools	84,925,537	170,730,794
111	ADB Loan No.2139 - Technical Assistance for Financial Markets Programme	451,162	344,261
112	2004043 5/416 Batticaloa - Trincomalee Road Project	200,442,812	169,569,412
113	2006080 USD 75 Million Bank Of Ceylon	-	7,798,290,000
114	2006081 USD 25 Million Bank Of Ceylon	-	2,599,657,500
115	Us \$ 100Mn from City Bank	-	10,755,580,000
116	Us \$ 130Mn loan	-	13,178,880,000
117	Us \$ 35Mn loan	-	3,777,942,000
118	Us \$ 15Mn loan	-	1,623,969,000
119	2006042 SLP - 87 Pro - poor Eastern Infrastructure Development	36,220,401	4,445,343

Notes to Financial Statements *Contd.*

S.No	(Source & Relevant Project Financed)	2007 Rs.	2006 Rs.
120	Korean Loan No SRI 12	-	448,288,455
121	2005050 - 5980199 Sapugaskanda Diesel Power plant	-	1,702,098,090
122	20050430 DFCC IV Private sector Development	-	2,480,140,551
123	2006002 ADB 2197 Technical Education Development	30,988,094	62,358,840
124	2006073 Post Tsunami Line Of Credit - contract A	3,201,848,000	2,640,830,000
125	2006073 Post Tsunami Line Of Credit - contract B	-	792,249,000
126	2004006 ADB2080 TA Loan - Road Project	199,973,412	70,092,030
127	2006079 Nuwara-Eliya District Group Water Supply	1,038,390,470	516,483,302
128	2005079 Solar Energy for the Dev.of Health & Education	1,280,389,901	2,239,097,774
129	2005052 Greater Trincomalee water supply	29,211,513	30,964,797
130	2006020 IDA 4138 Road sector Assistance	2,095,819,374	1,410,391,290
131	2006021 Preparation of the proposed Puttalam Housing	3,540,307	5,130,020
132	2004022 Dry Zone Livelihood Support & Partnership Programme	57,309,874	191,521,334
133	2004076 Fourth Rural Electrification	6,331,771	9,469,746
134	2006072 Towns South of Kandy water supply	1,336,064,733	1,276,418,415
135	2006086 The supply and construction of pre - fabricated Metal Bridges	387,793,848	194,119,696
136	2004040 Indian Line of Credit	262,304,522	1,543,191,285
137	2006071 Pakistan Line of Credit	2,427,320,060	2,079,960,000
138	2007014 Supply of 100Nos Railway passenger Carriages.	1,379,294,077	-
139	2007042 Spatial information infrastructure for Reconstruction	196,109,090	-
140	2006041 SLP - 85 The Galle port development project (I)	250,966,669	-
141	2006043 SLP - 86 Tourism Resources Improvement Project	531,661,944	-
142	2007005 SLP - 88 Pro-poor Rural development project	1,664,402,175	-
143	2007006 SLP - 90 Water Sector Development Project	64,862,802	-
144	2005046 SRI -13 Re- engineering Government Component of E- Sri Lanka	791,432,667	-
145	2006044 SRI - 14 Administrative Complex in Hambantota Project	445,494,367	-
146	2007013 SRI -15 Greater Galle Water supply Project Phase II supplementary	353,787,756	-
147	2007016 SRI -16 Upgrading of Niyagama National Vocational Training	9,840,910	-
148	2005048 711 Strengthening of Tertiary Education & Administrative	100,403,845	-
149	2007043 Setting up of the Disaster Recovery Facility	44,590,719	-
150	2006087 The Supply and construction of pre - fabricated Metal Bridges	1,089,489,633	-
151	2007001 Design Supply & Setting up Two Water Treatment	290,051,973	-
152	2005022 Post Tsunami coastal Rehabilitation & Resource Mgt	216,106,412	-
153	2005023 Post Tsunami Livelihood Support & Partnership Programme	54,026,603	-
154	2006001 ADB 2201 Local Government Infrastructure Improvement Project	356,570,198	-
155	2006003 ADB - 2217 National Highways Sector Project	68,091,691	-
156	2006004 ADB - 2276 Towns & Rural Community Water sanitation supply	570,895,317	-
157	2007012 ADB - 2275 Secondary Towns & Rural Community sanitation project	466,090	-
158	2006093 DFCC Global Loan II	1,542,997,500	-
159	2006022 PPF - Dam Safety & Water Resources Planning	9,134,061	-
160	2007021 IDA - 4261 Puttalam Housing Project	331,009,623	-
161	2007029 Ratmalana & Jaela Wastewater Treatment Facility	1,922,582,700	-
162	2006089 Enhancement 7 Strengthening of the Road Infrastructure	351,779,440	-
163	2007003 Greater Colombo Sewerage Rehabilitation system II	548,877,450	-
164	2006085 Disaster Management & Emergency Response System	824,691,757	-
165	2007009 Delimitation Of the outer Edge the Continental	380,363,816	-
166	2005045 Preferential Buyer's credit	15,792,886,899	-
167	2007045 US 500 Mn Bonds	56,233,900,000	-
168	2007008 BOC Syndicate loan USD 210 Mn	23,292,234,000	-
169	2007026 SLDB Loan USD 50 Mn - NSB	5,638,540,000	-
170	2005049 Trincomalee Intergrated Infrastructure Project	67,196,217	-
		176,834,397,184	122,750,299,767

Notes to Financial Statements *Contd.*

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Note 11 - Foreign Grants Received

	2007 Rs.	2006 Rs.
Grants Received in the Form of Cash for Projects		
Association of South East Asian Nations (ASEAN)	319,714	5,407,532
Canada	7,307,841	13,589,414
European Economic Commission	83,913,000	105,306,902
France	-	17,500,000
International Labour Organization	3,982,568	538,726
Japan	150,384,643	607,041,649
Netherlands	449,618,082	553,799,869
Norad	48,031,630	88,848,884
Norway	4,382,438	157,830,984
Sweden	46,634,749	58,609,946
United Nations High Commission for Refugees (UNHCR)	11,027,839	31,965,271
United Kingdom	856,051	676,285
United Nations Development Programme (UNDP)	255,069,816	230,366,580
UNESCO	14,275,756	989,495
United Nations Fund for Population	39,003,973	58,560,834
United Nations Children's Education Fund	355,751,156	57,311,403
United State of America	30,910,286	35,257,850
World Health Organization	52,355,422	26,621,634
World Bank	99,282,669	122,755,287
United Nations Environment Programme (UNEP)	22,479,249	36,769,447
Italy	8,220,644	15,750,371
IDA	571,870,635	-
German	1,925,672	3,302,475
Greece	10,571,198	-
Other	7,884,385	755,056,065
	2,276,059,417	2,983,856,902
Less: Refunds or adjustments	(73,746,381)	(602,487,414)
Sub Total (a)	2,202,313,036	2,381,369,488
Grants Received in the form of Cash for Non Projects		
The Government of Japan	329,965,266	32,733,486
United Kingdom/ IDA	-	580,419,049
Sub Total (b)	329,965,266	613,152,535
Grants Received through Special Foreign Currency Accounts		
International Development Association (IDA)	1,667,862,305	6,065,020,568
USAID	4,803,351	7,327,408
Government of Norway	7,814,691	38,994,745
Asian Development Bank (ADB)	3,712,100,101	1,349,898,086
Switzerland Development Corporation	211,454,054	557,693,039
United Nations Development Programme(UNDP)	102,913,182	-
KFW	82,939,000	1,209,197,406
Government of Italy	232,107,278	25,929,540
Swedish	4,994,176	-
Sub Total (c)	5,924,074,955	9,356,973,973
Grants Received and Reported in the Form of Materials & Equipments		
Australian Aid	137,053,122	86,962,489
World Food Programme	1,801,698,358	1,025,984,996
The Government of Netherlands	141,610,184	-
The Government of Korea (KOICA)	560,100,000	3,064,483
The Government of China	-	1,622,695
The Government of France	-	136,829
The Government of Japan	-	247,217,263
JICA	958,126,687	483,010,280
JICS	385,943,674	698,788,410
IDA/ WB	249,954,726	64,602,665
GTZ	126,848,568	146,629,118
United Nations Development Programme(UNDP)	10,337,313	9,294,184
USAID	53,924,293	73,315,200
United Nations Children's Education Fund	817,812,722	114,512,513
Unicef/ UNFPA/ Red Cross	10,981,885	1,324,560,000
Unicef/ Norwegian Refugee Council & Others	-	2,888,750,000
KFW	2,627,341	251,166,911
USA	10,406,300	-
Merlin	19,166,001	-
Government of Italy	74,503,822	-
Government of Norway	24,555,961	-
America	61,557,514	-
IFDA	284,307	-
World Bank	35,148,959	-
FINNIDA	6,416,010	-
Multi Donors	3,596,330,000	-
Sub Total (d)	8,943,777,564	7,561,228,219
Grand Total - (a) + (b) + (c) + (d)	17,400,130,821	19,912,724,215
Less: Grants Received for Tsunami Related Expenses	-	-
Refunds relating to Prior years	(27,620,816)	(1,801,788)
	17,372,510,005	19,910,922,427

Notes to Financial Statements *Contd.***Note 12 - Domestic Non-Bank Borrowings**

	2007 Rs.	Actual 2006 Rs.
Net Borrowings through Treasury Bills	37,094,006,913	20,336,688,409
Treasury Bonds	302,037,137,766	268,895,366,833
Rupee Loans	23,295,543,635	23,065,850
Foreign Currency Banking Unit	6,235,487,000	21,359,641,500
Sri Lanka Development Bonds	23,591,744,400	60,149,154,500
CITI Bank	152,249,173	332,716,858
Sri Lanka Nation Building Bonds (9128)	233,507,609	260,464,463
	392,639,676,497	371,357,098,414

Note 13 - Domestic Debt Repayments

	2007 Rs.	Actual 2006 Rs.
Treasury Bonds	212,104,074,186	171,467,291,040
Rupee Loans	8,500,000,000	23,872,482,000
Sri Lanka Development Bonds	-	25,902,428,726
Local Loans in Foreign Currency	14,478,178,075	24,887,283,845
CITI Bank Loans	445,217,932	372,868,557
Others	1,045,563,994	340,500,000
	236,573,034,188	246,842,854,169

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.

	Rs.	Rs.
Total Borrowings	767,039,188,174	600,082,354,640
Less: Total Repayments	(729,945,181,261)	(579,745,666,231)
Net Amount of Repayment/ Borrowings	37,094,006,913	20,336,688,409

Note 14- Recoveries From On-Lending

	2007 Rs.	Actual 2006 Rs.
Foreign Funded Lending		
National Development Bank	1,330,645,378	1,477,981,911
Sri Lanka Ports Authority	3,108,997,483	2,887,099,581
Sri Lanka Telecom	678,123,820	713,455,496
Development Finance Corporation of Ceylon	1,441,573,235	1,142,202,812
Hatton National Bank	17,500,532	49,202,207
Lanka Electricity Company Ltd.	77,422,406	89,402,804
National Water Supply & Drainage Board	356,495,139	438,400,525
Sampath Bank	253,845,103	150,020,350
Commercial Bank	426,123,441	211,307,489
Seylan Bank	18,191,183	17,319,308
Development Banks	1,563,002	4,158,493
Ceylon Petroleum Corporation	647,368,644	647,368,644
National Development Trust Fund	16,032,023	16,032,023
Lanka Orix Leasing Company	3,783,257	3,783,257
Local Loan Development Fund	1,989,190	1,078,671
Revolving Funds of Central Bank with Regional Dev.Banks	1,436,335,537	3,261,868,693
Other Institutions	1,484,694,825	2,341,006,891
Sub Total (a)	11,300,684,198	13,451,689,155
Treasury Funded Lending		
AHF Loan Scheme	299,583,718	268,123,402
Provincial Council Loans	36,780,000	36,780,000
Other Loans	39,927,577	124,704,145
Sub Total (b)	376,291,295	429,607,547
Grand Total (a + b)	11,676,975,493	13,881,296,703

Notes to Financial Statements *Contd.*

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Note - 15 Loans To Public Officers

	2007 Rs.	Actual 2006 Rs.
Advances to Public Officers Transferred to Provincial Councils (7004)	200,595,030	200,709,920
Advances to Public Officers of the Central Government (8493)	20,487,768,302	18,528,009,319
	20,688,363,332	18,728,719,239

Note - 16 Advances to Government Departments

Treasury Authorised Advance Accounts (7000)	8,839,401,396	9,868,885,922
	8,839,401,396	9,868,885,922

Note - 17 Foreign Aid Counterpart Funds

Foreign Aid Counterpart Fund - Grants (8317)	-	1,398,743,332
Foreign Aid Counterpart Fund - Loan (8318)	-	299,824,617
Foreign Aid Counterpart Fund (8319)	-	167,520,817
General Services Mutual Fund for Import of Wheat (8321) & (8322)	-	859,672,713
	-	2,725,761,479

Note - 18 Membership Fees Paid

International Monetary Institutions Membership Fees Paid (8234) and (8339)	1,885,484,943	1,885,484,942
	1,885,484,943	1,885,484,942

310 Notes to Financial Statements *Contd.*

Note 19 - On-lending (9116)

S.No.	Name of the Institution	Balance as at 31.12.2006 Rs.	New Loan During 2007 Rs.	Amount Settled During 2007 Rs.	Balance as at 31.12.2007 Rs.
1	Sri Lanka Ports Authority Less/ Add : Parity Variance Balance	40,224,079,479 1,184,916,515 41,408,995,994	250,966,669 250,966,669	3,108,997,483 3,108,997,483	38,550,965,180 3,943,892,094 42,494,857,274
2	Ceylon Electricity Board Balance	32,522,957,395 32,522,957,395	18,562,830,053 18,562,830,053	- -	51,085,787,448 51,085,787,448
3	Development Finance Corporation of Ceylon Less/ Add : Parity Variance Balance	14,121,926,749 103,636,876 14,225,563,624	4,858,760,688 4,858,760,688	1,441,573,235 1,441,573,235	17,642,721,077 7,202,520 17,649,923,597
4	Private Sector Infrastructure Development. Co. Ltd. Less/ Add : Parity Variance Balance	1,473,947,664 81,193,135 1,555,140,799	266,359,275 266,359,275	- -	1,821,500,074 5,631,428 1,827,131,502
Indian Line of Credits					
5	Alliance Finance Co. Ltd.	12,560,911	-	4,186,972	8,373,939
6	Bank of Ceylon	173,234,839	-	55,123,838	118,111,001
7	Ceylease Financial Service Ltd.	8,780,861	-	8,019,462	761,399
8	Ceylinco Leasing Company Ltd.	8,604,841	-	3,824,376	4,780,465
9	Commercial Bank of Ceylon Ltd.	4,070,817	-	775,396	3,295,421
10	Commercial Leasing Corporation Ltd.	23,506,940	-	14,266,796	9,240,144
11	DFCC Bank Ltd.	3,664,221	-	3,595,830	68,391
12	Hatton National Bank Ltd.	44,933,078	-	17,500,532	27,432,546
13	Lanka Orix Leasing Co. Ltd.	1,118,531	-	745,692	372,839
14	National Development Bank Ltd.	7,160,378	-	3,580,184	3,580,194
15	People's Bank	875,041,181	-	351,490,268	523,550,913
16	Seylan Bank Sub Total	2,116,384 1,164,792,982	- -	1,410,920 464,520,266	705,464 700,272,716
17	National Development Bank Less: Direct Settlement to CBSL Balance	13,344,682,299 (521,492,101) 12,823,190,198	1,764,321,593 1,764,321,593	1,330,645,378 1,330,645,378	13,256,866,414 (682,377,162) 12,574,489,252
18	Sri Lanka Telecom	2,672,373,776	-	678,123,820	1,994,249,956
19	Lanka Electricity Company	635,837,103	(38,711,203)	77,422,406	519,703,494
20	Sampath Bank Ltd.	1,756,611,226	1,842,610,344	253,845,103	3,345,376,467
21	Hatton National Bank Ltd.	987,781,907	1,926,974,885	49,166,920	2,865,589,871
22	Commercial Bank	1,924,662,691	3,792,970,905	426,123,441	5,291,510,155
23	Seylan Bank	484,466,392	130,690,224	18,191,183	596,965,433
24	Ceylon Petroleum Corporation	6,529,799,070	-	647,368,644	5,882,430,425
25	National Development Trust Fund	844,223,607	226,322,822	16,032,023	1,054,514,406
26	Sarvodaya	1,376,514,540	155,169,960	79,218,570	1,452,465,929
27	Local Loan Development Fund	2,343,465,487	-	1,989,190	2,341,476,298
28	Lanka Orix Leasing Co. Ltd.	390,728,403	25,064,702	3,783,257	412,009,849
29	National Water Supplies & Drainage Board	14,640,502,988	2,261,499,782	356,495,139	16,545,507,631
30	Bank of Ceylon	120,703,939	884,964,543	-	1,005,668,482
31	Colombo Dockyard Add: Parity Variance Balance	152,990,100 31,537,296 184,527,396	- -	28,994,400 28,994,400	155,532,996 20,259,684 175,792,680
32	Nations Trust Bank (MILL)	36,898,952	-	9,224,738	27,674,214
33	Urban Development Authority	276,749,960	-	-	276,749,960
34	S.L. Land Reclamation and Dev.Board	645,836,424	-	153,959,116	491,877,308
35	Commercial Leasing Company Ltd.	1,937,968	-	387,594	1,550,374
36	Ceylinco Leasing Company Ltd.	146,496,772	-	-	146,496,772
37	Housing Development Finance Corporation	164,930,621	-	18,325,625	146,604,996
38	State Mortgage & Investment Bank.	153,784,262	-	35,006,379	118,777,883
39	Central Bank of Sri Lanka	382,348,188	400,000,000	98,815,188	683,533,000
40	Prajashakthi District Organization-Badulla	6,305,000	-	485,000	5,820,000
41	Sanasa Development Bank	12,056,479	-	-	12,056,479
42	Sanasa Development Bank	38,544,920	-	-	38,544,920
43	Uva Development Bank	2,011,502	(448,500)	1,563,002	-
44	Min. of Agricultural Dev. Agrarian Ser.	-	1,544,075,000	1,979,382	1,542,095,619
45	Alliance Finance Company Ltd.	-	10,788,870	-	10,788,870

Notes to Financial Statements *Contd.*

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S.No.	Name of the Institution	Balance as at 31.12.2006 Rs.	New Loan During 2007 Rs.	Amount Settled During 2007 Rs.	Balance as at 31.12.2007 Rs.
*46	Revolving Funds with Central Bank of Sri Lanka Add: Direct Receipt from NDB Balance	14,306,915,897 1,059,446,516 15,366,362,413	- 682,377,162 -	1,436,335,537 1,436,335,537	13,930,026,875 14,612,404,038
47	Wayamba Development Bank	28,748,117	18,244,618	-	46,992,735
48	HDFC / NHDA	488,195,040	-	50,013,023	438,182,017
49	Airport & Aviation Services (Sri Lanka) Ltd Add : Parity Variance Balance	3,135,964,453 128,211,200 3,264,175,653	10,920,931,236 - 10,920,931,236	512,099,159 - 512,099,159	13,673,007,730 1,203,827,926 14,876,835,657
	On Lending Based on Foreign Aids	159,608,221,789	49,804,386,466	11,300,684,201	203,292,707,707
50	Provincial Councils	129,120,000	-	36,780,000	92,340,000
51	Local Loan Development Fund	383,650,525	-	21,592,500	362,058,025
52	Sri Lanka Rubber Manufacture & Development Corporation	773,340,000	-	-	773,340,000
53	Sri Lanka Handicraft Development Board	12,258,000	-	1,362,000	10,896,000
54	SME Bank	50,000,000	-	12,500,000	37,500,000
55	Hotel Developers Lanka Ltd.	5,724,436,019	1,072,550,400	-	6,796,986,419
56	Other Local Loans	76,100,000	-	3,750,000	72,350,000
57	AHF Loan Scheme 2004/2005	3,595,552,185	-	299,583,718	3,295,968,466
58	Real Estate Exchange Pvt Ltd	250,000,000	-	-	250,000,000
59	Mity. of Petroleum & Pet.Resos. Dev.	926,500,000	-	-	926,500,000
60	Sri Lanka Agriculture Products Marketing Authority	1,999,025,150	-	-	1,999,025,150
61	Department of Treasury Operations	916,231,000	-	-	916,231,000
62	Ceylon Hotel Corporations	-	19,000,000	-	19,000,000
63	Ceylon Ceramic Corporations	-	9,400,000	723,077	8,676,923
	On Lending Based on Domestic Funds	14,836,212,879	1,100,950,400	376,291,295	15,560,871,984
	Total Parity Variance	2,067,449,436			5,180,813,652
	Total (Before Parity Variance)	172,376,985,232	50,905,336,866	11,676,975,496	213,672,766,039
	Total (After Parity Variance)	174,444,434,668	40,747,488,459	11,778,628,748	218,853,579,691

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Note - 20 Capital Contribution or Shareholdings in the Commercial Public Corporations/ State Owned Companies / Other Companies/ Plantation Companies/ Bus Companies/ Development Banks (8468 / 8548)

	Balance as at 01.01.2007 Rs.	Additions in 2007 Rs.	Ajustments */Reduction in 2007 Rs.	Balance as at 31.12.2007 Rs.
Note - 20.1 (a) Capital Contribution in Commercial Public Corporations	73,359,200,301	2,500,000,000	6,300,072,550	82,159,272,851
Note - 20.1 (b) Central Bank of Sri Lanka	15,000,000	-	-	15,000,000
Note - 20.2 Shareholdings in Government Owned or Other Companies	17,807,094,370	8,523,252,060	(12,000,000)	26,318,346,430
Note - 20.3 Shareholdings in Plantation Companies	986,982,850	-	-	986,982,850
Note - 20.4 Shareholdings in Bus Companies	3,944,890,550	-	(3,944,890,550)	-
Note - 20.5 Shareholdings in Companies in US Dollar denomination	206,683,789	6,677,756	-	213,361,545
Note - 20.6 Shareholdings in Development Banks	522,200,000	1,602,137,490	-	2,124,337,490
Total	96,842,051,860	12,632,067,306	2,343,182,000	111,817,301,166

Note - 20.1 (a) Commercial Public Corporations

		Balance as at 01.01.2007 Rs.	Additions in 2007 Rs.	Reduction in 2007 Rs.	Balance as at 31.12.2007 Rs.
S. No.	Name				
1	Bank of Ceylon	2,600,000,000	1,000,000,000	1,400,000,000	5,000,000,000
2	Central Engineering Consultancy Bureau	500,000	-	-	500,000
3	Ceylon Ceramics Corporation *	2,640,000	-	-	2,640,000
4	Ceylon Electricity Board	51,198,676,120	-	-	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	-	(44,818,000)	346,490,000
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	1,500,000,000	1,000,000,000	5,698,133,000
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 Transport Board	-	-	3,944,890,550	3,944,890,550
21	Sri Lanka Export Credit Insurance Corporation	30,000,000	-	-	30,000,000
22	Sri Lanka Handicraft Board	69,629,000	-	-	69,629,000
23	Sri Lanka Land Reclamation & Development Corporation	1,000,000	-	-	1,000,000
24	Sri Lanka Ports Authority *	7,535,916,027	-	-	7,535,916,027
25	Sri Lanka Rupavahini Corporation	537,743,000	-	-	537,743,000
26	State Development & Construction Corporation	16,671,650	-	-	16,671,650
27	State Engineering Corporation of Sri Lanka	70,000,000	-	-	70,000,000
28	State Mortgage & Investment Bank	889,813,000	-	-	889,813,000
29	State Pharmaceuticals Corporation of Sri Lanka	59,055,258	-	-	59,055,258
30	State Pharmaceuticals Manufacturing Corporation	690,079,000	-	-	690,079,000
31	State Printing Corporation	15,000,000	-	-	15,000,000
32	State Timber Corporation	41,503,668	-	-	41,503,668
33	Urban Development Authority *	1,257,651,060	-	-	1,257,651,060
Total (20.1)		73,359,200,301	2,500,000,000	6,300,072,550	82,159,272,851

Note - 20.1 (b) Central Bank of Sri Lanka

1	Central 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)

Note 20.1.1 * **571,622,685,000** **-Not Ready by 31.03.2008**

* (Only to satisfy the disclosure requirement)

Notes to Financial Statements *Contd.*

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20.2 Shareholdings in Government Owned or Other Companies

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment	Value of the Investment	Percentage of Share holdings by the Treasury
		As at 01.01.2007 Nos.	Addition Nos.	Deductions Nos.	As at 31.12.2007 Nos.		as at 31.12.2006 Rs.	as at 31.12.2007 Rs.	
1	Airport & Aviation Services (Sri Lanka) Ltd.	200,000			200,000	100	20,000,000	20,000,000	98.00%
2	BCC Lanka Limited	10,000,000			10,000,000	10	100,000,000	100,000,000	100.00%
3	Bogala Graphite Lanka Ltd	254,500			254,500	10	2,545,000	2,545,000	0.91%
4	Borwood Limited	200,000			200,000	10	2,000,000	2,000,000	
5	Building Materials Corporation	1,000,000			1,000,000	10	10,000,000	10,000,000	100.00%
6	Ceylon Agro Ltd	5,951,701			5,951,701	10	59,517,010	59,517,010	
7	Ceylon Fertilizer Co. Ltd	14,445,608			14,445,608	10	144,456,080	144,456,080	100.00%
8	Ceylon Hotel Corporation	1,200,000			1,200,000	10	12,000,000	12,000,000	100.00%
9	Ceylon Oxygen Ltd	8,453			8,453	10	84,530	84,530	-
10	Ceylon Shipping Corporation Ltd	5,000,000			5,000,000	10	50,000,000	50,000,000	100.00%
11	Ceylon Shipping Lines Ltd	156,493			156,493	10	1,564,930	1,564,930	39.00%
12	Ceylon Petroleum Storage Terminals Ltd	-	250,000,000		250,000,000	10	-	2,500,000,000	
13	Ceynor Foundation Ltd	4,000,000			4,000,000	10	40,000,000	40,000,000	100.00%
14	Colombo Commercial Company (Engineers) Ltd	2,960,000			2,960,000	10	29,600,000	29,600,000	-
15	Colombo Commercial Fertilizer Ltd	1,000,000			1,000,000	10	10,000,000	10,000,000	100.00%
16	Colombo Sack Makers Ltd	2,499,996			2,499,996	10	24,999,960	24,999,960	-
17	Commercial Bank of Ceylon Limited	5,546	4,066		9,612	10	55,460	96,120	0.00418%
18	Comsec Management Services	2,499,996			2,499,996	10	24,999,960	24,999,960	
19	Cultural Publication Company Ltd	600			600	100	60,000	60,000	
20	Distance Learning Center Ltd	2,600,000			2,600,000	10	26,000,000	26,000,000	99.90%
21	Laxapana Batteries Ltd								
22	- Elephant Lite Corporation Ltd (Preference)	1,000			1,000	10	10,000	10,000	
23	Galadari Hotels Lanka Ltd	301,200			301,200	10	3,012,000	3,012,000	-
24	Glaxo Welcome Ceylon Ltd	450			450	10	4,500	4,500	0.00%
25	Hotel Developers (Lanka) Ltd	29,388,463			29,388,463	10	293,884,630	293,884,630	64.98%
26	Hotel Services Ltd	2,263	-		2,263	10	22,630	22,630	0.0128%
27	Hunas Falls Limited	1			1	10	10	10	-
28	Independent Television Network Ltd	9,500,000			9,500,000	10	95,000,000	95,000,000	100.00%
29	International Dairy Products Ltd	1,200,000		1,200,000	-	10	12,000,000	-	-
30	Kahatagaha Grafite Lanka Limited	130,000			130,000	10	1,300,000	1,300,000	90.00%
31	Kalubowitiyana Tea Factory Ltd	4,637,500			4,637,500	10	46,375,000	46,375,000	99.90%
32	Kantale a Suger Industries Ltd	268,993			268,993	100	26,899,300	26,899,300	100.00%
33	Lafarge Mahaweli Cement (Pvt) Ltd	480,000			480,000	10	4,800,000	4,800,000	10.00%
34	Lanka Canneries Limited	40,002			40,002	100	4,000,200	4,000,200	9.17%
35	Lanka Cement Limited	22,246,000			22,246,000	10	222,460,000	222,460,000	13.00%
36	Lanka Electricity Company (Pvt) Ltd	49,880,000			49,880,000	10	498,800,000	498,800,000	43.56%
37	Lanka Fabrics Limited	210,000			210,000	10	2,100,000	2,100,000	93.30%
38	Lanka Hydraulic Institute Ltd	50,000			50,000	10	500,000	500,000	4.53%
39	Lanka Industrial Estates Ltd	7,800,000			7,800,000	10	78,000,000	78,000,000	48.84%
40	Lanka Layland Ltd	2,149,900			2,149,900	10	21,499,000	21,499,000	41.77%
41	Lanka Machine Leasers (Pvt) Ltd	588,884			588,884	100	58,888,400	58,888,400	
42	Lanka Mineral Sands Ltd	80,000,000			80,000,000	10	800,000,000	800,000,000	100.00%
43	Lanka Phosphate Limited	7,251,000			7,251,000	10	72,510,000	72,510,000	100.00%
44	Lanka STC General Trading Co. Ltd	10,000,000			10,000,000	10	100,000,000	100,000,000	100.00%
45	Lanka Synthetic Fiber Company	956,256			956,256	10	9,562,560	9,562,560	-
46	Lanka Textile Mills Emponium Ltd	700,000			700,000	10	7,000,000	7,000,000	-
47	Lanka Tractors Limited	5,250,000			5,250,000	10	52,500,000	52,500,000	30.00%
48	Mantai Salt Ltd	300,000			300,000	100	30,000,000	30,000,000	100.00%
49	Mattegoda Textile Mills Ltd	900,000			900,000	10	9,000,000	9,000,000	-
50	Mihin Lanka (Pvt) Ltd.	-	2,500,004		2,500,004	100	-	250,000,400	-
51	MILCO (Pvt) Ltd - Kiriya Milk Industries	30,649,999			30,649,999	10	306,499,990	306,499,990	99.99%
52	National Development Bank	177,300			177,300	10	1,773,000	1,773,000	0.32%
53	National Paper Company Ltd	32,300,000			32,300,000	10	323,000,000	323,000,000	100.00%
54	National Insurance Corporation Ltd	6,848			6,848	10	68,480	68,480	-
55	Orient Lanka Ltd	1,048			1,048	10	10,480	10,480	0.035%
56	Paranthan Chemicals Company Ltd	4,000,000			4,000,000	10	40,000,000	40,000,000	100.00%
57	Rajarata Food Grain Ltd	350,000	-		350,000	10	3,500,000	3,500,000	-
58	Puttalam Cement Company Ltd	97,071			97,071	10	970,710	970,710	-
59	Ruhunu Cement Co. Ltd	10,175,000			10,175,000	10	101,750,000	101,750,000	-
60	Shell Gas Lanka Limited	17,616,853			17,616,853	10	176,168,530	176,168,530	48.90%
61	Skills Development Fund Ltd	10,200,012			10,200,012	10	102,000,120	102,000,120	98.00%
62	SME Bank	149,999,992	-		149,999,992	10	1,499,999,920	1,499,999,920	-
63	Sri Lanka Export Credit Insurance Corporation	1,000,000			1,000,000	10	10,000,000	10,000,000	100.00%
64	Sri Lanka Rubber Manufacturing & Export Corporation Ltd	7,798,000			7,798,000	10	77,980,000	77,980,000	100.00%
65	Sri Lanka Telecom Limited	893,405,709			893,405,709	10	8,934,057,090	8,934,057,090	49.50%
66	Sri Lanka Telecom (Services)	1			1	10	10	10	-
67	Sri Lankan Airlines Ltd	26,275,436			26,275,436	100	2,627,543,600	2,627,543,600	51.05%
68	Statcon Rubber Company Ltd	74,830			74,830	10	748,300	748,300	9.00%
69	Tea Smallholder Factories Ltd	49,000,000			49,000,000	10	490,000,000	490,000,000	100.00%
70	The Selinsing Company Limited	615			615	10	6,150	6,150	1.00%
71	Thomas De La Rue Lanka Currency & Security Print (Pvt) Ltd	2,800,000			2,800,000	10	28,000,000	28,000,000	40.00%
72	United Motors Lanka Limited	13			13	10	130	130	-
73	Veyangoda Textile Ltd	7,500,000			7,500,000	10	75,000,000	75,000,000	-
74	Walkers & Greig Limited	2,850			2,850	2	5,700	5,700	-
75	West Coast Power (Pvt) Ltd (Ordinary)	-	18,132,470		18,132,470	100	-	1,813,247,000	55.73%
76	West Coast Power (Pvt) Ltd (Preference)	-	39,599,640		39,599,640	100	-	3,959,964,000	
Total		1,531,646,482	310,236,180	1,200,000	1,840,682,662		17,807,094,370	26,318,346,430	

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20.3 Shareholding in Plantation Companies

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2006 Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2007	Addition	Deductions	As at 31.12.2007				
		Nos.	Nos.	Nos.	Nos.				
1	Agaraptana Plantation Ltd	5,821,162			5,821,162	10	58,211,620	58,211,620	30.39%
2	Agalawatta Plantation Ltd	741			741	10	7,410	7,410	0.0029%
3	Bogawantalawa Plantation Ltd	14,443			14,443	10	144,430	144,430	0.028%
4	Balangoda Plantation Ltd	4,760			4,760	10	47,600	47,600	0.20%
5	Chilaw Plantation Ltd	20,000,000			20,000,000	10	200,000,000	200,000,000	100.00%
6	Elkaduwa Plantation Ltd	18,000,010			18,000,010	10	180,000,100	180,000,100	100.00%
7	Elpitiya Plantation Ltd	7,806,546			7,806,546	10	78,065,460	78,065,460	39.00%
8	Hapugastenne Plantation Ltd	1			1	10	10	10	19.00%
9	Horana Plantation Ltd	5,889			5,889	10	58,890	58,890	0.024%
10	Kahawatte Plantation Limited	1			1	10	10	10	0.000002%
11	Kegalle Plantation Ltd	4,387			4,387	10	43,870	43,870	-
12	Kelani Valley Plantation Ltd	1			1	10	10	10	-
13	Kotagala Plantation Ltd	3,800,557			3,800,557	10	38,005,570	38,005,570	11.88%
14	Kurunegala Plantation Ltd	20,000,001			20,000,001	10	200,000,010	200,000,010	100.00%
15	Madulsima Plantation Ltd	3,805,652			3,805,652	10	38,056,520	38,056,520	13.12%
16	Malwatta Plantation Ltd.	1			1	10	10	10	-
17	Maskeliya Plantation Ltd.	9,007			9,007	10	90,070	90,070	-
18	Maturata Plantation Ltd.	7,806,020			7,806,020	10	78,060,200	78,060,200	39.00%
19	Namunukula Plantation Ltd.	3,801,598			3,801,598	10	38,015,980	38,015,980	16.00%
20	Pussellawa Plantation Ltd.	7,817,123			7,817,123	10	78,171,230	78,171,230	32.70%
21	Talawakelle Plantations Limited	368			368	10	3,680	3,680	0.0015%
22	Udapussellawa Plantation Ltd	1			1	10	10	10	19.00%
23	Watawala Plantation Ltd.	16			16	10	160	160	-
	Total	98,698,285	-	-	98,698,285		986,982,850	986,982,850	

20.4 Shareholding in Bus Companies

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2006 Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2007	Addition	Deductions	As at 31.12.2007				
		Nos.	Nos.	Nos.	Nos.				
1	Colombo Metropolitan Bus Company	47,000,000		47,000,000	-	10	470,000,000	-	90.00%
2	Gampaha Bus Company	40,050,000		40,050,000	-	10	400,500,000	-	89.00%
3	Kalutara Bus Company Ltd	22,350,000		22,350,000	-	10	223,500,000	-	90.00%
4	Mahanuwara Bus Company Ltd	19,950,000		19,950,000	-	10	199,500,000	-	90.90%
5	New Eastern Bus Company Ltd	38,156,987		38,156,987	-	10	381,569,870	-	95.40%
6	Nuwaraeliya Bus Company Ltd	27,393,695		27,393,695	-	10	273,936,950	-	91.30%
7	Rajarata Bus Company Limited	33,200,000		33,200,000	-	10	332,000,000	-	94.86%
8	Ruhunu Bus Company Limited	40,550,000		40,550,000	-	10	405,500,000	-	40.00%
9	Uva Bus Company Ltd	30,938,373		30,938,373	-	10	309,383,730	-	95.00%
10	Wayamba Bus Company Ltd	49,550,000		49,550,000	-	10	495,500,000	-	90.00%
11	Sabaragamu Bus Company Ltd	45,350,000		45,350,000	-	10	453,500,000	-	-
	Total	394,489,055	-	394,489,055	-		3,944,890,550	-	

20.5 Shareholdings in Companies in US Dollar denomination

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2006 Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2007	Addition	Deductions	As at 31.12.2007				
		Nos.	Nos.	Nos.	Nos.				
1	Asian Reinsurance Corporation	900	54		954	US\$ 1000	96,935,040	103,117,860	-
2	Ceylon Shipping Agency	24,500			24,500	1 (Singapore)	1,720,032	1,829,415	99.00%
3	International Finance Corporation	1,003			1,003	US\$ 1000	108,028,717	108,414,270	-
	Total	26,403	54	-	26,457		206,683,789	213,361,545	

Exchange Rate as at 31.12.2006/ 29.12.2007

Currency	31.12.2006	Rate	29.12.2007
US Dollar			108.09
Singapore Dollar	107.71		74.67

20.6 Shareholdings in Development Banks

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2006 Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2007	Addition	Deductions	As at 31.12.2007				
		Nos.	Nos.	Nos.	Nos.				
1	Kandurata Development Bank	10,200,000	1,200,000		11,400,000	10	102,000,000	114,000,000	68.00%
2	Rajarata Development Bank	5,200,000	4,093,809		9,293,809	10	52,000,000	92,938,090	52.00%
3	Ruhunu Development Bank	10,200,000	1,200,000		11,400,000	10	102,000,000	114,000,000	68.00%
4	Sabaragamuwa Development Bank	10,200,000	1,200,000		11,400,000	10	102,000,000	114,000,000	68.00%
5	Uva Development Bank	5,200,000	1,200,000		6,400,000	10	52,000,000	64,000,000	52.00%
6	Wayamba Development Bank	11,220,000	1,320,000		12,540,000	10	112,200,000	125,400,000	60.00%
7	Lankaputhra Development Bank	-	14,999,994		14,999,994	100	-	1,499,999,400	-
	Total	52,220,000	10,213,809	-	62,433,809		522,200,000	2,124,337,490	

S. No.	Summary Company Name	Numbers of Shares	31.12.2007	Nominal Value of Shares (Rs.)
1	General		1,840,682,662	26,318,346,430
2	Plantation		98,698,285	986,982,850
3	Bus			
4	Shares in Dollar Value		26,457	213,361,545
5	Development Banks		62,433,809	2,124,337,490
	Number of Shares		1,939,407,404	29,643,028,315

Notes to Financial Statements *Contd.*

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Note - 20.1.1 (a) Equity (Net worth) of the Commercial Public Corporations

S. No.	Name	As at 01.01.2007 Rs.	As at 01.01.2006 Rs.
1	Bank of Ceylon	17,890,000,000	16,182,522,000
2	Central Engineering Consultancy Bureau	348,290,000	345,480,369
3	Ceylon Ceramics Corporation	(141,943,000)	(114,287,000)
4	Ceylon Electricity Board	210,752,000,000	178,233,978,000
5	Ceylon Fisheries Corporation	213,527,000	310,272,431
6	Ceylon Petroleum Corporation	10,918,000,000	12,673,455,000
7	Development Lotteries Board	547,541,000	608,613,715
8	Housing Development Finance Corporation Bank	1,800,480,000	1,642,877,246
9	National Films Corporation of Sri Lanka	260,580,000	236,260,883
10	National Institute of Business Management	451,267,000	-
11	National Livestock Development Board	485,628,000	514,115,338
12	National Lotteries Board	2,312,886,000	2,308,407,981
13	National Savings Bank	13,152,488,000	12,520,822,000
14	National Water Supply & Drainage Board	84,327,499,000	71,963,528,254
15	People's Bank	10,456,409,000	4,181,404,000
16	Sri Lanka Ayurvedic Drugs Corporation	135,466,000	135,492,876
17	Sri Lanka Broadcasting Corporation	345,367,000	387,513,866
18	Sri Lanka Cashew Corporation	134,774,000	390,036,928
19	Sri Lanka Cement Corporation	1,437,311,000	1,526,505,000
20	Sri Lanka Export Credit Insurance Corporation	800,359,000	691,732,370
21	Sri Lanka Handicraft Board	220,112,000	90,131,997
22	Sri Lanka Land Reclamation & Development Corporation	1,056,285,000	935,870,000
23	Sri Lanka Ports Authority	98,837,829,000	12,164,550,238
24	Sri Lanka Rupavahini Corporation	1,830,900,000	1,791,895,000
25	State Development & Construction Corporation	946,526,000	850,470,064
26	State Engineering Corporation of Sri Lanka	58,419,000	(114,787,721)
27	State Mortgage & Investment Bank	3,078,125,000	2,396,491,000
28	State Pharmaceuticals Corporation of Sri Lanka	1,744,855,000	1,591,225,095
29	State Pharmaceuticals Manufacturing Corporation	1,034,242,000	1,026,005,369
30	State Printing Corporation	113,205,000	123,354,938
31	State Timber Corporation	1,725,996,000	1,654,640,768
32	Urban Development Authority	998,757,000	4,123,161,079
Total Equity (Net worth)		468,273,180,000	331,371,739,084

(Only to satisfy disclosure requirement)

Note - 20.1.1 (b) Equity (Net worth) of the Central Bank

S. No.	Name	As at 01.01.2007 Rs.	As at 01.01.2006 Rs.
1	Central Bank of Sri Lanka	103,349,505,000	77,135,633,000
	Total (b) Equity (Net worth)	103,349,505,000	77,135,633,000
	Total (a + b) Equity (Net worth)	571,622,685,000	408,507,372,084

(Only to satisfy disclosure requirement)

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Note - 21 Advances From Central Bank Sri Lanka

	2007 Rs.	Actual 2006 Rs.
Advance From CBSL - Monetary Law Act (8176)	60,679,200,000	49,015,400,000
	60,679,200,000	49,015,400,000

Note - 22 Foreign Loan Revolving Funds

Reimbursable Foreign Aid Revolving Fund (8760)	1,921,718,545	1,598,950,016
Central Bank Special Nordic Revolving Fund (9111)	101,053,561	100,839,548
IDA Revolving Fund (8814)	5,043,358,646	1,358,423,454
CBSL Special Dollar Account (International Fund for Agr. Dev.Revolving Fund) (8974)	387,181,676	359,954,922
IBRD Revolving Fund Account (8982)	1,570,884,206	1,570,884,206
ADB Special Dollar Revolving Fund Account (8919)	2,246,506,740	2,779,351,649
CBSL Revolving Fund Account (Yen) - (9095)	377,062,246	506,801,602
CBSL Special Deutsche Mark Revolving Fund Account (9102)	467,564,816	492,926,540
UNDP Revolving Fund Account (9124)	102,913,182	102,913,182
Special Rupee Revolving Fund Account - Netherlands & Sri Lanka Cultural Assistance Programme (9131)	-	45,500,333
Special Foreign Currency Revolving Fund Account (Euro Italy) (9121)	27,652,200	(7,178,600)
Special Foreign Currency Revolving Fund Account (9126)	303,468,890	208,367,559
Special Rupee Revolving Fund Account (9122)	498,950,000	-
	13,048,314,707	9,117,734,410

Note - 23 Miscellaneous Funds

Public Service Provident Fund Account (8098)	2,012,010,870	1,579,279,634
Teachers' Widows & Orphans Pension Fund (8186)	177,158,979	152,193,391
Technical Development Fund (IDB) (8365)	99,887,858	99,887,858
	2,289,057,707	1,831,360,882

Note - 24 Government Borrowings

	2007 Face Value	2007 Rs.	2006 Rs.
Treasury Bills (8085)	307,012,000,000	278,043,127,471	240,949,120,557
Treasury Bonds (9093)	1,068,499,000,000	905,370,152,939	815,437,089,359
Sub Total	1,375,511,000,000	1,183,413,280,410	1,056,386,209,916

Rupee Loans (8249)	131,508,584,797	116,713,041,162
Sri Lanka Development Bonds (9105)	83,550,801,375	59,959,056,975
Local Loans In Foreign Currency (9107)	47,750,860,549	55,993,551,625
CITI Bank loan (9112)	1,335,653,797	1,628,622,556
Sri Lanka Nations Building Bonds (9128)	493,972,071	260,464,463
Total Borrowings - Domestic	1,448,053,152,999	1,290,940,946,696

Foreign Loans (8343) - (Adverse Parity Variance recognised in 2007 was Rs. 71,249,067,048)	1,319,447,226,116	1,139,929,966,739
	2,767,500,379,115	2,430,870,913,435

Note - 25 Deposits & other Liabilities

Treasury General Deposit Account (6000)	60,037,623,993	61,413,196,472
Treasury Deposit Account for District Secretaries (6003)	3,459,691,026	2,755,982,493
Public Service Mutual Guarantee Association (8013)	9,227,830	8,152,310
Director General Of Customs - Cess Recovery Account (8105)	300,000,000	3,395,241,256
Treasury Certificate of Deposits (8976)	-	34,566,018
	63,806,542,849	67,607,138,550

Notes to Financial Statements *Contd.*

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Note - 26 Operating Accounts With Government Departments [Dr./ (Cr.)]

	2007 Rs.	2006 Rs.
General Manager - Railway Department (8003)	330,242,088	93,652,797
Director General - Dept. of Customs (8005)	(64,901,023)	11,482,539
Post Master General - Department Of Posts (8037)	(6,601,148)	(5,216,269)
Treasury Operations Department (8233) and (8583)	(3,529,906,299)	(3,689,734,885)
Treasury Operations Department (9092)	(48,037,818)	(79,119,869)
State Accounts Department (8584)	(206,428)	(221,366)
Provincial Councils (8657)	729,289	464,987
Collection Of GST (9098)	38,940,420	38,940,420
GST Refund Account (9099)	(986,855)	(986,855)
Non Operating Accounts (9100)	20,712,460	20,712,460
Chief Accountant - Kerala (Foreign Pension) (8190)	-	-
	(3,260,015,313)	(3,610,026,041)

Note - 27 Sundry Accounts [Dr./ (Cr.)]

Cheque Returned Account (8315)	1,233,070	1,233,070
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)	(22,021,293)	(25,050,828)
Foreign Aid Expenditure Account (8301)	581,997,069	3,877,938,064
Foreign Aid Grant Account (8314)	(49,819,220)	(49,819,260)
Investment Account for National Housing Bonds (8859)	1,284,200	1,284,200
	512,673,826	3,805,585,246

Note - 28 Statement of Change in Equity**Opening Balance of the Consolidated Fund as at 1st January**

Prior years' Adjustments	(113,034,062,956)	(43,242,407,561)
	(4,102,380,780)	(2,866,038,155)

Add Receipts to the Consolidated Fund

Total Cash Provided from Operations	571,564,544,216	477,382,179,094
Total Cash Provided from Investing Activities	12,222,502,188	14,454,879,574
Total Cash Provided from Financing Activities	586,846,583,684	514,018,320,607
Total Cash Receipts (a)	1,170,633,630,088	1,005,855,379,275

Less Total Payments of the Consolidated Fund

Total Cash Disbursement to Operations	(614,762,461,350)	(579,238,016,466)
Total Cash Disbursement to Investing Activities	(271,190,996,676)	(197,849,604,176)
Total Cash Disbursement to Repayment of Debt	(307,713,413,413)	(295,693,375,873)

Total Cash Payments (b)	(1,193,666,871,439)	(1,072,780,996,515)
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Net Cash Receipts (a) - (b)

(23,033,241,351)	(66,925,617,240)
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Closing Balance of the Consolidated Fund as at 31st December (Dr.)

(140,169,685,087)	(113,034,062,956)
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Note - 29 Total Investment in Physical Assets and Accumulated Net Revenue Deficit

Accumulated Revenue Deficit (2005-2007)	204,212,731,443	161,014,814,309
Total Accumulated Value of Physical Assets at cost, with Accumulated		
Net Revenue Deficit Prior to 2004	2,233,631,738,783	1,999,585,354,333
	2,437,844,470,226	2,160,600,168,642

318 Notes to Financial Statements *Contd.*

Explanatory Note on Note- 29

Accumulated Total Investment and Accumulated Revenue Deficit

There are difficulties for making a presentation of the composition of the figure in the Statement of Financial Position by giving the accumulated revenue deficit prior to 2004 separately as that figure could not be ascertained for this newly designed formats, introduced in 2006 in respect of 2005 as relevant information had not been compiled.

Total investments in physical assets includes the accumulated value of property, plant and equipment held by Ministries, Departments and Statutory Boards, at cost.

Among other physical assets held in the form of property, plant and equipment, major items included are the accumulated value of physical assets of the infrastructure facilities provided by the State over the years in Transport, Irrigation, Health, Education etc., at cost.

Therefore, there are difficulties associated in presenting the detailed itemized composition of such assets held by or prevailed under the supervision of the relevant Ministries, Departments and other Institutions as a detailed system of documentation and information had not been maintained to itemize the total value of the such assets, in the Cash Based Accounting System adopted.

Total accumulated depreciation on those assets is also not calculated in the Cash Based Accounting System.

However, for the fulfillment of requirements on the accountability on those physical assets in property, plant and equipment held by Ministries and Departments, specially in respect of movable physical assets, Annual Verification Procedure is followed for reporting the position to the Auditor General in terms of provisions in Section 3 of Chapter XIII of Government Financial Regulations, for securitization.

Notes to Financial Statements *Contd.*

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Note 30 -Statement of Contingent Liabilities**(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2007**

S. NO:	NAME OF INSTITUTION	NAME OF BANK OR INSTITUTION	GUARANTEE		DATE OF EXPIRY	CAPITAL
			AMOUNT (Rs. Million)	DATE OF ISSUE		OUTSTANDING (Rs. in Million)
1	Merchant Bank of Sri Lanka	Employee's Trust Fund Board	430.00	2003.05.30	2008.01.10	430.00
2	Lakdanavi Ltd.	Employee's Trust Fund Board	1,333.08	2007.03.07	2022.03.31	1,333.08
3	Ceylon Petroleum Corporation	National Development Bank	998.80	1997.02.28	2008.02.28	23.80
4	Merchant Bank of Sri Lanka	National Savings Bank	400.00	2002.12.27	2209.12.05	400.00
5	Merchant Bank of Sri Lanka	National Savings Bank	70.00	2004.03.17	2008.12.10	20.00
6	Urban Development Authority	National Savings Bank	500.00	1999.08.17	2010.07.01	137.50
7	Lakdanavi Ltd.	National Savings Bank	1,333.08	2007.02.22	2022.03.31	1,333.08
8	Cooperative Whole Sale Establishment	People's Bank	407.10	2005.02.02	2008.07.31	369.30
	Sub Total		5,472.06			4,046.76
9	Ceylon Electricity Board	People's Bank	3,000.00	2004.03.03		2,122.93
10	Pugoda Textile Mills Ltd.	People's Bank	620.00	2005.12.31		269.27
11	S/L Consumer Co-operative Societies	People's Bank	50.00	2006.07.31	2007.01.31	50.00
12	Ceylon Petroleum Corporation Credit Scheme	People's Bank	17,500.00	1995.04.26	2001.12.31	7,692.23
13	Grayline International Pvt. Ltd.	People's Bank	351.00	1994.08.11	1996.08.08	351.00
14	S/L Consumer Co-operative Societies Federation Ltd.	People's Bank	110.25	2007.12.03	2008.02.29	110.25
15	S/L Co-operative Marketing Federation Ltd.	People's Bank	110.25	2007.12.06	2008.02.29	110.25
16	S/L Co-operative Marketing Federation Ltd.	People's Bank	297.68	2007.12.06	2008.02.29	297.68
17	Overseas Reality Ceylon Pvt.Ltd.	SR & CC & Terrorism Fund	500.00	2002.02.14	2007.12.31	500.00
18	Galadari Hotel Lanka Ltd	SR & CC & Terrorism Fund	350.00	2002.02.14	2007.12.31	350.00
19	Hospitality International Pvt. Ltd.	SR & CC & Terrorism Fund	20.00	2000.02.14	2007.12.31	5.34
20	Galadari Hotel Lanka Ltd	SR & CC & Terrorism Fund	50.00	2000.02.14	2007.12.31	45.83
21	Hotel Developer's Lanka Ltd	SR & CC & Terrorism Fund	350.00	2000.02.14	2007.12.31	183.75
	Sub Total		23,309.18			12,088.53
22	Ceylon Petroleum Corporation	Bank of Ceylon	22,050.00	2007.03.28	2007.12.31	22,050.00
23	Mihin Lanka (Pvt) Ltd.	Bank of Ceylon	250.00	2007.04.16	2008.04.16	250.00
24	Ipolagama Housing Project	Bank of Ceylon	2,268.00	2007.07.27	2009.07.27	2,268.00
25	West Coast Power (Pvt) Ltd.	Hongkong & Shanghai Banking Co.	11,060.00	2007.06.28	2022.06.28	8,895.40
	Sub Total		35,628.00			33,463.40
	GRAND TOTAL		64,409.24			49,598.69

Notes to Financial Statements *Contd.***(B) STATEMENT OF LETTERS OF COMFORT ISSUED TO LOCAL BANKS AND THE LIABILITY AS AT 31.12.2007**

S. No.	Name of Institution	Name of Bank	Currency	Total Value of Letters of Comfort Issued	Date of Issue	Liability as at 31.12.2007 (Rs. in Million)
1	Sri Lanka Air Force	People's Bank	USD	19,205,502	21.12.2004	1,726.52
2	Sri Lanka Air Force	People's Bank	USD	10,333,776	08.07.2005	664.57
3	Sri Lanka Air Force	People's Bank	USD	5,151,191	11.07.2005	346.16
4	Sri Lanka Air Force	Bank of Ceylon	USD	37,692,512	15.05.2000	750.15
5	Sri Lanka Air Force	People's Bank	USD	13,976,000	17.08.2006	1,509.41
6	Sri Lanka Air Force	People's Bank	USD	1,175,000	28.12.2006	126.90
7	Sri Lanka Air Force	People's Bank	USD	2,103,954	17.09.2007	227.23
8	Sri Lanka Air Force	People's Bank	USD	46,857,694	19.09.2007	5,060.63
9	Sri Lanka Navy	Bank of Ceylon	USD	29,500,000	10.05.2005	398.25
10	Sri Lanka Navy	Bank of Ceylon	USD	3,714,657	21.12.2005	156.87
11	Sri Lanka Navy	Bank of Ceylon	USD	2,812,160	20.04.2007	312.12
12	Sri Lanka Navy	Bank of Ceylon	USD	3,775,000	28.05.2007	407.70
13	Sri Lanka Navy	Bank of Ceylon	Euro	3,617,805	06.06.2007	600.56
14	Sri Lanka Navy	Bank of Ceylon	USD	719,502	06.06.2007	77.71
15	Sri Lanka Navy	Bank of Ceylon	USD	4,843,581	14.06.2007	523.11
16	Sri Lanka Navy	Bank of Ceylon	USD	2,437,500	30.11.2007	263.25
17	Sri Lanka Army	Bank of Ceylon	USD	34,814,000	20.04.2007	3,964.04
18	Sri Lanka Army	Bank of Ceylon	USD	41,835,976	20.06.2007	4,681.80
19	Sri Lanka Army	Bank of Ceylon	USD	45,042,062	31.07.2007	4,421.25
Total			Euro	3,617,805		
			USD	305,990,066		26,218.23

(C) CONTINGENCIES

An arbitration proceeding was initiated by Prima Ceylon Ltd (PCL) under United Nations Commissions on International Trade Law (UNCITRAL) claiming Rs. 5.8 Bn. on account of Subsidy, Dumping etc. Hearings were held in Singapore and agreement was reached to pay the undisputed amount of Rs. 2,800 Mn. by the GOSL to PCL.

Additional Disclosures - Values extracted from the Note (01) to Annual Appropriation Accounts.

Non-current Assets Acquired since 01.01.2004

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2101-Vehicles Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Balance
H.E the President												
Office of the Prime Minister	335		335	18,500	1,663	30,910	1,290,899		1,321,809	99,436	1,421,245	
Judges of the Supreme Court									56,615		56,615	
Office of the Cabinet of Ministers												
Parliament	6,800		6,800	20,935		27,735	3,490		8,254		27,735	
Auditor General												
Office of the Leader of the House of Parliament	78		78			2,151			2,151	39,255	6,076	
Office of the Chief Government whip of Parliament				7,150		7,150	263		7,413	5,500	12,913	
Office of the Leader of the Opposition of Parliament	80		80	7,432		7,512			7,512		7,512	
Department of Elections										19,783	19,783	
Judicial Service Commission				100		100			100	8,498	8,598	
Public Service Commission							8,990		8,990		8,990	
Office of the Parliamentary Commissioner for Administration												
Office of the Finance Commission				4,850		4,850			4,850		4,850	
Office of the Former President (Hon D.B.Wijethunge)										12,000	12,000	
Commission to Investigate Allegations of Bribery or Corruption												
National Education Commission										5,890	5,890	
The Constitutional Council												
National Police Commission							249		249	5,311	5,560	
Administration Appeals Tribunal												
Office of the Former Prime Minister (Hon. R.Wickramasinghe)												
Office of the Former Prime Minister (Hon. C.B. Kumaratunga)												
Ministry of Religious Affairs							5,500		5,500	19,045	24,545	
Ministry of Policy Development & Implementation												
Ministry of Power & Energy	1,682		1,682	15,045		16,727			16,727		16,727	
Ministry of Transport Highways and Aviation												
Ministry of Transport												
Ministry of Railway & Transport							4,500		4,500	15,713	20,213	
Ministry of Petroleum & Petroleum Resources Development							10,553		10,553	12,750	23,303	
Ministry of Highways										36,420	36,420	
Ministry of State Transport												
Ministry of Finance & Planning	4,100		4,100	38,151		42,251	11,966		54,217	59,598	113,815	
Ministry of Defence Public Security Law & Order	495		495	5,336		5,831	47,905	150	53,586	401,212	454,798	
Ministry of Plan Implementation							48,815		48,815	11,500	60,315	
Ministry of Reconstruction & Development							22,500		22,500		22,500	
Ministry of Disaster Management & Human Rights							18,595		18,595	1,577	20,172	
Ministry of Agriculture & Livestock Lands & Irrigation												
Ministry of Industry & Investment Promotion	15,047		15,047			15,047			15,047		15,047	
Ministry of Enterprise Development & Investment Promotion				5,600		5,600						
Ministry of Small & Medium Enterprise Development										25,700	25,700	
Ministry of Industries												
Ministry of Constitutional Affairs & National Integration	2,667		2,667	2,667			2,667			2,667		
Ministry of Foreign Affairs				9,000		9,000			9,000	33,434	42,434	
Ministry of Assisting Foreign Affairs				25,986		25,986	125,205		151,191	124,455	275,646	
Ministry of Nation Building & Estate Infrastructure Development												
										47,035	47,035	

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Non-current Assets Acquired since 01.01.2004 *Contd.*

2101-Vehicles Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	
												Rs '000'
Ministry of Internal Administration												
Ministry of Ports & Aviation							9,446	9,446			9,446	
Ministry of Infrastructure Development in the Eastern Province												
Ministry of Urban Development & Water Supply											24,333	24,333
Ministry of Housing & Construction Industry & Eastern Province						126,054			126,054		126,054	
Ministry of Housing & Construction											18,990	18,990
Ministry of Eastern Housing, Infrastructure & Community Development												
Ministry of Women's Empowerment & Social Welfare						48,152			48,152		48,152	
Ministry of Child Development & Women's Empowerment						3,475			3,475		3,475	
Ministry of Mahaweli & River Basin Development & Rajarata Development							12,850		12,850		9,850	22,700
Ministry of Eastern Development & Muslim Religious Affairs						9,998			9,998		9,998	
Ministry of Housing & Plantation Infrastructure	3,275		3,275			3,275			3,275		3,275	
Ministry of Housing Development												
Ministry of Community Development & Social Inequity Eradication											13,950	13,950
Ministry of Urban Public Utilities												
Ministry of Fisheries & Aquatic Resources	2,625		2,625			2,625	8,151		10,776		88,318	99,094
Ministry of Women's Affairs												
Ministry of Justice & Law Reforms	16,717		16,717			16,717	16,748		33,465		1,198	34,663
Ministry of Irrigation & Water Management												
Ministry of Water Management												
Ministry of Irrigation	4,758		4,758			4,758			4,758		7,500	12,258
Ministry of Environmental & Natural Resources	6,550		6,550			24,226	7,500		31,726		30,085	61,811
Ministry of Home Affairs Provincial Councils & Local Government						3,107	3,107		3,107			
Ministry of Local Government & Provincial Councils							8,131		8,131		140,773	148,904
Ministry of Health Care & Nutrition											338,957	338,957
Ministry of Social Service & Social Welfare							28,149		28,149		4,891	33,040
Ministry of Indigenous Medicine						9,242	10,975		20,217		15,000	35,217
Ministry of Interior	226		226			226			226			226
Ministry of Public Security Law & Order						4,321	4,321		4,321		4,321	
Ministry of Plantation Industries							35,579		35,579		79,572	115,151
Ministry of Regional Development						706			706		7,900	8,606
Ministry of Infrastructure Development & Fisheries Housing												
Ministry of Coconut Development							12,975		12,975		4,750	17,725
Ministry of Estate Infrastructure & Livestock Development							3,390		3,390			3,390
Ministry of Post & Telecommunications						5,800	14,025		19,825		32,919	52,744
Ministry of Small & Rural Industries						4,753	3,099		7,852			7,852
Ministry of Small Holder Development												
Ministry of Tourism	1,545		1,545			5,300	2,350		14,451		40,597	55,048
Ministry of Southern Region Development												
Ministry of Western Region Development												
Ministry of Central Region Development												
Ministry of Rural Economic Development							18,368		18,368			18,368
Ministry of Co-operatives & Co-operative Development							3,471		3,471			3,471
Ministry of Samurudhi & Poverty Alleviation												
Ministry of Human Resource Development, Education & Cultural Affairs												
Ministry of Tertiary Education & Training	241		241				241				241	
Ministry of Education	4,386		4,386			89,728	16,540		110,654		66,943	177,597
Ministry of Cultural Affairs & National Heritage						20,795	12,824		33,619		25,416	59,035

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2101-Vehicles Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	
Ministry of New Railroad Development	10,900	10,900
Ministry of Vocational & Technical Training	31,700	39,190
Ministry of Rural Industries & Self Employment Promotion	62,818	62,818
Ministry of Livestock & Infrastructure Development	42,770	42,770
Ministry of Youth Empowerment & Socio Economic Development	51	51
Ministry of Skills Development & Public Enterprise Reforms	17,590	17,590
Ministry of Labour Relations & Foreign Employment	30,410	16,680
Ministry of Foreign Employment Promotion	14,515	14,515
Ministry of Public Administration & Media
Ministry of Public Administration Management & Reforms	7,923	.....	7,923	561,832	.....	561,832	.....	.....	.....	.....	7,923	7,923
Ministry of Public Administration & Home Affairs	3,206	3,206
Ministry of Home Affairs	458,426	458,426
Ministry of Mass Media & Information	13,707	38,955
Ministry of Christian & Parliamentary Affairs	52,662
Ministry of Parliamentary Affairs	13,425	13,425	.....	.....	.....	.....	.....	.....	.....	.....	17,502	30,927
Ministry of North West Region Development
Ministry of Sports & Youth Affairs	14,902	12,340
Ministry of Relief, Rehabilitation & Reconciliation	24,675	.....	24,675	1,912	.....	1,912	12,990	.....	.....	.....	146,769	146,769
Ministry of Re-Settlement	11,118	22,725
Ministry of Disaster Relief Services	5,520	5,520
Ministry of Agriculture Marketing Development & Co-operative Development	3,227	3,227
Ministry of Agriculture Development	3,844	3,844
Ministry of Industrial Development	12,871	29,700
Ministry of Road Development	5,432	5,432
Ministry of Agriculture Irrigation & Mahaweli Development	9,700	5,922
Ministry of Assisting Vanni Rehabilitation	68,922	74,844
Ministry of Hindu Religious Affairs
Ministry of Medium & Small Scale Plantation Industries & Rural Development
Ministry of Promotion of Botanical & Zoological Gardens	16,592	3,492
Ministry of Lands	20,084
Ministry of Trade Commerce Consumer Affairs & Marketing Development
Ministry of Agrarian Services & Development of Farmer Communities	13,940	12,940
Ministry of Science & Technology	12,900	13,810
Ministry of Textile Industrial Development	5,500	29,227
Ministry of Rural Livelihood Development	7,487	7,487
Ministry of State Bank Development
Ministry of Nation Heritage
Ministry of Water Supply & Drainage
Ministry of Export Development & International Trade	20,425	20,425
Ministry of Public Estate Management & Development
Ministry of Construction & Engineering Services
Ministry of Special Projects	13,800	13,800
Ministry of Higher Education
Ministry of Supplementary Plantation Crops Development	14,795	14,795
Department of Buddhist Affairs
Department of Cultural Affairs
Department of Muslim Religious & Cultural Affairs	2,864	2,864
Department of Christian Religious Affairs

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Non-current Assets Acquired since 01.01.2004 *Contd.*

2101-Vehicles Name of Institution	2004				2005				2006				2007			
	Rs 000'															
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions
Department of Hindu Religious & Cultural Affairs																
Department of Archaeology	5,573		5,573			5,573	4,200		9,773			765	10,538			
Department of National Museums				3,475		3,475			3,475				3,475			
Department of National Archives	2,275		2,275			2,275			2,275				2,275			
Department of Information							79		79			9,300	9,379			
Department of Government Printer												20,518	20,518			
Department of Examinations												8,061	8,061			
Department of Ayurveda				2,875		2,875	789		789			5,931	8,806			
Department of Educational Publications												5,795	6,584			
Department of Technical Education & Training							75,205		75,205			16,193	91,398			
Universities & University Grants Commission																
Department of Social Services																
Department of Probation & Child Care Services												3,876	3,876			
Department of Commissioner General of Samurdhi																
Department of Sports Development																
Department of Labour							48		48							
Sri Lanka Army				409,651		409,651	563,473		973,124			841,195	1,814,319			
Sri Lanka Navy	38,152		38,152			38,152	214,800	1,100	251,852			240,000	491,852			
Sri Lanka Air Force				215,579	13,639	201,940	199,655		401,595			187,292	588,887			
Department of Police							479,644		479,644			441,135	920,779			
Department of Immigration & Emigration												10,410	10,410			
Department of Registration of Persons	123		123			123	12,100		12,223			1,935	14,158			
Courts Administration							1,321		1,321			15,855	17,176			
Department of Attorney General												90,400	90,400			
Department of Legale Draftsman				13,770		13,770			13,770			13,850	27,620			
Department of Debt Conciliation Board																
Department of Prisons	17,813		17,813	2,120	28	19,905	25,502		45,407			13,307	58,804			
Department of Public Trustee																
Department of Government Analyst							3,441		3,441			9,696	13,137			
Registrar of Supreme Court							18,475		18,475			201,432	219,907			
Department of Law Communication					1,575		1,575		1,124							
Department of Official Languages																
Department of National Budget							3,475		3,475			3,625	7,100			
Department of Fiscal Policy												11,400	11,400			
Department of Public Debt Management																
Department of Treasury Operations												12,818	12,818			
Department of State Accounts												6,500	6,500			
Department of Public Finance							3,500		3,500							
Department of External Resources							7,973		7,973							
Department of Management Services												2,600	2,600			
Department of Inland Revenue	4,999		4,999	45,609		50,608	9,900		60,508			30,167	90,675			
Department of Customs				18,562		18,562			18,562			3,923,342				
Department of Valuation																
Department of Excise							14,407		14,407			7,955	7,955			
Department of Census & Statistics	3,446		3,446	3,428	6,874	23,284	1,028		29,132			19,511	48,643			
Department of National Planning				3,800	1,294	2,506						5,350	7,856			

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2101-Vehicles Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
	Rs 000'			Rs 000'			Rs 000'			Rs 000'		
Department of Pensions												
Department of Registrar General												
Department of Trade Tariff & Investment Policy												
District Secretariat - Colombo	6		6			6			6			6
District Secretariat - Gampaha												
District Secretariat - Kalutara												
District Secretariat - Kandy												
District Secretariat - Vavuniya												
District Secretariat - Matale												
District Secretariat - Nuwara Eliya												
District Secretariat - Galle												
District Secretariat - Matara				17,070		17,070			17,070			17,070
District Secretariat - Hambantota												
District Secretariat - Jaffna				5,390		5,390			5,390			5,390
District Secretariat - Mannar												
District Secretariat - Mullativu												
District Secretariat - Kilinochchi												
District Secretariat - Batticaloa												
District Secretariat - Ampara												
District Secretariat - Trincomalee												
District Secretariat - Kurunegala												
District Secretariat - Puttalam												
District Secretariat - Anuradhapura												
District Secretariat - Polonnaruwa												
District Secretariat - Badulla												
District Secretariat - Monaragala												
District Secretariat - Ratnapura												
District Secretariat - Kegalle												
Department of Public Enterprise										12,200		12,200
Department of Economic Affairs												
Department of Development Finance										2,800		2,800
Department of Foreign Aid & Budget Monitoring												
Department of Agriculture												
Department of Agrarian Development				6,500		6,500				18,850		18,850
Department of Irrigation	766	272	494			494	180,749		181,243			181,243
Department of Forests	3,350		3,350			3,350			3,350			4,714
Department of Land Commissioner												
Department of Land Settlement				7,150		7,150			7,150			7,150
Department of Survey												
Department of Export Agriculture										11,400		11,400
Department of Fisheries and Aquatic Resources												
Department of Animal Production & Health							7,500		7,500			1,521
Department of Wildlife Conservation												979
Department of National Zoological Garden				359		359			359			6,295
Department of Coast Conservation	181		181			181	11,873		12,054			12,054
Department of Commerce										3,410		3,410

Non-current Assets Acquired since 01.01.2004 *Contd.*

2101-Vehicles Name of Institution	2004			2005			2006			2007			Rs '000'
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	
Department of Import and Export Control	89	.....	.....	89	4,600	4,689	.....
Department of the Registrar of Companies
Department of Measurement Units, Standards & Services	2,256	.....	2,256	.....	.....	2,256	.....	.....	2,256	.....
National Intellectual Property Office of Sri Lanka
Department of Food Commissioner
Department of Co-operative Development
Co-operative Employees Commission	7	.....	7	2,495	.....	2,502	.....	.....	2,502	.....
Government Factory	4,000	.....	4,000	.....	.....	4,000	.....
Department of Textile Industries
Department of Meteorology	3,970	.....	3,970	.....	.....	3,970	.....	.....	3,970	.....
Department of Upcountry Peasantry Rehabilitation
Department of Sri Lanka Railways	5,285	.....	5,285	.....	.....	5,285	3,619,596	.....	3,624,881	.....
Department of Motor Traffic	3,227	.....	3,227	2,000	.....	5,227	302	.....	5,529	.....
Department of Posts	2,095	.....	2,095	31,130	.....	33,225	89,987	.....	123,212	62	.....	123,274	.....
Department of Buildings	4,950	.....	4,950	350	.....	5,300	.....	.....	5,300	.....
Department of Rubber Development	5,554	5,554	.....
Department of National Physical Planning	3,630	.....	3,630	.....	.....	3,630	.....
Department of Civil Security
Eastern Provincial Council
Western Provincial Council
Central Provincial Council
Southern Provincial Council
North East Provincial Council
North Western Provincial Council
North Central Provincial Council
Uva Provincial Council
Sabaragamuwa Provincial Council	7,500	7,500	.....
Total	196,409	272	196,137	2,074,086	24,664	2,245,559	4,497,294	6,054	6,736,799	12,274,845	19,011,644		

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2102-Office Equipment Name of Institution	2004				2005				2006				2007			
	Additions		Disposal		Balance		Additions		Disposal		Balance		Additions		Balance	
	Rs '000'		Rs '000'		Rs '000'		Rs '000'		Rs '000'		Rs '000'		Rs '000'		Rs '000'	
H.E. the President	1,723	....	....	....	1,723	8,803	8,803	....	....	....	10,526	127,985	....	....	138,511	1,177,345
Office of the Prime Minister	1,807	....	....	....	1,807	8,092	8,092	3,049	....	....	6,850	939	39	....	7,750	4,948
Judges of the Supreme Court	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Office of the Cabinet of Ministers	45	....	....	....	45	32	....	....	....	....	77	230	....	....	307	374
Parliament	3,313	....	....	....	3,313	3,518	....	....	....	....	6,831	4,995	....	....	11,826	5,738
Auditor General	1,966	....	....	....	1,966	3,386	....	....	....	....	5,352	2,489	....	....	7,841	1,194
Office of the Leader of the House of Parliament	117	....	....	....	117	199	....	....	....	....	316	200	....	....	516	107
Office of the Chief Government Whip of Parliament	234	....	....	....	234	391	....	....	....	....	625	113	....	....	738	360
Office of the Leader of the Opposition of Parliament	....	....	....	....	....	392	....	....	....	....	392	100	....	....	492	81
Department of Elections	....	....	....	....	....	....	....	....	....	....	....	985	....	....	985	1,978
Judicial Service Commission	476	....	....	....	476	102	....	....	....	....	578	873	....	....	1,451	312
Public Service Commission	11,394	....	....	....	11,394	594	....	....	....	....	11,988	414	....	....	12,402	493
Office of the Parliamentary Commissioner for Administration	87	....	....	....	87	73	....	....	....	....	160	....	....	....	160	160
Office of the Finance Commission	194	....	....	....	194	565	....	....	....	....	759	55	....	....	814	166
Office of the Former President (Hon.D.B. Wijethunge)	98,976	....	....	....	98,976	38	....	....	....	....	99,014	30	49	....	99,995	98,995
Commission to Investigate Allegations of Bribery or Corruption	497	....	....	....	497	699	....	....	....	....	1,196	696	....	....	1,892	494
National Education Commission	424	....	....	....	424	451	....	....	....	....	875	488	....	....	1,361	71
The Constitutional Council	42	....	....	....	42	....	....	....	....	....	42	479	....	....	521	48
National Police Commission	500	....	....	....	500	3,468	....	....	....	....	3,968	949	....	....	4,917	2,082
Administration Appeals Tribunal	144	....	....	....	144	....	....	....	....	....	144	61	....	....	205	42
Office of the Former Prime Minister (Hon.R. Wickramasinghe)	10	....	....	....	10	....	....	....	....	....	10	....	....	....	10	....
Office of the Former Prime Minister (Hon.C.B. Kumaratunge)	....	....	....	....	....	....	....	....	....	....	....	1,400	....	....	1,400	48
Ministry of Religious Affairs	50	....	....	....	50	170	....	....	....	....	220	2,394	....	....	2,614	964
Ministry of Policy Development & Implementation	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	555
Ministry of Power & Energy	227	....	....	....	227	128	....	....	....	....	355	1,936	....	....	2,291	2,203
Ministry of Transport, Highways and Aviation	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Transport	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Railways & Transport	....	....	....	....	....	....	....	....	....	....	....	1,497	....	....	1,497	877
Ministry of Petroleum & Petroleum Resources Development	....	....	....	....	....	....	....	....	....	....	....	3,012	....	....	3,585	6,597
Ministry of Highways	690	....	....	....	690	1,150	....	....	....	....	1,840	1,406	....	....	3,246	10,994
Ministry of State Transport	23,001	....	....	....	23,001	....	....	....	....	....	23,001	....	....	....	23,001	....
Ministry of Finance & Planning	2,225	....	....	....	2,225	5,141	....	....	....	....	7,366	18,804	10,082	....	16,088	4,984
Ministry of Defence, Public Security, Law & Order	1,876	....	....	....	1,876	7,236	....	....	....	....	9,112	25,902	36	....	34,978	36,913
Ministry of Plan Implementation	....	....	....	....	....	....	....	....	....	....	....	9,056	....	....	9,056	3,152
Ministry of Reconstruction & Development	....	....	....	....	....	....	....	....	....	....	....	25,238	....	....	25,238	....
Ministry of Disaster Management & Human Rights	....	....	....	....	....	....	....	....	....	....	....	7,628	....	....	7,628	1,341
Ministry of Agriculture & Livestock Lands & Irrigation	2,484	18	....	....	2,466	4,085	....	....	....	....	6,551	....	....	....	6,551	....
Ministry of Industry & Investment Promotion	....	....	....	....	....	2,276	....	....	....	....	2,276	....	....	....	2,276	....
Ministry of Enterprise Development & Investment Promotion	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Small & Medium Enterprise Development	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Nation Building & Estate Infrastructure Development	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Internal Administration	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Industries	446	....	....	....	446	....	....	....	....	....	446	....	....	....	446	....

Non-current Assets Acquired since 01.01.2004 *Contd.*

2102 Office Equipment Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
Ministry of Fisheries & Aquatic Resources	1,523	....	1,523	5,683	....	7,206	5,567	....	12,773	45,805	....	58,578
Ministry of Constitutional Affairs & National Integration	724	....	724	754	....	1,478	64	....	1,542	6,749	....	8,291
Ministry of Foreign Affairs	1,921	....	1,921	12,724	....	14,645	63,114	294	77,465	75,432	....	152,897
Ministry of Assisting Foreign Affairs	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Port & Aviation	1,627	....	1,627	2,140	....	3,767	1,533	....	5,300	439	....	5,739
Ministry of Infrastructure Development in the Eastern Province	....	....	....	....	....	1,954	....	....	1,954	....	....	1,954
Ministry of Urban Development & Water Supply	....	....	....	771	....	771	1,535	....	2,306	857	....	3,163
Ministry of Housing & Construction Industry & Eastern Province	....	....	....	1,232	....	1,232	....	....	1,232	....	....	1,232
Ministry of Housing & Construction	....	....	....	....	....	....	633	....	633	2,211	....	2,844
Ministry of Eastern Housing, Infrastructure & Community Development	....	....	....	3,178	....	3,178	....	....	3,178	....	....	3,178
Ministry of Women's Empowerment & Social Welfare	....	....	....	2,628	....	2,628	....	....	2,628	....	....	2,628
Ministry of Child Development & Women's Empowerment	....	....	....	....	....	....	4,156	....	4,156	4,994	....	9,150
Ministry of Mahaweli & River Basin Development & Rajarata Development	....	....	....	2,445	....	2,445	....	....	2,445	....	....	2,445
Ministry of Eastern Development & Muslim Religious Affairs	996	....	996	....	....	996	....	....	996	....	....	996
Ministry of Housing & Plantation Infrastructure	1,177	....	1,177	....	....	1,177	....	....	1,177	....	....	1,177
Ministry of Housing Development	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Community Development & Social Inequity Eradication	675	....	675	....	....	675	....	....	675	3,521	....	4,196
Ministry of Urban Public Utilities	279	....	279	....	....	279	....	....	279	....	....	279
Ministry of Women's Affairs	62	....	62	2,628	....	2,690	....	....	2,690	....	....	2,690
Ministry of Justice & Law Reforms	4,937	....	4,937	120,148	....	125,085	196,326	....	321,411	77,438	....	398,849
Ministry of Irrigation & Water Management	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Water Management	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Irrigation	....	....	....	....	....	....	3,652	....	3,652	2,877	....	6,529
Ministry of Environmental & Natural Resources	146	....	146	11,174	....	11,320	947	....	12,267	5,820	....	18,087
Ministry of Home Affairs Provincial Councils & Local Government	1,467	....	1,467	1,907	....	3,374	....	....	3,374	....	....	3,374
Ministry of Local Government & Provincial Councils	357	....	357	....	....	357	1,777	....	2,134	2,855	....	4,989
Ministry of Health Care Nutrition	....	....	....	....	....	....	....	....	....	178,668	....	178,668
Ministry of Social Service & Social Welfare	....	....	....	....	....	....	3,414	....	3,414	1,727	....	5,141
Ministry of Indigenous Medicine	....	....	....	719	....	719	571	....	1,290	1,586	....	2,876
Ministry of Interior	1,130	....	1,130	....	....	1,130	....	....	1,130	....	....	1,130
Ministry of Public Security, Law & Order	....	....	....	4,195	....	4,195	....	....	4,195	....	....	4,195
Ministry of Plantation Industries	2,455	....	2,455	1,671	....	4,126	1,495	....	5,621	8,263	....	13,884
Ministry of Regional Development	....	....	....	2,000	....	2,000	2,397	....	4,397	1,093	....	5,490
Ministry of Infrastructure Development & Fisheries Housing	....	....	....	....	....	....	548	....	548	29	....	577
Ministry of Coconut Development	....	....	....	....	....	....	3,790	....	3,790	276	....	4,066
Ministry of Estate Infrastructure & Livestock Development	....	....	....	....	....	....	1,016	....	1,016	....	....	1,016
Ministry of Post & Telecommunications	....	....	....	754	....	754	1,083	....	1,837	2,069	....	3,906
Ministry of Small & Rural Industries	....	....	....	1,496	....	1,496	963	....	2,459	....	....	2,459
Ministry of Small Holder Development	298	....	298	....	....	298	....	....	298	....	....	298
Ministry of Tourism	271	....	271	745	87	929	497	58	1,368	1,359	....	2,727
Ministry of Southern Region Development	4,262	....	4,262	....	....	4,262	....	....	4,262	....	....	4,262
Ministry of Western Region Development	458	....	458	....	....	458	....	....	458	....	....	458
Ministry of Central Region Development	1,013	....	1,013	....	....	1,013	....	....	1,013	....	....	1,013
Ministry of Rural Economic & Development	1,217	1,217	1,217	1,702	2,919	664	3,583

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2102-Office Equipment Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Balance
	Rs '000'											
Ministry of Co-operative & Co-operative Development	5,057	20,709	5,057									
Ministry of Samurchi & Poverty Alleviation												
Ministry of Human Resource Development, Education & Cultural Affairs												
Ministry of Tertiary Education & Training												
Ministry of Education	5,057	20,709	5,057									
Ministry of Cultural Affairs & National Heritage				1,484,518		1,505,227	1,402,286		2,907,513	1,435,051	4,342,564	
Ministry of Vocational & Technical Training				19,745		19,745	20,721		40,466	19,847	60,313	
Ministry of Skills Development & Public Enterprise Reforms				349,243		349,243	300		349,543	1,617	351,160	
Ministry of New Railroad Development							4,669		4,669	720	5,389	
Ministry of Labour Relations & Foreign Employment							1,415		1,415	64	1,479	
Ministry of Foreign Employment Promotion				3,158	89	3,069	4,149	183	7,035	2,733	9,768	
Ministry of Public Administration Management & Reforms	3,659		3,659				2,076		2,076	552	2,628	
Ministry of Public Administration & Media				13,164		13,164			13,164		13,164	
Ministry of Public Administration & Home Affairs							2,869		2,869	12,944	15,813	
Ministry of Home Affairs							4,450		4,450	1,533	5,983	
Ministry of Mass Media & Information				1,783		1,783	3,000		4,783	1,982	6,765	
Ministry of Christian & Parliamentary Affairs				155		155			155		155	
Ministry of Parliamentary Affairs	532		532				532	175	707	1,232	1,939	
Ministry of North West Region Development	1,080		1,080				1,080		1,080		1,080	
Ministry of Sports & Youth Affairs				2,525		2,525	1,395		3,920	4,069	7,989	
Ministry of Relief, Rehabilitation & Reconciliation	1,203		1,203	9,413		10,616			10,616		10,616	
Ministry of Re-Settlement							2,217		2,217	2,306	4,523	
Ministry of Disaster Relief Services									1,244		1,244	
Ministry of Agriculture Marketing Development & Co-operative Development				2,065		2,065			2,065		2,065	
Ministry of Agriculture Development							4,617		4,617	1,811	6,428	
Ministry of Industrial Development							1,668	63	1,605	1,949	3,554	
Ministry of Road Development							1,018		1,018	312	1,330	
Ministry of Agriculture Irrigation & Mahaweli Development							1,433		1,433	1,028	2,461	
Ministry of Assisting Vanni Rehabilitation	398		398			398			398		398	
Ministry of Hindu Religious & Cultural Affairs												
Ministry of Medium & Small Scale Plantation												
Industries & Rural Development												
Ministry of Promotion of Botanical & Zoological Gardens												
Ministry of Lands	1,943		1,943				4,031		4,031	1,664	5,695	
Ministry of Trade Commerce, Consumer Affairs & Marketing Development	161		161	271		1,943		1,943		1,943		
Ministry of Agrarian Services & Development of Farmer Communities						432	350		782	264	1,046	
Ministry of Science & Technology	3,265		3,265	4,265		7,530	6,216		13,746	1,634	15,380	
Ministry of Rural Industries & Self Employment Promotion										874	874	
Ministry of Livestock & Infrastructure Development										1,906	1,906	
Ministry of Youth Empowerment & Socio Economic Development										3,974	3,974	
Ministry of Textile Industry Development							947		947	37	984	
Ministry of Rural Livelihood Development							6,721		6,721	740	7,461	
Ministry of State Bank Development												
Ministry of Nation Heritage												
Ministry of Water Supply & Drainage										2,941	2,941	
Ministry of Export Development & International Trade										3,277	3,277	
Ministry of Public Estate Management & Development										1,236	1,236	
Ministry of Construction & Engineering Services										6,922	6,922	
										5,955	5,955	

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Non-current Assets Acquired since 01.01.2004 *Contd.*

2102-Office Equipment Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
Ministry of Special Projects	.....	.....	.....	.....	.....	.....	.....	.....	.....	4,070	4,070	.....
Ministry of Higher Education	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,252	1,252	.....
Ministry of Supplementary Plantation Crops Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	8,654	8,654	.....
Department of Buddhist Affairs	3,795	.....	3,795	3,549	.....	7,344	964	.....	8,308	980	.....	9,288
Department of Cultural Affairs	.....	.....	.....	3,078	19	3,059	1,606	.....	4,685	2,544	.....	7,209
Department of Muslim Religious & Cultural Affairs	616	.....	616	19	.....	635	248	.....	883	275	.....	1,158
Department of Christian Religious Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	173	.....	.....
Department of Hindu Religious & Cultural Affairs	739	.....	739	42	.....	781	753	.....	1,534	5,494	.....	7,028
Department of Archaeology	1,279	.....	1,279	1,917	.....	3,196	1,404	.....	4,600	9,200	.....	13,800
Department of National Museums	500	.....	500	4,717	.....	5,217	4,461	.....	9,678	1,548	.....	11,226
Department of National Archives	3,281	.....	3,281	.....	.....	6,445	3,554	.....	9,999	7,513	.....	17,512
Department of Information	.....	.....	.....	785	.....	785	2,392	.....	3,177	645	.....	3,822
Department of Government Printer	.....	.....	.....	1,684	.....	1,684	3,780	.....	5,464	2,808	.....	8,272
Department of Examinations	.....	.....	.....	499	.....	499	1,493	.....	1,992	984	.....	2,976
Department of Educational Publications	349	.....	349	344	.....	693	.....	.....	693	642	.....	1,335
Department of Technical Education & Training	7,444	.....	7,444	7,496	.....	14,940	10,000	.....	24,940	17,623	.....	42,563
Universities & University Grants Commission	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Social Services	1,257	.....	1,257	4,393	.....	5,650	3,554	.....	9,204	5,226	.....	14,430
Department of Probation & Child Care	1,021	721	300	854	.....	1,154	1,155	.....	2,309	939	.....	3,248
Department of Commissioner General of Samurdhi	.....	.....	.....	703	.....	703	1,782	.....	2,485	1,078	.....	3,563
Department of Sports Development	2,185,223	.....	2,185,223	2,771	.....	2,187,994	1,221	.....	2,189,215	752	.....	2,189,967
Department of Ayurveda	3,316	.....	3,316	2,563	.....	5,879	3,932	.....	9,811	4,216	.....	14,027
Department of Labour	10,682	.....	10,682	52,866	.....	63,548	12,818	.....	76,166	2,911	.....	79,077
Sri Lanka Army	.....	.....	.....	32,916	.....	32,916	72,081	.....	104,997	61,343	.....	166,340
Sri Lanka Navy	34,298	.....	34,298	.....	.....	34,298	.....	.....	34,298	58,398	.....	92,696
Sri Lanka Air Force	2,810	.....	2,810	29,879	.....	32,689	20,021	2,021	50,689	19,831	70,520	.....
Department of Police	.....	.....	.....	.....	.....	.....	.....	.....	.....	146,389	.....	146,389
Department of Immigration & Emigration	573	.....	573	27,947	.....	28,520	8,293	.....	36,813	2,570	.....	39,383
Department of Registration of Persons	1,312	.....	1,312	722	.....	2,034	1,006	.....	3,040	844	.....	3,884
Department of Trade Tariff & Investment Policy	.....	.....	.....	.....	.....	.....	.....	.....	.....	736	.....	736
Courts Administration	17,204	.....	17,204	16,662	.....	33,866	25,620	.....	59,486	35,272	.....	94,758
Department of Attorney General	3,615	.....	3,615	2,747	.....	6,362	2,532	.....	8,894	5,436	.....	14,330
Department of Legal Draftsman	501	.....	501	711	.....	1,212	553	.....	1,765	486	.....	2,251
Department of Debt Conciliation Board	.....	.....	.....	.....	.....	.....	.....	.....	.....	231	.....	231
Department of Prisons	1,463	.....	1,463	2,258	.....	3,721	2,824	.....	6,545	13,001	.....	19,546
Department of Public Trustee	.....	.....	.....	515	.....	515	78	.....	593	662	.....	1,255
Department of Government Analyst	995	.....	995	1,461	.....	2,456	996	.....	3,452	17,997	.....	21,449
Registrar of Supreme Court	2,415	.....	2,415	159	.....	2,574	2,736	.....	5,310	2,993	.....	8,303
Department of Law Communication	352	.....	352	352	600	.....	952	1,230	2,182	.....	.....	.....
Department of Official Languages	15	.....	15	100	.....	115	277	.....	392	256	.....	648
Department of National Budget	138	.....	138	508	.....	646	83	.....	729	228	.....	957
Department of Fiscal Policy	.....	.....	.....	4,163	.....	4,163	334	.....	4,497	.....	.....	4,497
Department of Public Debt Management	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Treasury Operations	.....	.....	.....	.....	.....	.....	277	.....	277	140	.....	417
Department of State Accounts	846	.....	846	1,257	400	1,703	374	.....	2,077	1,095	.....	3,172
Department of Public Finance	1,518	.....	1,518	254	.....	1,772	557	.....	2,329	3,032	.....	5,361
Department of External Resources	1,192	.....	1,192	9,241	.....	10,433	5,976	.....	16,409	10,888	.....	27,297
Department of Management Services	1,945	1,945	1,216	3,161	1,321	4,482	1,412	5,894

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2102-Office Equipment Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Balance

Department of Rubber Development	986	.....	986	7,259	.....	8,245	32,672	.....	40,917	8,166	49,083	.....
Department of Inland Revenue	396	.....	396	588	.....	984	794	.....	1,778	1,833	3,611	.....
Department of Valuation	.....	.....	.....	722	.....	722	.....	.....	722	17,756	18,478	.....
Department of Customs	697	.....	697	1,047	.....	1,744	6,902	.....	8,646	5,346	13,992	.....
Department of Excise	1,016	.....	1,016	1,994	.....	3,010	1,629	.....	4,639	1,587	6,226	.....
Department of Census & Statistics	1,151	.....	1,151	5,045	.....	6,196	232	.....	6,428	3,610	10,038	.....
Department of National Planning	767	.....	767	3,775	.....	4,542	3,659	.....	8,201	3,998	12,199	.....
Department of Pensions	.....	.....	.....	2,812	.....	2,812	3,240	.....	6,052	12,174	18,226	.....
Department of Registrar General	3,131	.....	3,131	11,847	.....	14,978	2,447	.....	17,425	33,888	51,313	.....
District Secretariat - Colombo	1,499	.....	1,499	679	.....	2,178	1,948	.....	4,126	15,976	20,102	.....
District Secretariat - Gampaha	920	.....	920	1,498	.....	2,418	2,961	.....	5,379	23,621	29,000	.....
District Secretariat - Kalutara	746	.....	746	1,496	.....	2,242	2,551	.....	4,793	39,824	44,617	.....
District Secretariat - Kandy	1,691	.....	1,691	1,997	.....	3,688	1,850	.....	5,538	19,502	25,040	.....
District Secretariat - Matale	475	.....	475	1,993	.....	2,468	1,458	.....	3,926	15,267	19,193	.....
District Secretariat - Nuwara Eliya	3,918	.....	3,918	3,259	.....	7,177	1,984	.....	9,161	29,992	39,153	.....
District Secretariat - Galle	1,375	.....	1,375	8,771	.....	10,146	2,549	.....	12,695	20,827	33,522	.....
District Secretariat - Matara	2,135	.....	2,135	2,268	.....	4,403	3,000	.....	7,403	14,981	22,384	.....
District Secretariat - Hambantota	.....	.....	.....	3,797	.....	3,797	3,696	.....	7,493	19,994	27,487	.....
District Secretariat - Jaffna	.....	.....	.....	499	.....	499	2,748	.....	3,247	6,609	9,856	.....
District Secretariat - Mannar	.....	.....	.....	899	.....	899	1,240	.....	2,139	5,874	8,013	.....
District Secretariat - Vavuniya	500	.....	500	394	.....	894	2,479	.....	3,373	4,419	7,792	.....
District Secretariat - Mullativu	365	.....	365	1,000	.....	1,365	1,499	.....	2,864	8,985	11,849	.....
District Secretariat - Batticaloa	988	.....	988	5,196	.....	6,194	1,698	.....	7,892	11,584	19,476	.....
District Secretariat - Ampara	850	.....	850	1,471	.....	2,321	1,458	.....	3,779	17,191	20,970	.....
District Secretariat - Trincomalee	2,993	.....	2,993	999	.....	3,992	2,938	.....	6,930	7,801	14,731	.....
District Secretariat - Kurunegala	4,583	.....	4,583	3,147	.....	7,730	2,803	.....	10,533	51,421	61,954	.....
District Secretariat - Puttalam	999	.....	999	1,730	.....	2,729	2,499	.....	5,228	14,999	20,227	.....
District Secretariat - Anuradhapura	1,186	.....	1,186	1,797	.....	2,983	2,752	.....	5,735	19,560	25,295	.....
District Secretariat - Polonnaruwa	2,000	.....	2,000	1,991	.....	3,991	6,972	10,963	.....	.....	.....	.....
District Secretariat - Badulla	988	.....	988	2,596	.....	3,584	2,987	.....	6,571	22,206	28,777	.....
District Secretariat - Monaragala	989	.....	989	2,005	.....	2,994	2,117	.....	5,111	7,870	12,981	.....
District Secretariat - Ratnapura	1,009	.....	1,009	1,919	.....	2,928	2,226	.....	5,154	2,764	7,918	.....
District Secretariat - Kegalle	782	.....	782	2,492	.....	3,274	2,477	.....	5,751	20,011	25,762	.....
Department of Public Enterprise	782	.....	782	523	.....	1,305	175	.....	1,480	1,129	2,609	.....
Department of Economic Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Development Finance	.....	.....	.....	187	.....	187	172	.....	359	143	502	.....
Department of Foreign Aid & Budget Monitoring	.....	.....	.....	1,840	.....	1,840	2,559	.....	4,399	598	4,997	.....
Department of Agriculture	10,921	.....	10,921	4,857	.....	15,778	3,956	.....	19,734	16,713	36,447	.....
Department of Agrarian Development	.....	3,470	.....	3,470	4,678	.....	8,148	12,419	20,567	.....	.....	.....
Department of Irrigation	15,178	1	15,177	14,229	6	29,400	22,105	.....	51,505	8,205	59,710	.....
Department of Forests	490	.....	490	498	.....	988	542	.....	1,530	7,404	8,934	.....
Department of Land Commissioner	1,798	.....	1,798	1,998	.....	3,796	2,988	.....	6,784	2,500	9,284	.....
Department of Land Settlement	198	.....	198	1,373	.....	1,571	1,277	.....	2,848	503	3,351	.....
Department of Survey	3,386	.....	3,386	121,978	.....	125,364	2,175	46	127,493	4,817	132,310	.....
Department of Export Agriculture	2,929	.....	2,929	.....	.....	2,929	.....	.....	2,929	2,570	5,499	.....

Non-current Assets Acquired since 01.01.2004 *Contd.*

2102-Office Equipment Name of Institution	2004		2005		2006		2007	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Animal Production and Health	2,296	....	2,296	....	....	2,296	5,145	7,441
Department of Fisheries and Aquatic Resources	298	....	298	1,795	....	2,093	1,313	3,406
Department of Rubber Development	....	....	....	759	....	759	187	946
Department of Wildlife Conservation	63	....	63	1,967	....	2,030	989	3,019
Department of National Zoological Garden	211	....	211	300	....	511	384	895
Department of Coast Conservation	692	....	692	1,894	....	2,586	696	3,282
Department of Commerce	....	....	....	1,681	....	1,681	636	2,317
Department of Import and Export Control	340	13	327	193	14	506	716	833
Department of the Registrar of Companies	2	....	2	213	....	215	....	215
Department of Measurement Units, Standards & Services	301	....	301	329	....	630	375	1,005
National Intellectual Property Office of Sri Lanka	44	....	44	....	....	44	....	44
Department of Food Commissioner	44	....	44	45	....	89	561	650
Department of Co-operative Development	....	....	....	629	....	629	1,180	1,809
Co-operative Employees Commission	....	....	....	299	....	295	1,080	1,389
Department of Textile Industries	494	....	494	425	4	919	198	1,117
Department of Meteorology	2,218	....	2,218	4,801	....	7,019	680	7,679
Department of Upcountry Peasantry Rehabilitation	49	....	49	249	....	298	443	741
Department of Sri Lanka Railways	....	....	....	5,839	....	5,839	3,912	9,751
Department of Motor Traffic	....	....	....	1,998	....	1,998	5,735	7,668
Department of Posts	26,557	....	26,557	18,987	....	45,544	7,200	52,744
Department of Buildings	....	....	....	1,244	....	1,244	2,791	4,035
Department of Civil Security	....	....	....	....	....	....	....	....
Government Factory	240	....	240	770	....	1,010	862	1,872
Department of National Physical Planning	1,524	....	1,524	874	....	2,398	1,217	3,615
Eastern Provincial Council	....	....	....	....	....	....	....	....
Western Provincial Council	....	....	....	....	....	....	....	....
Central Provincial Council	....	....	....	....	....	....	....	....
Southern Provincial Council	....	....	....	....	....	....	....	....
North East Provincial Council	....	....	....	....	....	....	....	....
North Western Provincial Council	....	....	....	....	....	....	....	....
North Central Provincial Council	....	....	....	....	....	....	....	....
Uva Provincial Council	....	....	....	....	....	....	....	....
Sabaragamuwa Provincial Council	....	....	....	....	....	....	....	....
Total	2,816,844	753	2,816,091	2,631,435	3,668	5,243,858	2,407,640	7,638,157
					13,341			4,314,662
								11,952,819

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2103-Machinery Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Balance
H.E.the President	3,000	.....	3,000	6,582	.....	9,582	411,293	.....	420,875	31,997	452,872	452,872
Office of the Prime Minister	2,880	.....	2,880	57,068	384	59,564	4,338	.....	63,902	5,049	68,951	68,951
Judges of the Supreme Court	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Cabinet of Ministers	2,084	.....	2,084	433	.....	2,517	1,121	.....	3,638	813	4,451	4,451
Parliament	6,900	.....	6,900	525	.....	7,425	2,067	.....	9,492	1,500	10,992	10,992
Auditor General	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Leader of the House of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Chief Government whip of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Leader of the Opposition of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Elections	.....	.....	.....	.....	.....	5,006	.....	5,006	4,861	9,867	.....	.....
Judicial Service Commission	.....	.....	.....	.....	.....	.....	98	.....	.....	60	158	158
Public Service Commission	400	.....	400	581	.....	981	637	.....	1,618	451	2,069	2,069
Office of the Parliamentary Commissioner for Administration	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Finance Commission	69	.....	69	108	.....	177	220	.....	397	27	424	424
Office of the Former President (Hon D B Wijethunge)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Commission to Investigate Allegations of Bribery or Corruption	1,656	.....	1,656	865	.....	2,521	1,480	.....	4,001	544	4,545	4,545
National Education Commission	.....	.....	.....	.....	.....	.....	25	.....	.....	4	29	29
The Constitutional Council	25	.....	25	108	.....	133	.....	.....	133	.....	.....	.....
National Police Commission	152	.....	152	854	.....	1,006	528	.....	1,534	.....	1,534	1,534
Administration Appeals Tribunal	165	.....	165	.....	.....	165	.....	.....	165	.....	165	165
Office of the Former Prime Minister (Hon R Wickramasinghe)	43	.....	43	.....	.....	43	.....	.....	43	.....	43	43
Office of the Former Prime Minister (Hon C B Kumaratunge)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Religious Affairs	3,673	.....	3,673	1,297	.....	4,970	462	.....	5,432	2,198	7,630	7,630
Ministry of Policy Development & Implementation	3,339	.....	3,339	.....	.....	3,339	.....	.....	3,339	.....	3,339	3,339
Ministry of Power & Energy	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Transport, Highways and Aviation	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Transport	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Railway & Transport	.....	.....	.....	.....	.....	.....	1,978	.....	1,978	2,059	4,037	4,037
Ministry of Petroleum & Petroleum Resources Development	.....	.....	.....	.....	.....	.....	1,606	.....	1,606	1,952	3,558	3,558
Ministry of Highways	543	.....	543	1,054	.....	1,597	898	.....	2,495	41,360	43,855	43,855
Ministry of State Transport	78,900	.....	78,900	.....	78,900	.....	.....	78,900	.....	78,900	.....	.....
Ministry of Finance & Planning	14	.....	14	298	.....	312	250	.....	562	4,056	4,618	4,618
Ministry of Defence, Public Security, Law & Order	5,311	.....	5,311	4,603	.....	9,914	4,911	14	14,811	99,608	114,419	114,419
Ministry of Plan Implementation	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Reconstruction & Development	.....	.....	.....	.....	.....	.....	2,468	.....	2,468	.....	2,468	2,468
Ministry of Disaster Management & Human Rights	.....	.....	.....	.....	.....	.....	2,431	.....	2,431	16,677	19,108	19,108
Ministry of Agriculture & Livestock Lands & Irrigation	38	.....	38	7	.....	45	.....	.....	45	.....	45	45
Ministry of Industry & Investment Promotion	.....	.....	.....	1,411	.....	1,411	.....	.....	1,411	.....	1,411	1,411
Ministry of Enterprise Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Small & Medium Enterprise Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Industries	434	.....	434	.....	.....	434	.....	.....	434	.....	434	434

Non-current Assets Acquired since 01.01.2004 *Contd.*

2103-Machinery Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
Ministry of Fisheries & Aquatic Resources	3,454	....	3,454	588	....	4,042	934	....	4,976	6,467	11,443	....
Ministry of Rural Industries & Self Employment Promotion	....	....	....	....	....	....	....	....	....	....	....	1,096
Ministry of Livestock & Infrastructure Development	....	....	....	....	....	....	....	....	....	2,856	....	2,856
Ministry of Youth Empowerment & Socio Economic Development	....	....	....	203	....	203	887	....	1,090	320	1,410	....
Ministry of Constitutional Affairs & National Integration	....	....	....	5,242	....	5,242	8,506	5	13,743	3,674	17,417	....
Ministry of Foreign Affairs	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Assisting Foreign Affairs	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Ports & Aviation	1,583	....	1,583	....	....	1,583	1,050	....	2,633	2,258	4,891	....
Ministry of Infrastructure Development in the Eastern Province	....	....	....	1,374	....	1,374	....	....	1,374	....	1,374	....
Ministry of Urban Development & Water Supply	....	....	....	440	....	440	999	....	1,439	1,103	2,542	....
Ministry of Housing & Construction Industry & Eastern Province	....	....	....	122	....	122	....	....	122	....	122	....
Ministry of Housing & Construction	....	....	....	....	....	395	....	395	1,012	1,407	....	....
Ministry of Eastern Housing, Infrastructure & Community Development	....	....	....	306	....	306	....	....	306	....	306	....
Ministry of Women's Empowerment & Social Welfare	....	....	....	1,186	....	1,186	....	....	1,186	....	1,186	....
Ministry of Child Development & Women's Empowerment	....	....	....	....	....	70	....	70	903	973	....	....
Ministry of Mahaweli & River Basin Development & Rajarata Development	....	....	....	606	....	606	....	....	606	....	606	....
Ministry of Eastern Development & Muslim Religious Affairs	947	....	947	....	....	947	....	....	947	....	947	....
Ministry of Housing & Plantation Infrastructure	1,553	....	1,553	....	....	1,553	....	....	1,553	....	1,553	....
Ministry of Housing Development	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Community Development & Social Inequity Eradication	1,437	....	1,437	....	....	1,437	....	....	1,437	3,325	4,762	....
Ministry of Urban Public Utilities	214	....	214	....	....	214	....	....	214	214	....	....
Ministry of Women's Affairs	57	....	57	1,186	....	1,243	....	....	1,243	1,243	....	....
Ministry of Justice and Law Reforms	....	....	....	75	....	75	236	....	311	480	791	....
Ministry of Irrigation & Water Management	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Water Management	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Irrigation	....	....	....	....	....	....	....	....	....	591	....	....
Ministry of Environmental & Natural Resources	438	....	438	7,277	....	7,715	1,596	....	9,311	11,065	20,376	....
Ministry of Home Affairs Provincial Councils & Local Government	889	....	889	1,193	....	2,082	....	....	2,082	2,082	....	....
Ministry of Local Government & Provincial Councils	495	....	495	....	....	495	1,842	....	2,337	1,217	3,554	....
Ministry of Health Care & Nutrition	....	....	....	....	....	....	....	....	3,122,008	3,122,008	....	....
Ministry of Social Service & Social Welfare	....	....	....	....	....	....	5,517	....	5,517	4,387	9,904	....
Ministry of Indigenous Medicine	....	....	....	221	....	221	147	....	368	195	563	....
Ministry of Interior	1,356	....	1,356	....	....	1,356	....	....	1,356	....	1,356	....
Ministry of Public Security Law & Order	....	....	....	4,665	....	4,665	....	....	4,665	....	4,665	....
Ministry of Plantation Industries	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Regional Development	....	....	....	....	....	....	522	....	522	588	1,110	....
Ministry of Infrastructure Development & Fisheries Housing	....	....	....	....	....	....	276	....	276	454	730	....
Ministry of Coconut Development	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Estate Infrastructure & Livestock Development	....	....	....	....	....	....	1,914	....	1,914	....	1,914	....
Ministry of Post & Telecommunications	....	....	....	1,234	....	1,234	3,994	....	5,168	165	5,333	....
Ministry of Small & Rural Industries	....	....	....	559	....	559	31	....	590	....	590	....
Ministry of Small Holder Development	....	....	....	....	....	....	....	....	....	....	....	....
Ministry of Tourism	624	....	624	500	11	1,113	696	....	1,809	492	2,301	....
Ministry of Southern Region Development	360	32	328	328	328	328

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2103-Machinery		Rs '000'									
Name of Institution	2004			2005			2006			2007	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Co-operative & Co-operative Development	328	.....	328	.....	.....	328	.....	.....	328	.....	1,558
Ministry of Western Region Development
Ministry of Central Region Development
Ministry of Rural Economic Development
Ministry of Samudhi & Poverty Alleviation
Ministry of Human Resource Development, Education & Cultural Affairs
Ministry of Tertiary Education & Training	2,663	.....	2,663	.....	.....	2,663	.....	.....	2,663	.....	2,663
Ministry of Education	9,837	.....	9,837	35,503	.....	45,340	44,711	.....	90,061	56,489	146,540
Ministry of Cultural Affairs & National Heritage	1,291	.....	1,291	1,584	.....	2,875	1,593	4,468
Ministry of Vocational & Technical Training	23,745	.....	23,745	200	.....	23,945	208	24,153
Ministry of Skills Development & Public Enterprise Reforms	1,103	.....	1,103	2,061	3,164
Ministry of New Railroad Development	3,991	.....	3,991	1,029	5,020
Ministry of Labour Relations & Foreign Employment	5,718	11	5,707	8,700	.....	14,407	15,981	30,388
Ministry of Foreign Employment Promotion	3,027	.....	3,027	1,345	4,372
Ministry of Public Administration Management & Reforms	270	.....	270	.....	.....	270	.....	.....	270	.....	270
Ministry of Public Administration & Media	1,415	.....	1,415	.....	.....	1,415	.....	1,415
Ministry of Mass Media & Information	3,186	.....	3,186	2,200	.....	5,386	5,614	11,000
Ministry of Public Administration & Home Affairs	2,530	.....	2,530	5,599	8,129
Ministry of Home Affairs	138	.....	138	1,254	1,392
Ministry of Christian & Parliamentary Affairs	147	.....	147	.....	.....	147	.....	147
Ministry of Parliamentary Affairs	150	.....	150	.....	.....	150	36	.....	186	136	322
Ministry of North West Region Development	1,032	.....	1,032	.....	.....	1,032	.....	.....	1,032	.....	1,032
Ministry of Sports & Youth Affairs	6,803	.....	6,803	4,128	.....	10,929	1,929	12,858
Ministry of Relief, Rehabilitation & Reconciliation	692	.....	692	11,685	.....	12,377	.....	.....	12,377	.....	12,377
Ministry of Re-Settlement	529	.....	529	1,772	2,301
Ministry of Disaster Relief Services	15,509	15,509
Ministry of Agriculture Marketing Development & Co-operative Development	1,172	.....	1,172	.....	.....	1,172	1,172	.....
Ministry of Agriculture Development	35	.....	35	387,511	387,546
Ministry of Industrial Development	1,900	.....	1,900	2,355	4,255
Ministry of Road Development	1,185	.....	1,185	240	1,425
Ministry of Agriculture Irrigation & Mahaweli Development	845	.....	845	35,072	35,917
Ministry of Assisting Vanni Rehabilitation	155	.....	155	.....	.....	155	.....	.....	155	.....	155
Ministry of Hindu Religious Affairs
Ministry of Medium & Small Scale Plantation Industries & Rural Development
Ministry of Promotion of Botanical & Zoological Gardens	181	.....	181	336	517
Ministry of Lands
Ministry of Trade Commerce, Consumer Affairs & Marketing Development	1,160	.....	1,160	1,315	.....	2,475	1,478	3,953
Ministry of Agrarian Services & Development of Farmer Communities	192	.....	192	.....	.....
Ministry of Science & Technology	1,336	1,336
Ministry of Nation Building & Estate Infrastructure Development	1,216	1,216
Ministry of Internal Administration	1,703	1,703
Ministry of Textile Industry Development	1,279	.....	1,279	.....	1,279	1,279	.....	.....
Ministry of Rural Livelihood Development	3,918	.....	3,918	603	4,521

Non-current Assets Acquired since 01.01.2004 *Contd.*

2103 Machinery Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Rs '000'
Ministry of State Bank Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Nation Heritage	.....	.....	.....	.....	.....	.....	.....	.....	.....	1,596	1,596	
Ministry of Water Supply & Drainage	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,256	3,256	
Ministry of Export Development & International Trade	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,252	2,252	
Ministry of Public Estate Management & Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	462	462	
Ministry of Construction & Engineering Services	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,579	3,579	
Ministry of Special Projects	.....	.....	.....	.....	.....	.....	.....	.....	.....	226	226	
Ministry of Higher Education	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,667	3,667	
Ministry of Supplementary Plantation Crops Development	.....	.....	.....	.....	.....	.....	.....	.....	.....	3,349	3,349	
Department of Buddhist Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Cultural Affairs	.....	.....	.....	2,090	1,586	504	931	.....	.....	1,435	4,262	5,697
Department of Muslim Religious & Cultural Affairs	867	.....	867	781	1,648	.....	.....	1,648	253	1,901	.....
Department of Christian Religious Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Hindu Religious & Cultural Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Archaeology	2,976	.....	2,976	1,219	.....	4,195	339	.....	4,534	1,978	6,512	
Department of National Museums	5,982	.....	5,982	1,056	.....	7,038	399	.....	7,437	561	7,998	
Department of National Archives	4,846	.....	4,846	1,859	.....	6,705	253	.....	6,958	3,800	10,758	
Department of Information	.....	.....	.....	10,860	.....	10,860	9,197	.....	20,057	18,058	38,115	
Department of Government Printer	.....	.....	.....	17,016	.....	17,016	43,061	.....	60,077	96,456	156,533	
Department of Examinations	.....	.....	.....	5,096	.....	5,096	5,001	.....	10,097	2,000	12,097	
Department of Educational Publications	8	.....	8	.....	.....	8	.....	.....	8	.....	8	
Department of Technical Education & Training	41,559	.....	41,559	23,016	.....	64,575	31,027	.....	95,602	208,044	303,646	
Universities & University Grants Commission	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Social Services	.....	.....	.....	.....	.....	.....	44	.....	44	1,140	1,184	
Department of Probation & Child Care	600	.....	600	286	.....	886	4	.....	890	150	1,040	
Department of Commissioner General of Samurdhi	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Sports Development	12,864	10,676	2,188	2,123	1,476	2,835	19,038	.....	21,873	18,017	39,890	
Department of Ayurveda	413	.....	413	2,641	.....	3,054	4,808	.....	7,862	3,613	11,475	
Department of Labour	15,663	.....	15,663	14,222	.....	29,885	13,676	.....	43,561	141,928	185,489	
Sri Lanka Army	.....	.....	.....	28,065	.....	28,065	46,948	.....	74,013	471,866	545,879	
Sri Lanka Navy	323,588	.....	323,588	.....	.....	323,588	530,000	187,000	666,588	6,340,272	7,006,860	
Sri Lanka Air Force	8,999	.....	8,999	26,149	.....	35,148	11,018	.....	46,166	906,357	952,523	
Department of Police	.....	.....	.....	.....	.....	.....	.....	.....	.....	442,799	442,799	
Department of Immigration & Emigration	23,720	.....	23,720	1,195	.....	24,915	87,635	.....	112,550	46,033	158,583	
Department of Registration of Persons	667	.....	667	2,570	.....	3,237	1,758	.....	4,995	7,456	12,451	
Courts Administration	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Attorney General	.....	.....	.....	.....	.....	.....	.....	.....	.....	5,799	5,799	
Department of Legal Draftsman	562	.....	562	.....	.....	562	.....	.....	562	.....	562	
Department of Debt Conciliation Board	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Prisons	5,666	.....	5,666	4,426	.....	10,092	6,445	.....	16,537	6,271	22,808	
Department of Public Trustee	.....	.....	.....	.....	.....	.....	.....	.....	.....	797	797	
Department of Government Analyst	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Registrar of Supreme Court	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Law Communication	

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2103-Machinery Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Rs '000'
Department of Management Services												
Department of Official Languages	676		676	1,200		1,876	599		2,475		2,475	
Department of National Budget	3,293		3,293	3,046		6,339	5,425		11,764	2,170	13,934	
Department of Fiscal Policy							1,555		1,555	796	2,351	
Department of Public Debt Management												
Department of Treasury Operations										1,318	1,318	
Department of State Accounts	500		500	1,001		1,501	147		1,648		1,648	
Department of Public Finance				178		178			178		178	
Department of External Resources												
Department of Inland Revenue	3,381		3,381	4,532		7,913	24,009		31,922	32,390	64,312	
Department of Valuation	653		653	737		1,390	792		2,182	2,488	4,670	
Department of Customs			14,983		14,983		14,983	2,031,245	2,046,228			
Department of Excise	293		293	387		680	1,935		2,615	3,870	6,485	
Department of Census & Statistics	1,002		1,002	3,413		4,415	1,797		6,212	10,066	16,278	
Department of National Planning							3,334		3,334	3,334		
Department of Pensions	237		237	62		299			299	1,679	1,978	
Department of Trade Tariff & Investment Policy			1,964	1,964								
Department of Rubber Development												
Department of Registrar General							357		357	734	1,091	
District Secretariat - Colombo							172		172	29,997	30,169	
District Secretariat - Gampaha				1,298		1,298	3,543		4,841	2,437	7,278	
District Secretariat - Kalutara							2,354		2,354	10,939	13,293	
District Secretariat - Kandy	47		47			47	1,425		1,472	873	2,345	
District Secretariat - Matale	380		380			380	1,499		1,879	877	2,756	
District Secretariat - Nuwara Eliya	1,526		1,526	984		2,510	1,596		4,106		4,106	
District Secretariat - Galle	274		274	814		1,088	2,851		3,939	4,846	8,785	
District Secretariat - Matara	14		14	358		372	1,474		1,846	798	2,644	
District Secretariat - Hambantota	400		400			400	2,034		2,434	445	2,879	
District Secretariat - Jaffna				96		96	1,995		2,091	1,771	3,862	
District Secretariat - Mannar										1,678	1,678	
District Secretariat - Vavuniya				172		172	915		1,087	998	2,085	
District Secretariat - Mulativu							1,258		1,258	2,111	3,369	
District Secretariat - Kilinochchi							825		825	1,998	2,823	
District Secretariat - Batticaloa							1,277		1,277	679	1,956	
District Secretariat - Ampara	499		499	1,885		2,384	1,879		4,263	4,973	9,236	
District Secretariat - Trincomalee							604		604		604	
District Secretariat - Kurunegala							97		6,152	400	6,552	
District Secretariat - Puttalam				49								
District Secretariat - Anuradhapura	194		194	130		314	2,768		3,082	1,748	4,830	
District Secretariat - Polonnaruwa				101		101	1,536		1,637	496	2,133	
District Secretariat - Badulla							1,934		1,934	1,907	3,841	
District Secretariat - Monaragala				400		400	1,264		1,664	500	2,164	
District Secretariat - Ratnapura	101		101	75		176	1,288		1,464	115	1,559	
District Secretariat - Kegalle							1,315		1,315		1,315	

Non-current Assets Acquired since 01.01.2004 *Contd.*

2103-Machinery		2004				2005				2006				2007			
Name of Institution		Additions		Disposal		Balance		Additions		Disposal		Balance		Additions		Balance	
Department of Land Commissioner																	
Department of Public Enterprise																	
Department of Economic Affairs																	
Department of Development Finance																	
Department of Foreign Aid & Budget Monitoring																	
Department of Agriculture		4,536				4,536		1,076		108		5,504		11,530		33,149	
Department of Agrarian Development																	
Department of Irrigation		14,833				14,833		23,792				38,625		7,067		46,692	
Department of Forests		500				500		498				998				998	
Department of Land Settlement		327				327						327				327	
Department of Survey		22,333				22,333						22,333		39,210		61,516	
Department of Export Agriculture		1,130				1,130						1,130				1,130	
Department of Animal Production and Health		2,254				2,254						2,254		39,569		41,823	
Department of Fisheries and Aquatic Resources		603				603		7,937				8,540		8,259		16,799	
Department of Rubber Development																	
Department of Wildlife Conservation		860				860		987				1,847		483		2,330	
Department of National Zoological Garden		5,262				5,262		4,083				9,345		4,924		14,269	
Department of Coast Conservation								1,055				1,055		1,447		2,502	
Department of Commerce								1,330				1,330		792		2,122	
Department of Import and Export Control																	
Department of the Registrar of Companies																	
Department of Measurement Units, Standards & Services		10,496				10,496		31,378				41,874		37,025		78,899	
National Intellectual Property Office of Sri Lanka																	
Department of Food Commissioner														45		45	
Department of Co-operative Development																	
Co-operative Employees Commission								259		1		258		40		298	
Department of Textile Industries														165		165	
Department of Meteorology		4,492				4,492		1,556				6,048		3,793		9,841	
Department of Upcountry Peasantry Rehabilitation																	
Department of Sri Lanka Railways																	
Department of Motor Traffic		48				48		368				416		70,214		70,630	
Department of Posts																	
Department of Buildings														2,650		2,650	
Department of Civil Security		42,887				42,887											
Government Factory		600				600		2,216				2,816		11,433		14,249	
Department of National Physical Planning		225				225		1,485				1,710		1,921		3,631	
Eastern Provincial Council																	
Western Provincial Council																	
Central Provincial Council																	
Southern Provincial Council																	
North East Provincial Council																	
North Western Provincial Council																	
North Central Provincial Council																	
Uva Provincial Council																	
Sabaragamuwa Provincial Council																	
Total		669,147		10,708		658,439		457,986		3,577		1,112,948		1,719,282		2,644,984	
																15,282,501	17,927,485

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2106-Others Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
H.E.the President	1,500	.....	1,500	804	.....	2,304	144,941	.....	147,245	.....	.....	147,245
Office of the Prime Minister	3,450	.....	3,450	6,772	1,173	9,049	1,539	2	10,586	.....	.....	10,586
Judges of the Supreme Court	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Cabinet of Ministers	65	.....	65	69	.....	134	49	.....	183	.....	.....	183
Parliament	3,499	.....	3,499	5,045	.....	8,544	6,367	.....	14,911	.....	.....	14,911
Auditor General	1,206	.....	1,206	283	.....	1,489	223	.....	1,712	.....	.....	1,712
Office of the Leader of the House of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Chief Government whip of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Leader of the Opposition of Parliament	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Department of Elections	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Judicial Service Commission	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Public Service Commission	5	.....	5	313	.....	318	.....	.....	318	.....	.....	318
Office of the Parliamentary Commissioner for Administration	13	.....	13	92	.....	105	.....	.....	105	.....	.....	105
Office of the Finance Commission	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Former President (Hon D B Wijethunge)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Commission to Investigate Allegations of Bribery or Corruption	49	.....	49	7	.....	56	92	.....	148	.....	.....	148
National Education Commission	11	.....	11	31	.....	42	5	.....	47	.....	.....	47
The Constitutional Council	204	.....	204	98	.....	302	216	195	313	.....	.....	313
National Police Commission	.....	.....	.....	1,905	.....	1,905	90	.....	1,995	.....	.....	1,995
Administration Appeals Tribunal	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Office of the Former Prime Minister (Hon R Wickramanayake)	14	.....	14	.....	.....	14	.....	.....	14	.....	.....	14
Office of the Former Prime Minister (Hon C B Kumaratunge)	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Religious Affairs	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Policy Development & Implementation	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Power & Energy	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Transport, Highways and Aviation	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Transport	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Transport	.....	.....	.....	1,931	.....	1,931	.....	.....	1,931	.....	.....	1,931
Ministry of Railway & Transport	.....	.....	.....	.....	.....	.....	51,389	.....	51,389	.....	.....	51,389
Ministry of Petroleum & Petroleum Resources Development	.....	.....	.....	.....	.....	.....	181	.....	181	.....	.....	181
Ministry of Highways	89	.....	89	100	.....	189	177	.....	366	.....	.....	366
Ministry of State Transport	350,450	.....	350,450	.....	.....	350,450	.....	.....	350,450	.....	.....	350,450
Ministry of Finance & Planning	26	.....	26	44	.....	70	.....	.....	70	.....	.....	70
Ministry of Defence, Public Security, Law & Order	3,146	.....	3,146	5,416	.....	8,562	38,090	.....	46,652	.....	.....	46,652
Ministry of Plan Implementation	.....	.....	.....	.....	.....	.....	286	.....	286	.....	.....	286
Ministry of Reconstruction & Development	.....	.....	.....	.....	.....	.....	741	.....	741	.....	.....	741
Ministry of Disaster Management & Human Rights	.....	.....	.....	.....	.....	.....	84	.....	84	.....	.....	84
Ministry of Agriculture & Livestock Lands & Irrigation	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Ministry of Industry & Investment Promotion	.....	.....	.....	353	101	252	.....	.....	252	.....	.....	252
Ministry of Enterprise Development & Investment Promotion	442	442	442
Ministry of Small & Medium Enterprise Development

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Non-current Assets Acquired since 01.01.2004 *Contd.*

2106-Others Name of Institution	2004				2005				2006				2007			
	Additions	Disposal	Balance		Additions	Disposal	Balance		Additions	Disposal	Balance		Additions	Disposal	Balance	
Ministry of Fisheries & Aquatic Resources																
Ministry of Nation Building & Estate Infrastructure Development																
Ministry of Internal Administration																
Ministry of Industries	690		690				690				690				690	
Ministry of Constitutional Affairs & National Integration					116		116		37		153				153	
Ministry of Foreign Affairs	372		372		243		615		2,573		3,188				3,188	
Ministry of Assisting Foreign Affairs																
Ministry of Ports & Aviation	1,326		1,326		116		1,442		26,065		27,507				27,507	
Ministry of Infrastructure Development in the Eastern Province					417		417				417				417	
Ministry of Urban Development & Water Supply					470		470		163		633				633	
Ministry of Housing & Construction Industry & Eastern Province					1,815		1,815				1,815				1,815	
Ministry of Housing & Construction									143		143				143	
Ministry of Eastern Housing, Infrastructure & Community Development																
Ministry of Women's Empowerment & Social Welfare					263		263				263				263	
Ministry of Children's Development & Women's Empowerment									47		47				47	
Ministry of Mahaweli & River Basin Development & Rajarata Development																
Ministry of Eastern Development & Muslim Religious Affairs	310		310				310				310				310	
Ministry of Housing & Plantation Infrastructure																
Ministry of Housing Development																
Ministry of Community Development & Social Inequity Eradication	2,176		2,176				2,176				2,176				2,176	
Ministry of Urban Public Utilities																
Ministry of Women's Affairs	133		133				133				133				133	
Ministry of Justice & Law Reforms					216		216				216				216	
Ministry of Irrigation & Water Management																
Ministry of Water Management																
Ministry of Irrigation																
Ministry of Environmental & Natural Resources																
Ministry of Home Affairs, Provincial Councils & Local Government																
Ministry of Home Affairs, Local Government & Provincial Councils																
Ministry of Health Care & Nutrition																
Ministry of Social Service & Social Welfare																
Ministry of Indigenous Medicine									100		100				100	
Ministry of Interior	509		509		7,094		7,094		947		8,041				8,041	
Ministry of Public Security, Law & Order																
Ministry of Plantation Industries	394		394		11,046		11,046				11,046				11,046	
Ministry of Regional Development																
Ministry of Infrastructure Development & Fisheries Housing					553		553		1,519		2,072				2,072	
Ministry of Coconut Development																
Ministry of Estate Infrastructure & Livestock Development									63		63				63	
Ministry of Posts & Telecommunications																
Ministry of Small & Rural Industries					29		29		35		64				64	
Ministry of Small Holder Development																

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2106- Others Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	
Ministry of Tourism	118	.....	118	.....	2	1,256	57	.....	1,313	.....	1,313	Rs '000'
Ministry of Rural Industries & Self Employment Promotion	
Ministry of Livestock & Infrastructure Development	
Ministry of Empowerment & Socio Economic Development	
Ministry of Southern Region Development	346	.....	346	.....	.....	346	.....	.....	346	.....	346	
Ministry of Western Region Development	331	.....	331	.....	.....	331	.....	.....	331	.....	331	
Ministry of Central Region Development	
Ministry of Rural Economic Development	
Ministry of Co-operative & Co-operative Development	685	.....	685	.....	685	
Ministry of Samurthi & Poverty Alleviation	
Ministry of Human Resource Development, Education & Cultural Affairs	
Ministry of Tertiary Education & Training	1,139	.....	1,139	.....	.....	1,139	.....	.....	1,139	.....	1,139	
Ministry of Education	75,315	.....	75,315	144,304	.....	219,619	267,511	.....	487,130	.....	487,130	
Ministry of Cultural Affairs & National Heritage	256	.....	256	7,831	.....	8,087	.....	8,087	
Ministry of Vocational & Technical Training	46	.....	46	20	.....	66	.....	66	
Ministry of Skills Development & Public Enterprise Reforms	126	.....	126	.....	126	
Ministry of New Railroad Development	623	.....	623	.....	623	
Ministry of Labour Relations & Foreign Employment	246	.....	246	966	.....	1,212	.....	1,212	
Ministry of Foreign Employment Promotion	496	.....	496	.....	496	
Ministry of Public Administration Management & Reforms	738	.....	738	.....	.....	738	.....	.....	738	.....	738	
Ministry of Public Administration & Media	1,729	.....	1,729	.....	.....	1,729	.....	1,729	
Ministry of Mass Media & Information	867	.....	867	2,607	.....	3,474	.....	3,474	
Ministry of Public Administration & Home Affairs	1,267	.....	1,267	.....	1,267	
Ministry of Home Affairs	420	.....	420	.....	420	
Ministry of Christian & Parliamentary Affairs	42	.....	42	.....	.....	42	.....	42	
Ministry of Parliamentary Affairs	21	.....	21	.....	21	
Ministry of North West Region Development	95	.....	95	.....	.....	95	.....	.....	95	.....	95	
Ministry of Sports & Youth Affairs	55,115	.....	55,115	182,386	.....	237,501	.....	237,501	
Ministry of Relief, Rehabilitation & Reconciliation	1,456	.....	1,456	1,047	.....	2,503	.....	.....	2,503	.....	2,503	
Ministry of Re-Settlement	250	.....	250	.....	250	
Ministry of Disaster Relief Services	
Ministry of Agriculture Marketing Development & Co-operative Development	392	.....	392	.....	.....	392	.....	392	
Ministry of Agriculture Development	
Ministry of Industrial Development	2,493	2,136	357	.....	357	
Ministry of Road Development	562	.....	562	.....	562	
Ministry of Agriculture Irrigation & Mahaweli Development	316	.....	316	.....	316	
Ministry of Assisting Vanni Rehabilitation	
Ministry of Hindu Religious Affairs	
Ministry of Medium & Small Scale Plantation Industries & Rural Development	
Ministry of Promotion of Botanical & Zoological Gardens	738	.....	738	.....	738	
Ministry of Lands	
Ministry of Trade Commerce, Consumer Affairs & Marketing Development	7	.....	7	.....	7	

Non-current Assets Acquired since 01.01.2004 *Contd.*

2106-Others Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
Department of Christian Religious Affairs												
Ministry of Agrarian Services & Development of Farmer Communities												
Ministry of Science & Technology	261		261			261	38,055		38,316			38,316
Ministry of Textile Industry Development												
Department of Buddhist Affairs												
Department of Cultural Affairs				139		139	323		462			462
Ministry of Rural Livelihood Development							539,629		539,629			539,629
Ministry of State Bank Development												
Department of Muslim Religious & Cultural Affairs												
Department of Hindu Religious & Cultural Affairs												
Department of Archaeology	385		385	278		663			663			663
Department of National Museums	1,139		1,139	1,057		2,196	631		2,827			2,827
Department of National Archives	1,288		1,288	875		2,163	3,838		6,001			6,001
Department of Information				1,559		1,559	1,093		2,652			2,652
Department of Government Printer							353		353			353
Department of Examinations												
Department of Educational Publications	136		136	96		232			232			232
Department of Technical Education & Training	4,183		4,183	4,889		9,072	3,789		12,861			12,861
Universities & University Grants Commission												
Department of Social Services												
Department of Probation & Child Care	200		200	188		388	141		529			529
Department of Commissioner General of Samurdhi												
Department of Sports Development												
Department of Ayurveda	3,284		3,284	1,307		4,591	3,480		8,051			8,051
Department of Labour	3,400		3,400	1,476		4,876	502		5,378			5,378
Sri Lanka Army							209,578		209,578			209,578
Sri Lanka Navy	1,334,982		1,334,982			1,334,982			1,334,982			1,334,982
Sri Lanka Air Force				9,647,944	376,525	9,271,319	11,839,775	382,823	20,728,271			20,728,271
Department of Police												
Department of Immigration & Emigration							1,625		1,625			1,625
Department of Registration of Persons				9		9	14,101		14,110			14,110
Courts Administration				560		560	857		1,417			1,417
Department of Attorney General							4,584		4,584			4,584
Department of Legal Draftsman	1,757		1,757	1,117		2,874	2,372		5,246			5,246
Department of Debt Conciliation Board												
Department of Prisons				4,225		4,225	9,222		13,447			13,447
Department of Public Trustee							215		215			215
Department of Government Analyst	2,938		2,938	3,841		6,779	28,553		35,332			35,332
Registrar of Supreme Court	876		876	1,960		2,836	4,397		7,233			7,233
Department of Law Communication	973		973	973	1,452	2,425			2,425			2,425
Department of Official Languages	91		91	60		151			151			151

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2106-Others Name of Institution	2004			2005			2006			2007		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance	Rs 000'
Department of Valuation												
Department of National Budget	121		121	103		224	47		271		271	
Department of Fiscal Policy							80		80		80	
Department of Public Debt Management												
Department of Treasury Operations												
Department of State Accounts				21		21			21		21	
Department of Trade Tariff & Investment Policy												
Department of Public Finance												
Department of External Resources				161		161	75		236		236	
Department of Management Services	92		92	49		141	24		165		165	
Department of Inland Revenue	9,045		9,045	1,665		10,710	8,899		19,609		19,609	
Department of Customs												
Department of Excise												
Department of Rubber Development												
Department of Census & Statistics	639		639	498		1,137	570		1,707		1,707	
Department of National Planning				230		230	438		668		668	
Department of Pensions												
Department of Registrar General				93		93	149		242		242	
District Secretariat - Colombo				99		99	484		583		583	
District Secretariat - Gampaha				246		246			246		246	
District Secretariat - Kalutara				249		249	483		742		742	
District Secretariat - Kandy	100		100			100	495		595		595	
District Secretariat - Matale	480		480	196		686	488		1,184		1,184	
District Secretariat - Nuwara Eliya				174		174	461		635		635	
District Secretariat - Galle	74		74	250		324	149		473		473	
District Secretariat - Matara				110		110	481		591		591	
District Secretariat - Hambantota	87		87	388		475	738		1,213		1,213	
District Secretariat - Jaffna	36		36	298		334	391		725		725	
District Secretariat - Mannar				99		99	250		349		349	
District Secretariat - Vavuniya							318		318		318	
District Secretariat - Mullativu				18		18			18		18	
District Secretariat - Kilinochchi				100		100	250		350		350	
District Secretariat - Batticaloa	71		71	200		271	495		766		766	
District Secretariat - Ampara	149		149	200		349	492		841		841	
District Secretariat - Trincomalee				198		198	500		698		698	
District Secretariat - Kurunegala	385		385	481		866	577		1,443		1,443	
District Secretariat - Puttalam	47		47	180		227	244		471		471	
District Secretariat - Anuradhapura	55		55	400		455	159		614		614	
District Secretariat - Polonnaruwa				45		45	93		138		138	
District Secretariat - Badulla							483		483		483	
District Secretariat - Monaragala				249		249	412		661		661	
Department of Animal Production and Health	17,916		17,916	47,643		65,559	205,899		271,448		271,448	
District Secretariat - Ratnapura	101		101	246		347	186		533		533	
District Secretariat - Kegalle	30		30	126		156	300		456		456	
Department of Public Enterprise							78		78		78	
Department of Economic Affairs												
Department of Development Finance												
Department of Foreign Aid & Budget Monitoring	24		24	73		97		97				
Department of Agriculture	16,921		16,921	283		17,204	2,362		19,566		19,566	
Department of Agrarian Development												
Department of Irrigation	1,679	2	1,677	56		1,733	82		1,815		1,815	

Non-current Assets Acquired since 01.01.2004 *Contd.*

2106-Others	Name of Institution	2004				2005				2006				2007			
		Additions	Disposal	Balance	Disposal	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
	Department of Forests	1,000		1,000		3,810		4,810	1,245		6,055			6,055			6,055
	Department of Land Commissioner	8		8		93		101	139		240			240			240
	Department of Land Settlement																
	Department of Survey	3,597		3,597		1,084		4,681	1,854		6,535			6,535			6,535
	Department of Export Agriculture	359		359				359			359			359			359
	Department of Fisheries and Aquatic Resources																
	Department of Rubber Development																
	Department of Wildlife Conservation					8,621		8,621	16,979		25,600			25,600			25,600
	Department of National Zoological Garden	4,427		4,427		5,595		10,022	5,596		15,618			15,618			15,618
	Department of Coast Conservation								72		72			72			72
	Department of Commerce					2,093		2,093			2,093			2,093			2,093
	Department of Import and Export Control	4		4				4	60		64			64			64
	Department of the Registrar of Companies																
	Department of Measurement Units, Standards & Services																
	National Intellectual Property Office of Sri Lanka																
	Department of Food Commissioner																
	Department of Co-operative Development																
	Co-operative Employees Commission																
	Department of Textile Industries					124		124	3,459		3,583			3,583			3,583
	Government Factory																
	Department of Civil Security																
	Department of National Physical Planning	695		695		364		1,059	227		1,286			1,286			1,286
	Eastern Provincial Council																
	Western Provincial Council																
	Central Provincial Council																
	Southern Provincial Council																
	North East Provincial Council																
	North Western Provincial Council																
	North Central Provincial Council																
	Uva Provincial Council																
	Sabaragamuwa Provincial Council																
Total		1,868,360	2	1,868,358	10,021,248	377,801	11,511,805	13,749,995	385,156	24,876,644	24,876,644	...	24,876,644	...	24,876,644	...	24,876,644

2106-Others	Name of Institution	2004				2005				2006				2007			
		Purchases	Disposal	Balance	Purchases	Disposal	Balance	Purchases	Disposal	Balance	Purchases	Disposal	Balance	Purchases	Disposal	Balance	Purchases
	2101-Vehicles	196,409	272	196,137	2,074,086	24,664	2,245,559	4,497,294	6,054	6,736,799	12,274,845	19,011,644					
	2102-Office Equipment	2,616,844	753	2,616,091	2,631,435	3,668	5,243,858	2,407,640	13,341	7,638,157	4,314,662	11,952,819					
	2103-Machinery	669,147	10,708	658,439	457,986	3,577	1,112,848	1,719,282	187,146	2,644,984	15,282,501	17,927,485					
	2106- Others	1,868,360	2	1,868,358	10,021,248	377,801	11,511,805	13,749,995	385,156	24,876,644	...	24,876,644					
Grand Total		5,350,760	11,735	5,339,025	15,184,755	489,710	20,114,070	22,374,211	591,697	41,896,584	31,872,008	73,768,592					

(Only to satisfy disclosure requirements)

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2007

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Head No	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
1	His Excellency the President	4,546,046,647	4,811,227,927	2,089,257,181	2,163,743,888	2,456,789,467	2,647,484,059
2	Office of the Prime Minister	192,720,235	218,034,172	109,296,194	122,142,000	83,424,041	95,892,172
3	Judges of the Supreme Courts	51,072,840	55,649,000	51,072,840	55,649,000	0	0
4	Office of the Cabinet of Ministers	32,031,859	29,812,953	29,812,953	30,233,515	2,218,866	2,677,000
5	Parliament	1,120,539,247	1,289,507,615	1,097,364,540	1,180,573,302	23,174,706	108,934,313
6	Office of the Leader of House of Parliament	21,966,778	22,557,000	15,733,588	16,107,000	6,233,191	6,450,000
7	Office of the Chief Govt. Whip of Parliament	25,885,630	26,946,000	19,888,057	20,446,000	5,997,573	6,500,000
8	Office of the Leader of the Opposition of Parliament	45,363,112	45,685,000	40,831,439	41,098,000	4,531,673	4,587,000
9	Office of the Former President (Hon. D.B. Wijethunge)	17,892,909	20,131,600	5,892,509	8,031,600	12,000,000	12,100,000
10	Office of the Former President (Hon. C.B. Kumaratunga)	12,397,155	19,615,000	11,476,783	14,720,000	920,372	4,895,000
11	The Constitutional Council	9,904,181	16,008,000	9,856,624	15,958,000	47,557	50,000
12	Public Service Commission	71,266,473	80,836,000	68,892,716	78,036,000	2,373,757	2,800,000
13	Judicial Service Commission	32,618,507	39,047,500	23,637,007	29,128,100	8,981,500	9,919,400
14	National Police Commission	50,324,317	60,312,000	42,781,997	52,012,000	7,542,320	8,300,000
15	Administrative Appeals Tribunal	10,679,510	10,955,000	10,560,780	10,705,000	118,730	250,000
16	Commission to Investigate Allegations of Bribery or Corruption	98,266,256	100,243,000	97,204,676	98,118,000	1,061,580	2,125,000
17	Department of Elections	280,411,560	343,476,203	245,932,489	307,511,203	34,479,070	35,985,000
18	Auditor General	444,662,418	1,127,061,000	437,429,273	513,211,000	7,233,144	613,850,000
19	Office of the Parliamentary Commissioner for Administration	6,197,748	7,653,000	6,192,873	7,428,000	4,875	225,000
20	Office of the Finance Commission.	49,020,685	207,459,250	23,216,154	29,783,000	25,804,530	177,676,250
21	National Education Commission	28,061,931	32,132,458	19,045,263	19,082,458	9,016,688	13,050,000
101	Ministry of Religious Affairs	482,655,203	536,204,750	266,813,975	288,341,000	215,841,228	247,863,750
102	Ministry of Finance and Planning	5,223,696,852	8,512,329,904	747,732,429	857,124,450	4,475,966,424	7,655,205,454
103	Ministry of Defense, Public Security, Law and Order	5,096,537,985	7,280,859,260	4,076,961,142	4,645,702,000	1,019,576,844	2,615,157,260
104	Ministry of Plan Implementation	92,696,314	102,955,500	76,257,948	84,195,500	16,438,366	18,800,000
105	Ministry of Nation Building and Estate Infrastructure Development	19,159,214,939	25,862,537,000	2,122,681,073	2,388,007,000	17,038,533,866	23,474,530,000
106	Ministry of Disaster Management and Human Rights	490,014,553	1,072,396,120	133,929,137	196,127,392	316,085,416	876,288,728
107	Ministry of Tourism	564,967,399	967,346,800	78,905,929	85,116,000	486,061,470	882,230,800
108	Ministry of Post, Telecommunication	123,957,794	134,442,430	84,641,119	91,577,430	39,316,675	42,865,000
109	Ministry of Rural Economic Development	343,397,528	516,171,000	32,392,024	61,271,000	311,005,504	454,900,000
110	Ministry of Justice & Law Reforms	560,407,893	785,911,000	236,872,183	288,470,000	323,535,711	497,441,000
111	Ministry of Health Care and Nutrition	43,022,103,220	51,380,685,427	34,907,351,604	36,636,854,010	8,114,751,616	14,743,831,417
112	Ministry of Foreign Affairs	5,903,826,697	6,259,748,050	4,853,331,486	4,793,148,050	1,050,495,211	1,466,600,000
113	Ministry of Ports & Aviation	735,778,053	8,822,731,000	109,323,169	181,761,000	626,454,884	8,640,970,000
114	Ministry of Transport	6,671,515,376	7,408,975,000	3,921,484,150	4,228,750,000	2,750,031,225	3,180,225,000
115	Ministry of Petroleum and Petroleum Resources Development	293,552,878	369,185,000	60,256,617	80,775,000	233,296,261	288,410,000
116	Ministry of Trade, Commerce, Consumer Affairs and Marketing Development	572,730,884	596,375,063	189,037,963	205,043,190	383,692,921	391,331,883
117	Ministry of Highways and Road Development	37,607,783,709	44,826,188,000	180,496,081	182,185,500	37,427,287,629	44,644,002,500
118	Ministry of Agricultural Development and Agrarian Services	5,560,990,066	7,160,283,799	1,571,793,602	1,583,118,066	3,989,196,465	5,577,165,733
119	Ministry of Power and Energy	30,567,141,021	58,950,541,243	1,222,340,983	1,321,917,000	29,344,800,038	57,628,624,243
120	Ministry of Child Development and Women's Empowerment	454,681,132	947,046,802	193,371,719	210,458,250	261,309,413	736,588,552
121	Ministry of Public Administration and Home Affairs	850,199,265	1,796,141,472	223,467,691	311,423,000	626,731,574	1,484,718,472
122	Ministry of Mass Media and Information	406,034,193	430,884,014	206,763,436	213,006,014	199,270,756	217,878,000
123	Ministry of Urban Development and Sacred Area Development	21,827,968,881	33,549,794,000	161,926,109	184,069,000	21,666,042,772	33,365,725,000
124	Ministry of Social Service and Social Welfare	471,752,960	574,520,773	298,381,760	370,912,665	173,371,200	203,608,108
125	Ministry of Housing and Common Amenities	971,823,525	1,790,638,000	128,719,554	154,533,000	843,103,971	1,636,105,000
126	Ministry of Education	29,840,614,098	33,125,049,324	19,562,660,543	19,791,693,000	10,277,953,556	13,333,359,324
127	Ministry of Labour Relations and Manpower	570,061,906	973,598,000	440,051,035	679,503,000	130,010,871	294,095,000
128	Ministry of Rural Industries and Self Employment Promotion	739,013,389	1,000,502,092	400,233,088	409,094,794	338,780,301	591,407,298
129	Ministry of Vocational and Technical Training	2,378,062,595	3,549,448,000	1,087,602,071	1,164,553,000	1,290,460,524	2,384,912,000
130	Ministry of Local Government and Provincial Councils	7,583,132,078	11,213,544,098	1,26,209,406	171,447,000	7,456,922,672	11,042,097,098
131	Ministry of Infrastructure Development and Fisheries Housing	297,065,112	963,585,000	34,945,536	66,785,000	262,119,576	896,800,000
132	Ministry of Enterprise Development and Investment Promotion	1,323,830,598	1,796,085,000	127,318,564	145,625,000	1,196,512,034	1,650,460,000
133	Ministry of Science and Technology	1,241,103,149	1,978,973,510	692,238,212	768,933,000	548,864,937	1,180,040,510
134	Ministry of Constitutional Affairs and National Integration	238,944,230	287,063,000	134,833,781	146,736,000	104,110,449	140,327,000

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2007 *Contd.*

Head No	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
135	Ministry of Plantation Industries	2,196,253,518	3,517,173,882	302,439,901	330,386,000	1,893,813,617	3,186,787,882
136	Ministry of Sports and Public Recreation	747,500,194	995,701,000	687,093,359	810,091,000	60,406,835	185,610,000
137	Ministry of Samurdhi and Poverty Alleviation	7,765,813,991	7,957,597,988	6,103,882,368	6,168,812,738	1,681,931,623	1,788,785,250
138	Ministry of Indigenous Medicine	213,552,147	287,970,246	92,286,453	132,120,246	121,285,694	135,850,000
139	Ministry of Fisheries and Aquatic Resources	3,695,930,107	6,379,979,408	484,406,814	519,280,530	3,211,523,293	5,860,718,878
140	Ministry of Livestock Development	421,757,089	576,903,500	87,120,603	91,775,500	334,636,486	485,128,000
141	Ministry of Coconut Development	962,366,788	1,280,802,634	399,693,822	413,044,000	562,672,966	867,758,634
142	Ministry of Cultural Affairs	986,170,898	1,028,512,000	448,664,294	449,092,000	537,506,604	579,420,000
143	Ministry of Parliamentary Affairs	253,723,991	269,517,000	205,031,941	206,312,000	48,682,050	63,205,000
144	Ministry of Co-operative and Co-operative Development	198,310,732	310,009,000	106,827,272	181,829,000	91,483,460	128,180,000
145	Ministry of Re-settlement and Disaster Relief Services	1,054,685,931	2,533,575,000	357,210,416	522,145,000	697,475,515	2,011,430,000
146	Ministry of Disaster Relief Services	540,389,677	903,143,000	405,371,594	500,105,000	135,018,083	403,088,000
147	Ministry of Home Affairs	144,763,041	183,806,020	72,483,892	82,295,860	72,279,149	101,510,160
148	Ministry of Agriculture Development	13,469,694,424	15,043,382,094	11,445,238,171	11,504,656,129	2,024,456,253	3,538,725,965
149	Ministry of Industrial Development	431,666,462	712,290,356	124,616,299	127,058,000	307,050,163	585,232,356
150	Ministry of Road Development	2,465,955,495	3,112,146,000	23,119,979	24,175,000	2,442,835,516	3,087,971,000
151	Ministry of Foreign Employment Promotion and Welfare	57,646,031	64,144,624	41,633,943	46,438,102	16,012,087	17,706,522
152	Ministry of Irrigation	70,603,510	105,151,000	52,408,019	79,301,000	18,195,491	25,850,000
153	Ministry of Land and Land Development	169,130,435	220,762,547	137,601,917	146,939,047	31,528,518	73,823,500
154	Ministry of Promotion of Botanical and Zoological Gardens	207,571,993	297,423,000	118,877,261	146,599,000	88,694,732	150,824,000
155	Ministry of Regional Development	2,776,731,557	3,370,303,000	147,538,290	154,853,000	2,628,193,267	3,215,450,000
156	Ministry of Youth Affairs	819,175,801	1,499,301,000	162,751,434	254,751,000	656,424,367	1,244,550,000
157	Ministry of New Railroad Development	109,097,184	315,311,000	24,543,769	40,321,000	84,553,415	274,990,000
158	Ministry of Textile Industry Development	119,494,942	203,012,000	40,777,162	50,552,000	78,717,780	152,460,000
159	Ministry of Rural Livelihood Development	3,651,395,811	4,189,545,000	337,029,367	454,745,000	3,314,366,444	3,734,800,000
160	Ministry of Environment and Natural Resources	1,209,676,484	1,634,492,655	339,250,105	344,815,000	870,426,379	1,289,677,655
161	Ministry of Internal Administration	25,934,870	31,975,000	23,289,785	28,922,000	2,645,085	3,053,000
162	Ministry of Policy Development and Implementation	52,681,044	125,566,000	47,357,805	110,066,000	5,323,240	15,500,000
163	Ministry of Youth Empowerment and Socio Economic Development	461,891,010	774,474,000	42,009,166	60,824,000	419,881,844	713,650,000
164	Ministry of Community Development and Social Inequality Eradication	215,983,123	245,336,000	45,170,287	52,714,000	170,812,836	192,622,000
201	Department of Buddhist Affairs	387,814,151	416,572,775	293,243,861	303,772,775	94,570,290	112,800,000
202	Department of Muslim Religious and Cultural Affairs	96,057,954	97,575,000	25,449,578	25,840,000	70,608,376	71,735,000
203	Department of Christian Religious Affairs	19,593,752	22,143,000	11,872,239	13,308,000	7,721,513	8,835,000
204	Department of Hindu Religious and Cultural Affairs	58,190,203	61,949,000	32,985,160	34,939,000	25,205,042	27,010,000
205	Department of Public Trustee	27,247,421	30,900,400	25,343,222	27,710,400	1,904,199	3,190,000
206	Department of Cultural Affairs	210,978,886	226,989,000	195,606,459	208,483,000	15,372,428	17,506,000
207	Department of Archeology	374,667,681	377,811,111	307,150,246	308,531,111	67,517,435	69,280,000
208	Department of National Museums	92,652,595	100,386,000	71,535,498	73,086,000	21,117,097	27,300,000
209	Department of National Archives	56,262,220	83,925,000	38,597,848	39,825,000	17,664,372	44,100,000
210	Department of Information	139,868,879	177,320,255	101,065,299	105,245,295	38,803,580	72,075,000
211	Department of Government Printer	1,062,628,213	1,105,643,181	903,733,253	937,573,486	158,894,961	168,069,685
212	Department of Examinations	1,066,173,623	1,121,761,000	1,026,953,271	1,055,756,000	39,220,352	66,005,000
213	Department of Educational Publications	25,679,067	34,197,000	18,048,729	18,454,965	7,630,338	15,742,035
214	Universities and University Grants Commission	12,446,019,300	14,773,900,000	9,337,562,300	9,973,900,000	3,108,457,000	4,800,000,000
215	Department of Technical Education & Training	1,279,247,669	1,923,090,000	770,387,353	865,606,271	508,860,316	1,057,483,729
216	Department of Social Services	342,263,820	395,591,164	251,728,883	298,455,000	90,535,281	97,136,164
217	Department of Probation and Child Care Services	135,801,281	147,215,859	125,590,029	129,497,859	10,211,252	17,718,000
218	Department of The Commissioner General of Samurdhi	9,333,760,439	9,937,189,000	9,330,133,233	9,933,289,000	3,627,205	3,900,000
219	Department of Sports Development	357,273,804	888,115,000	219,911,101	240,730,500	137,362,703	627,384,500
220	Department of Ayurveda	469,567,660	666,409,770	361,811,346	446,094,770	107,756,314	220,315,000
221	Department of Labour	919,089,832	961,149,504	680,365,564	720,709,737	238,724,268	240,439,767
222	Sri Lanka Army	69,752,026,893	71,830,422,617	56,886,531,517	57,555,330,168	12,865,495,376	14,275,092,449
223	Sri Lanka Navy	27,223,250,611	29,000,080,000	16,469,857,239	16,495,080,000	10,755,393,372	12,565,000,000
224	Sri Lanka Air force	18,129,362,702	22,688,328,270	11,513,595,200	11,997,100,000	6,615,767,502	10,691,228,270
225	Department of Police	26,420,846,054	27,875,968,140	24,094,050,281	24,648,881,000	2,326,795,773	3,227,087,140
226	Department of Immigration and Emigration	703,930,012	808,094,000	338,672,608	364,594,000	364,257,404	443,500,000
227	Department of Registration of Persons	412,295,284	443,422,000	149,680,722	160,422,000	262,614,562	283,000,000
228	Courts Administration	2,545,771,202	2,606,013,000	1,894,944,601	1,910,013,000	650,826,601	696,000,000

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2007 *Contd.*

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Head No	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
229	Department of Attorney General	447,828,300	453,399,971	328,227,783	332,599,971	119,600,517	120,800,000
230	Department of Legal Draftsman	53,649,452	57,754,150	38,903,088	41,554,150	14,746,364	16,200,000
231	Department of Debt Conciliation Board	4,349,060	5,383,046	4,070,777	5,102,000	278,283	281,046
232	Department of Prisons	2,528,428,413	2,710,362,000	2,308,926,875	2,420,152,000	219,501,539	290,200,000
233	Department of Government Analyst	159,175,498	165,765,000	55,407,917	61,465,000	103,767,581	104,300,000
234	Registrar of Supreme Court	266,502,651	275,911,000	61,017,319	69,079,000	205,485,332	208,832,000
235	Department of Law Commission	11,023,594	12,101,000	7,831,157	8,601,000	3,192,437	3,500,000
236	Department of Official Languages	66,651,068	74,667,013	50,335,371	54,524,000	16,315,687	20,133,013
237	Department of National Planning	49,708,866	164,724,000	36,092,351	45,824,000	13,616,515	118,900,000
238	Department of Fiscal Policy	767,127,629	1,500,476,000	754,333,180	1,487,026,000	12,794,449	13,450,000
239	Department of External Resources	355,757,547	419,409,850	334,939,082	377,069,850	20,818,464	42,340,000
240	Department of National Budget	68,714,264	3,177,336,112	54,750,715	1,472,469,923	13,963,550	1,704,866,189
241	Department of Public Enterprises	340,332,132	343,712,494	20,834,721	23,393,000	319,497,411	320,319,494
242	Department of Management Services	28,377,622	36,388,000	23,147,081	30,612,440	5,230,540	5,775,560
243	Department of Development Finance	583,780,444	758,777,000	16,694,591	25,677,000	567,085,852	733,100,000
244	Department of Trade, Tariff and Investment Policy	249,276,131	523,989,000	237,210,789	511,589,000	12,065,342	12,400,000
245	Department of Public Finance	22,351,433	31,670,000	19,065,543	27,986,000	3,285,890	3,684,000
246	Department of Inland Revenue	1,257,841,705	1,395,367,000	1,090,261,647	1,179,777,000	167,580,058	215,610,000
247	Sri Lanka Customs	8,874,633,683	9,263,684,365	1,402,741,171	1,602,034,365	7,471,892,512	7,661,650,000
248	Department of Excise	367,585,070	430,681,000	299,107,260	356,556,000	68,477,809	74,125,000
249	Department of Treasury Operations	505,441,271,972	547,814,130,000	182,047,964,183	182,818,527,000	323,393,287,788	364,995,603,000
250	Department of State Accounts	32,634,222	40,084,000	22,982,031	29,039,000	9,652,190	11,045,000
251	Department of Valuation	176,305,333	183,159,669	141,113,345	141,584,669	35,191,988	41,575,000
252	Department of Census and Statistics	500,540,684	533,165,173	437,708,188	454,225,173	62,832,486	78,940,000
253	Department of Pensions	76,787,606,980	76,787,692,000	76,204,804,716	76,762,666,000	24,801,864	25,026,000
254	Department of Registrar General	446,092,492	541,922,000	382,397,393	409,692,000	63,695,100	132,230,000
255	District Secretariat-Colombo	618,056,036	673,236,000	323,215,968	329,466,000	294,840,068	343,770,000
256	District Secretariat-Gampaha	512,146,351	513,244,549	452,692,240	452,889,549	59,454,111	60,355,000
257	District Secretariat - Kalutara	461,868,035	471,586,000	363,295,324	370,336,000	98,572,711	101,250,000
258	District Secretariat - Kandy	591,725,240	600,917,000	500,722,518	508,992,000	91,002,723	91,925,000
259	District Secretariat - Matale	316,456,819	335,430,332	280,520,332	280,520,332	52,371,384	54,910,000
260	District Secretariat-Nuwara-Eliya	264,004,723	286,598,000	189,180,130	196,848,000	74,824,593	87,750,000
261	District Secretariat - Galle	526,993,187	531,167,000	435,276,586	436,017,000	91,716,601	95,150,000
262	District Secretariat-Matara	499,766,899	499,635,888	371,715,003	388,485,888	98,061,886	111,150,000
263	District Secretariat-Hambantota	343,540,208	365,664,000	284,868,914	302,189,000	58,671,294	63,475,000
264	District Secretariat - Kachcheri-Jaffna	326,776,679	347,325,230	237,976,760	251,826,000	88,799,919	95,489,230
265	District Secretariat - Kachcheri-Mannar	119,265,733	122,366,894	70,644,342	73,147,314	48,621,391	49,219,580
266	District Secretariat - Kachcheri-Yavuuniya	110,915,996	113,101,500	73,344,798	74,715,000	37,571,199	38,386,500
267	District Secretariat - Kachcheri-Mulatiwa	84,355,191	86,505,350	55,807,953	57,755,000	28,547,238	28,760,350
268	District Secretariat - Kachcheri-Killinochchi	105,807,523	111,146,000	62,952,324	68,146,000	42,855,199	43,000,000
269	District Secretariat - Kachcheri-Batticaloa	342,777,538	354,003,122	219,060,220	225,971,622	123,717,417	128,031,500
270	District Secretariat - Ampara	437,288,484	455,942,000	344,462,395	358,692,000	92,826,069	97,250,000
271	District Secretariat - Kachcheri-Thmcomalee	170,236,311	186,847,000	139,805,319	150,440,000	30,430,963	36,407,000
272	District Secretariat Kurunegala	811,394,279	821,553,000	699,051,744	708,183,000	112,342,535	113,370,000
273	District Secretariat Puttalam	467,503,473	471,151,000	290,851,000	290,851,000	177,271,689	180,300,000
274	District Secretariat Anuradhapura	419,012,901	432,332,500	354,270,656	364,628,000	64,742,245	67,704,500
275	District Secretariat Polonnaruwa	183,002,612	189,705,144	153,784,660	159,765,144	29,217,962	29,940,000
276	District Secretariat Badulla	416,106,642	464,377,000	291,091,608	295,752,000	125,025,034	168,625,000
277	District Secretariat Monaragala	244,892,787	347,148,000	197,358,940	200,098,000	47,533,848	147,050,000
278	District Secretariat Rathnapura	327,338,773	332,722,000	306,050,834	310,572,000	21,287,939	22,150,000
279	District Secretariat Kegalle	321,122,359	332,430,000	256,928,637	261,155,000	64,183,722	71,275,000
280	Department of Foreign Aid and Budget Monitoring	65,042,228	79,133,000	36,357,943	36,773,000	28,684,286	42,360,000
281	Department of Agrarian Development	3,098,577,362	3,774,329,000	2,336,314,912	2,490,259,000	762,262,450	1,284,070,000
282	Department of Irrigation	2,952,695,583	4,285,674,000	1,071,410,667	1,082,015,000	1,881,284,916	3,203,659,000
283	Department of Forest	843,773,240	954,567,168	604,233,421	667,602,168	239,539,820	286,965,000
284	Department of Wild Life Conservation	897,822,984	1,191,664,000	319,413,487	326,214,000	578,409,497	865,450,000
285	Department of Agriculture	1,844,055,731	2,007,585,574	1,463,734,531	1,503,965,574	380,321,199	503,593,000
286	Department of Land Commissioner	182,954,887	191,964,000	150,451,332	159,425,000	32,503,555	32,539,000

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2007 *Contd.*

Head No	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
287	Department of Land Settlement	58,779,652	60,085,000	56,574,902	57,852,000	2,204,750	2,233,000
288	Department of Survey	1,423,451,669	1,434,803,273	1,326,962,718	1,335,391,273	96,488,951	99,412,000
289	Department of Export Agriculture	367,992,650	426,467,900	209,490,911	215,840,900	158,501,740	210,617,000
290	Department of Fisheries and Aquatic Resources	193,346,866	201,237,013	167,800,865	175,038,000	25,548,001	26,199,013
291	Department of Coast Conservation	253,660,164	286,461,000	92,009,841	93,586,000	161,650,324	192,875,000
292	Department of Animal Production and Health	428,863,453	615,222,000	222,738,912	252,007,000	206,124,541	363,215,000
293	Department of Rubber Development	407,251,438	450,442,000	123,071,920	123,757,000	284,179,518	326,685,000
294	Department of National Zoological Gardens	171,119,618	205,226,000	102,379,303	105,830,000	68,740,315	99,396,000
295	Department of Commerce	77,915,541	94,464,000	64,813,039	76,609,000	13,102,502	17,855,000
296	Department of Import & Export Control	36,241,343	38,460,000	29,345,123	31,342,000	6,896,220	7,118,000
297	Department of the Registrar of Companies	17,697,409	17,765,000	17,697,409	17,765,000	0	0
298	Department of Measurement Unit and Standards Services	82,735,811	92,116,250	41,671,583	46,903,000	41,064,228	45,213,250
299	National Intellectual Property Office of Sri Lanka	10,631,094	12,383,000	10,631,094	12,383,000	0	0
300	Department of Food Commissioner	106,468,239	139,167,000	90,971,001	113,670,000	15,497,238	25,497,000
301	Department of Co-operative Development (Registrar of Co-operative Societies)	40,831,932	49,994,000	34,529,655	40,193,000	6,302,278	9,801,000
302	Co-operative Employees Commission	7,942,748	9,073,000	7,718,843	8,828,000	223,905	245,000
303	Department of Textile Industries	151,175,956	163,766,000	134,097,145	135,660,000	17,078,811	28,106,000
304	Department of Meteorology	301,724,531	728,708,600	113,811,203	115,180,000	187,913,328	613,528,600
305	Department of Up - Country Pessantry Rehabilitation	26,399,846	28,750,000	10,936,579	13,100,000	15,463,267	15,650,000
306	Department of Sri Lanka Railways	13,353,630,603	21,399,976,500	7,206,676,147	7,727,976,500	6,056,964,456	13,672,000,000
307	Department of Motor Traffic	875,433,187	917,096,000	658,926,341	675,785,000	216,506,846	241,311,000
308	Department of Posts	6,474,307,115	6,568,534,500	6,275,575,191	6,314,280,500	198,731,924	254,254,000
309	Department of Buildings	189,165,579	206,492,000	153,297,864	163,062,000	35,867,715	43,430,000
310	Government Factory	68,260,003	85,954,000	36,370,361	39,449,000	31,889,642	46,505,000
311	Department of National Physical Planning	326,756,550	405,522,000	122,320,140	123,902,000	204,436,411	281,620,000
312	Western Provincial Council	8,814,613,192	12,734,800,622	6,982,000,000	9,315,000,000	1,832,613,192	3,419,800,622
313	Central Provincial Council	12,069,327,706	12,924,928,457	10,454,000,000	10,460,000,000	1,615,327,706	2,464,928,457
314	Southern Provincial Council	11,433,653,380	12,570,386,912	9,491,000,000	9,495,000,000	1,942,653,380	3,075,386,912
315	Northern Provincial Council	7,779,349,275	8,748,758,192	6,611,000,000	7,300,000,000	1,168,349,275	1,448,758,192
316	North Western Provincial Council	12,328,785,127	13,215,230,505	10,885,000,000	10,890,000,000	1,443,785,127	2,325,230,505
317	North Central Provincial Council	6,771,201,711	7,386,725,182	5,200,000,000	5,315,000,000	1,571,201,711	2,071,725,182
318	Uva Provincial Council	7,925,575,165	8,368,421,737	6,370,000,000	6,375,000,000	1,555,575,165	1,983,421,737
319	Sabaraigamuwa Provincial Council	9,555,293,594	9,944,500,000	7,577,000,000	7,580,000,000	1,978,293,594	2,364,500,000
320	Department of Civil Security	5,583,259,222	6,122,428,000	5,423,766,998	5,744,378,000	159,492,224	378,050,000
321	Eastern Provincial Council	8,140,037,196	8,766,239,383	7,212,000,000	7,375,000,000	928,037,196	1,391,239,383
		1,193,038,159,858	1,386,044,983,791	614,436,667,671	632,759,447,101	578,601,492,187	753,285,536,690

Report of the Auditor General

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මගේ අංකය
எனது இல
My No.

EF/B/IA/FA/2007

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Your No.

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திகதி
Date

28 May 2008

Report of the Auditor General

The Audit of Financial Statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2007 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and the best accounting methods and practices relating to Public Sector Accounting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation.

Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the financial assets and liabilities of the Government of the Democratic Socialist Republic of Sri Lanka as at 31 December 2007 and the results of its operation and cash flows for the year then ended.

S. Swarnajothi
Auditor General

තීරණය වූ තැන,
தேர்வு 07, இலங்கை

දුරකථන
தொலைபேசி
Telephone. } 2691151

சுதந்திர சதுக்கம்,
கொழும்பு 07, இலங்கை

ෆැක්ස් අංකය
பக்ஸ் இல
Fax No. } 2697451

INDEPENDENCE SQUARE,
COLOMBO 07, SRI LANKA

ඉමෙල් පොතේ තැපැල්
#- மெயில்
E-mail. } oaggov@sltnet.lk

Annex I

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Foreign Aid Commitments During the Year 2007				
Sector	Donor	Project	Amount (USD)	
			Loan	Grant
Road, Bridges, Ground Transport	Japan	Greater Colombo Transport Development Project	186,649,186	
	China	Supply of 100 Nos. Railway Passenger Carriages	27,078,543	
	China	Supply of 15 Nos. Diesel Multiple Units	38,683,633	
	HSBC PLC UK	Regional Bridge Project HSBC Bank Plc UK	101,776,239	
	HSBC	Regional Bridge Project HSBC Bank Hong Kong	25,444,060	
	Japan	Japan's Non-Project Grant Aid 2006		10,245,258
	Japan	Construction of Mannar Bridge & Improvement of Causeway		15,090,161
	Japan	Detail Design for Construction of Mannar Bridge		273,849
	Sub Total		379,631,661	25,609,268
Port & Shipping	China	Hambantota Port Development Project	306,726,736	
	ADB	Colombo Port Expansion project	300,000,000	
	Netherlands	Supply of two Multipurpose River sea Vessels 7400 DWT under the ORET Program		11,673,816
	Sub Total		606,726,736	11,673,816
Water Supply & Sanitation	Japan	Water Sector Development Project	112,677,619	
	Korea	Greater Galle Water Supply Project Phase II (Supplementary)	7,258,750	
	Bank Austria	Greater Colombo Sewerage Rehabilitation System II	12,683,215	
	ADB	Secondary Towns & Rural Community Water/Sanitation (OCR)	13,500,000	
	Sub Total		146,119,584	
Tsunami Rehabilitation	France	Construction Sector Support Project [for Post Tsunami Reconstruction]	13,456,500	
	Spain	Design Supply & Setting up of two Water Treatment Plants at Galle & Negombo	17,039,121	
	Germany	Funds for Local Initiatives Conflict Transformation [FLICT-BMZ]		3,332,876
	Germany	Microfinance System Development [ProMIS]		5,332,601
		Tsunami Affected Areas Rebuilding Project(EC)		15,960,000
		Restoration of RH Services in Tsunami Affected Districts		1,535,766
	Sub Total		30,495,621	26,161,243
Education & Vocational Training	Kuwait	South Eastern University of Sri Lanka Development Project Phase I "A"	6,921,788	
	Korea	Upgrading of Niyagama National Vocational Training Center Project	8,780,000	
	ADB	Education for Knowledge Society Project	67,469,733	
	Nordic Dev. Fund	The Skills Development Project	1,883,113	
	Norway	Employment Oriented Training for Youth		1,035,143
	ADB	Education for Knowledge Society Project		15,000,000
	Sub Total		85,054,634	16,035,143

Health Nutrition	WFP	Assistance to Vulnerable Groups for Peace Building in Conflict Affected Areas		19,185,141
	Sub Total			19,185,141
Agriculture, Fish-eries, Irrigation & Land	IFAD	Smallholder Plantation Entrepreneurship Dev. Program	23,089,028	
	Japan	Japanese 2KR Food Production Grant - 2006		2,812,393
	FAO	Hybrid Rice Development & Use for Food Security		329,000
	FAO	Agriculture Assistance to IDPs & Host-families in N/E		1,314,810
	FAO	Agriculture Assistance to IDPs & Households in Sri Lanka		500,000
	Sub Total		23,089,028	4,956,203
Rehabilitation	IDA	Puttalam Housing Project	32,874,524	
	Germany	Northern Rehabilitation Project		1,333,150
	ADB	North East Community Restoration and Development Project		1,500,000
	IDA	North-East Housing Reconstruction Project		14,447,156
	Sub Total		32,874,524	17,280,306
Rural Develop-ment	Japan	Pro-poor Rural Development Project	34,788,608	
	ADB	SME Regional Development Project	51,957,837	
	Sub Total		86,746,445	
Environment & Natural Resources	AB Sevensk	Ratmalana & Ja-Ela Wastewater Treatment Facili-ties Pj	91,918,967	
	KBC Bank	Delimitation of the Outer Edge of the Continental Margin of Sri Lanka	4,000,000	
	Sub Total		95,918,967	
IT, Science & Technology, Institutional De-velopment	Malaysia	Setting up of the Disaster Recovery Facility for Passport Printing	2,020,000	
	Netherlands	Disaster Management Communication & Response Pj.	6,590,924	
	Japan	Project for the Improvement of Meteorological and Disaster Information Network		6,935,158
	Sweden	Quality Infrastructure Development Project		1,137,635
	USA	Oil and Gas Regulatory Project		474,000
	UNDP	Institutional Strengthening - Phase V		134,056
	Sub Total		8,610,924	8,680,849
Housing & Urban Development	France	Spatial Information Infrastructure for Reconstruction Monitoring Project [SIIRM]	8,854,625	
	Sub Total		8,854,625	
Other	Japan	Non Project Grant Aid Program		45,976
	Japan	Project for the Improvement of Display Equipment of the Sigiriya Museum		1,460,938
	Germany	Resource Network for Conflict Studies		3,599,506

	Germany	Funds for Local Initiatives Conflict Transformation [FLICT-BMZ]		3,732,821
	China	Economic and Technical Cooperation		6,425,789
	China	Maintenance Requirements at the BMICH		7,200,000
	USA	Increased Competitiveness in the Global Market place		5,000,000
	USA	Improved Integration of Targeted Disadvantaged groups into the Community		500,000
	USA	Peace, Good Governance & Citizens Rights		829,939
	UNICEF	UNICEF Country Program 2007		11,800,000
	Sub Total			40,594,969
	Total		1,504,122,749	170,176,938
	Grand Total			1,674,299,687

Annex II

Expected Foreign Aid Commitments 2008 - 2010								USD Mn	
Sector	Donor	Project Name	Grant	Loan	Year			Already Signed	
					2008	2009	2010		
Water & Sanitation	Japan	Water Sector Development Project - Phase II (Kalu Ganga Water Supply Project - Phase I Stage 2 and Greater Colombo Water Rehabilitation Project)		75.0	75.0				
	Japan	Water Sector Development Project - Phase III (Construction of Kandy Wastewater Treatment Plant)		90.0		90.0			
	Japan	Water Sector Development Project - Phase IV		100.0			100.0		
	ADB	Small Towns & Rural Arid Areas Water Supply II	15.0	48.0	63.0				
	ADB	Sabaragamuwa Water Supply		75.0			75.0		
	Denmark	Kelani Right Bank Water Treatment Plant		67.7	67.7				
	Denmark	Greater Kurunegala Water Supply & Sanitation		30.0	30.0				
	Australia	Sustainable water Assistance Management Pro. Phase -11		16.1	16.1				16.1
	Netherlands	Negombo Water Supply Project		54.6	54.6				
	Austria	Kirindi Oya Water Supply		14.0	14.0				14.0
	Hungary	Labuagama Kalatuwawe Water Supply		50.0	50.0				
	Sweden	Waste water treatment Plant for Ratmalana -Ja-ela		90.0					
	Canada	Dankotuwa Water Supply Project		40.0	40.0				
	Australia	Ampara Water Supply Phase - III		93.0		93.0			
		Sub Total			410.4	183.0	175.0		30.1
Ports & Aviation	Japan	Development of Bandaranaike International Airport - Phase II		250.0		150.0	100.0		
	Japan	Galle Port Tourist City & Heritage Township Dev. Project		70.0		70.0			
	Denmark	Oluvil Port Project		68.7	68.7				
	Iran	Weerawila International Airport		175.0		175.0			
	China	Hambantota Sea Port Development Project		307.0					307.0
	China	Hambantota Port Bunkering and Oil Tank Farm Facility		75.0	75.0				
	China	Hambantota Sea Port Development Project- Phase II		100.0		100.0			
	India	Rehabilitation of KKS Port	23.0		23.0				
		Sub Total			166.7	495.0	100.0		307.0
Roads, Highways & Bridges	Japan	Greater Colombo Urban Transport project - Phase II (Construction of Southern Section of Outer Circular Highway (OCH) from Kaduwela to Kadawatha Flyovers - Colombo City		240.0	100.0	140.0			
	Japan	Southern Highway Construction Project - Phase II (Widening of road section from Dodangoda to Kurundugahahetkma of the Southern Expressway from 2 lanes to 4 lanes and Installation of Toll system and O/M facilities for the entire road)		168.0	168.0				
	ADB	Supplementary loan for Southern Transport Dev. Project		90.0	90.0				
	World Bank	Road Sector Assistance Project		55.0	55.0				
	World Bank	Road Sector Support Project				150.0			
	UK	Construction of Flyovers		150.0	150.0				
	France	Eastern Province Development (Roads)		22.5	22.5				
	China	Colombo Katunayake Expressway		313.0	313.0				
	Korea	Improvement of Anuradapura-Padeniya Road		44.0	44.0				
	Korea	Feasibility Study for Katunayaka Padeniya Road	3.0		3.0				

	ADB	Provincial & National Road Network Improvement Project (under Discussion)		180.0		180.0		
		Sub Total			945.5	470.0	0.0	0.0
Power & Energy	Japan (EXIM Bank)	Rehabilitation of Ukuwela Power Station		12.0	12.0			12.0
	Japan	Construction of LNG Based Power Generation Facilities		300.0			300.0	
	Japan	Engineering Services Loan for Energy Diversification Enhancement Project		7.0	7.0			
	China	Puttalam Coal Power Project - Phase 11 & 111		400.0		400.0		
	China	Rural Electrification (9 Project)	10.0	30.0		40.0		
	Australia	Provision of Solar Power to Rural Areas		18.0	18.0			
	Czech Republic	North & East Transmission Development Project		44.0	44.0			
	NIB	New Galle Substation & Transmission Project		18.0	18.0			
	World Bank	Renewable Energy Rural Economic Development - II		40.0	40.0			
	Iran	Oil Refinery Project		800.0	800.0			
	France	Rehabilitation of Old Laxapana		28.0	28.0			
	France	Wimalasurendra Hydro Power Plants		20.0	20.0			
	ADB	Sustainable Power Sector Development	2.0	98.0	100.0			
	ADB	Power Support II		75.0			75.0	
	Canada	Broadland Hydro Power Project		100.0		100.0		
	Germany	Rehabilitation of New Laxapana Power Plant		30.0	30.0			
		Sub Total			1117.0	540.0	375.0	12.0
Health	Japan	Improvement of Central Functions of Jaffna Teaching Hospital	16.0			16.0		
	Japan	Improvement of curative healthcare at Teaching hospital - Anuradhapura (Preparation of Detailed Designs)	0.9		0.9			0.9
	Japan	Improvement of curative healthcare at Teaching hospital - Anuradhapura	17.0		17.0			
	Japan	Development of Base Hospital Moneragala	15.0				15.0	
	Japan	National Workers' Hospital & Nursing Training School	40.0			40.0		
	Spain	Improvement to Karapitiya Hospital & Other Healthcare Institutions		16.0	16.0			
	Hungary	Reconstruction of Hambantota Hospital		90.0	90.0			
	Hungary	Improvement of Beliatte Hospital		15.0	15.0			
	Saudi Fund	Comprehensive Care Program for Epilepsy		20.5	20.5			20.5
	Saudi Fund	Construction of Neuro-Truma Centre at the Colombo Hospital (Supplementary)		3.0	3.0			3.0
	World Bank	Preparedness for Avian Influenza	1.3		1.3	1.0		
	Austria	Kurunegala Hospital		9.8	9.8			9.8
	Austria	Airforce Hospital		38.0	38.0			
	France	Intravenous Solution Plants		7.0	7.0			
	France	Operating Theaters at Oxygen Concentrators for Selected Hospitals		5.0	5.0			
		Sub Total			223.5	57.0	15.0	34.2

Fisheries	Netherlands	Dikowita Fishery Harbour		67.7	67.7			
	India	Provide Fishing Boats & other Accessories to Fishermen (IDPs) in vaharai	0.9		0.9			
		Sub Total			68.6	0.0	0.0	0.0
Housing & Rehab.	World Bank	N&E Housing Reconstruction Project - Addl. Financing		43.0	43.0			
		Sub Total			43.0	0.0	0.0	0.0
Agriculture Irrigation, & Environment	World Bank	Dame safety & water resources planning		65.0	65.0			
	Japan	Moragahakanda & Kaluganga Development Project		250.0		150.0	100.0	
	India	Development of Dairy Farming in Plantation Estate Sector	0.9		0.9			
	Korea	"Pilisaru" Pro. for Solid Waste Management in Sri Lanka	3.5		3.5			
	Kuwait	Moragahakanda & Kaluganga Development Project		214.0		214.0		
	Iran	Umaoya Project		392.0	392.0			
	IFAD	Agri-business Project		25.0		25.0		
	Australia	Sustainable water Assistance Management Pro. Phase -11		16.1	16.1			16.1
	FAO	Immediate Assistance to Conflict Affected Internally Displaced People and Households	0.5		0.5			0.5
	ADB	Greater Colombo Waste Water Management		100.0		100.0		
		Sub Total			478.0	489.0	100.0	16.6
Finance	ADB	Fiscal Management Reform II		40.0		40.0		
	Japan	Poverty Alleviation Micro Finance Project - Phase II		22.0	22.0			
	India	Line of Credit		100.0	100.0			
	Pakistan	Line of Credit		31.5	31.5			
		Sub Total			153.5	40.0	0.0	0.0
Education & Voca. Training	World Bank	Education Sector Development (Addl. Financing)		10.0	10.0			
	Austria	Sri Lanka institute of Advanced Technology		13.0	13.0			
	Netherlands	Sri Lanka institute of Advanced Technology (ORET)	4.9	9.1	14.0			
	Norway	Vocational Training Development Project		1.0				
	Norway	Puttalam Tec. College Development Project		2.8	2.8			
	India	Solar Photo-Valtic Aided Computer Edu. - 25 Rural Schools	0.9		0.9			
		Sub Total			40.7	0.0	0.0	0.0
Railway	India	Upgrading Double Tracking of Coastal Line Railway (Awaiting Confirmation)		100.0	100.0			
	UK	Rehabilitation of M7 Locomotives		8.0	8.0			
	Austria	Rehabilitation of Railway Track Valachchanai-Batticaloa	6.5	19.5	26.0			
		Sub Total			134.0	0.0	0.0	0.0
Other	Netherlands	Establishment of Tsunami Early Warning System		6.0				
	Japan	Non-Project Grant Aid - 2007	11.0		11.0			
	Korea	Re-engineering Government component of e-Sri Lanka		6.7	6.7			
	Korea	Capacity Building of Local Authority - Emergency Response in Kalutara	2.0		2.0			
	IFAD	Post Tsunami Livelihood Project		16.0	16.0			
	World Bank	Public Sector Capacity Building		22.0	22.0			
	World Bank	Gama Neguma		30.0		30.0		
	World Bank	Legal & Judicial Infrastructure Development Project		44.0	44.0			
		Sub Total			101.7	30.0	0.0	0.0
		Grand Total	174.3	7030.2	3882.5	2304.0	765.0	399.9